

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **June 30, 2016**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-4982

PARKER-HANNIFIN CORPORATION

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
Incorporation or Organization)

6035 Parkland Boulevard, Cleveland, Ohio
(Address of Principal Executive Offices)

34-0451060
(I.R.S. Employer
Identification No.)

44124-4141
(Zip Code)

Registrant's telephone number, including area code (216) 896-3000

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on which Registered |
|--------------------------------|--|
| Common Shares, \$.50 par value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer: Accelerated Filer:
Non-Accelerated Filer: Smaller Reporting Company:

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the outstanding common stock held by non-affiliates of the Registrant as of December 31, 2015, excluding, for purpose of this computation only, stock holdings of the Registrant's Directors and Officers: \$12,945,310,211.

The number of Common Shares outstanding on July 31, 2016 was 133,901,044.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Company's 2016 Annual Meeting of Shareholders to be held on October 26, 2016 are incorporated by reference into Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

PART I

| | | |
|----------|--|--------------------|
| Item 1. | Business | 2 |
| Item 1A. | Risk Factors | 8 |
| Item 1B. | Unresolved Staff Comments | 12 |
| Item 1C. | Executive Officers of the Registrant | 13 |
| Item 2. | Properties | 14 |
| Item 3. | Legal Proceedings | 15 |
| Item 4. | Mine Safety Disclosures | 15 |

PART II

| | | |
|----------|--|--------------------|
| Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 15 |
| Item 6. | Selected Financial Data | 16 |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 17 |
| Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | 27 |
| Item 8. | Financial Statements and Supplementary Data | 27 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 61 |
| Item 9A. | Controls and Procedures | 61 |
| Item 9B. | Other Information | 62 |

PART III

| | | |
|----------|--|--------------------|
| Item 10. | Directors, Executive Officers and Corporate Governance | 62 |
| Item 11. | Executive Compensation | 62 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 62 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 62 |
| Item 14. | Principal Accountant Fees and Services | 62 |

PART IV

| | | |
|----------|--|--------------------|
| Item 15. | Exhibits and Financial Statement Schedules | 63 |
|----------|--|--------------------|

| | | |
|--|----------------------------|--------------------|
| | Signatures | 64 |
|--|----------------------------|--------------------|

| | | |
|--|-------------------------------|--------------------|
| | Exhibit Index | 66 |
|--|-------------------------------|--------------------|

PARKER-HANNIFIN CORPORATION

FORM 10-K

Fiscal Year Ended June 30, 2016

PART I

ITEM 1. Business. Parker-Hannifin Corporation is a leading worldwide diversified manufacturer of motion and control technologies and systems, providing precision engineered solutions for a wide variety of mobile, industrial and aerospace markets. The Company was incorporated in Ohio in 1938. Its principal executive offices are located at 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, telephone (216) 896-3000. As used in this Annual Report on Form 10-K, unless the context otherwise requires, the term "Company" refers to Parker-Hannifin Corporation and its subsidiaries and the term "year" and references to specific years refer to the applicable fiscal year.

The Company's investor relations internet website address is www.phstock.com. The Company makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after filing or furnishing such material electronically with the Securities and Exchange Commission. The information contained on or accessible through the Company's website is not part of this Annual Report on Form 10-K.

The Board of Directors has adopted a written charter for each of the committees of the Board of Directors. These charters, as well as the Company's Global Code of Business Conduct, Board of Directors Guidelines on Significant Corporate Governance Issues and Independence Standards for Directors, are posted and available on the Company's investor relations internet website at www.phstock.com under the Corporate Governance page. Shareholders may request copies of these corporate governance documents, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

The Company's manufacturing, service, sales, distribution and administrative facilities are located in 39 states within the United States and in 48 other countries. The Company's products are sold as original and replacement equipment through sales and distribution centers worldwide. The Company markets its products through direct-sales employees, independent distributors and sales representatives. The Company's products are supplied to approximately 444,000 customers in virtually every significant manufacturing, transportation and processing industry.

The Company has two reporting segments: Diversified Industrial and Aerospace Systems. During 2016, the Company's technologies and systems were used in the products of these two reporting segments. For 2016, total net sales were \$11.4 billion. Diversified Industrial Segment products accounted for 80% and Aerospace Systems Segment products accounted for 20% of those net sales.

Markets

The Company's technologies and systems are used throughout various industries and in various applications. The approximately 444,000 customers who purchase the Company's products are found throughout virtually every significant manufacturing, transportation and processing industry. No single customer accounted for more than 4% of the Company's total net sales for the year ended June 30, 2016.

Diversified Industrial Segment. Sales of Diversified Industrial Segment products are made primarily to original equipment manufacturers ("OEMs") and their replacement markets in manufacturing, packaging, processing, transportation, mobile construction, refrigeration and air conditioning, agricultural and military machinery and equipment industries. The major markets for products of the Diversified Industrial Segment are listed below by group:

| | | |
|------------------------------------|--|--|
| Automation Group: | <ul style="list-style-type: none">• Battery Energy Storage• Factory automation• Food and beverage• Heavy industry• Industrial machinery | <ul style="list-style-type: none">• Life sciences• Packaging• Semiconductor and electronics• Transportation |
| Engineered Materials Group: | <ul style="list-style-type: none">• Aerospace• Chemical processing• Consumer• Fluid power• General industrial• Information technology• Life sciences | <ul style="list-style-type: none">• Microelectronics• Military• Oil and gas• Power generation• Renewable energy• Telecommunications• Transportation |
| Filtration Group: | <ul style="list-style-type: none">• Agriculture• Aerospace and defense• Construction• Food and beverage• Industrial machinery• Life sciences• Marine | <ul style="list-style-type: none">• Mining• Oil and gas• Power generation• Renewable energy• Transportation• Water purification |
| Fluid Connectors Group: | <ul style="list-style-type: none">• Aerial lift• Agriculture• Bulk chemical handling• Construction machinery• Food and beverage• Fuel and gas delivery• Industrial machinery | <ul style="list-style-type: none">• Life sciences• Marine• Mining• Mobile• Oil and gas• Renewable energy• Transportation |
| Hydraulics Group: | <ul style="list-style-type: none">• Aerial lift• Agriculture• Air conditioning• Construction machinery• Entertainment• Forestry• Industrial machinery• Machine tools• Marine | <ul style="list-style-type: none">• Material handling• Mining• Oil and gas• Power generation• Recreational vehicles• Refuse vehicles• Renewable energy• Truck hydraulics• Turf equipment |

Instrumentation Group:

- Air conditioning
- Alternative fuels
- Bio pharmaceuticals
- Chemical
- Food and beverage
- Life sciences
- Microelectronics
- Mining
- Oil and gas
- Pharmaceuticals
- Power generation
- Refining
- Refrigeration
- Water/wastewater

Aerospace Systems Segment. Sales of the Aerospace Systems Segment products are made primarily in the commercial and military aerospace markets to both OEMs and to end users for spares, maintenance, repair and overhaul. The major markets for products of the Aerospace Systems Segment are listed below:

- Commercial transports
- Engines
- General and business aviation
- Helicopters
- Military aircraft
- Missiles
- Power generation
- Regional transports
- Unmanned aerial vehicles
- Aftermarket services

Principal Products and Methods of Distribution

Although the Company offers hundreds of thousands of individual products, no single product contributed more than 1% to the Company's total net sales for the year ended June 30, 2016. Listed below are some of the Company's principal products.

Diversified Industrial Segment. The products produced by the Company's Diversified Industrial Segment consist of a broad range of motion-control and fluid systems and components, which are described below by group:

Automation Group: pneumatic, fluidic and electromechanical components and systems, including:

- Air regulators/filters
- Electric actuators and stages
- Fluid control valves
- Fluid system mass flow meters/controllers
- Grippers
- Inverters
- Miniature air/liquid pumps
- Motion controllers
- Pneumatic control valves
- Pneumatic cylinders
- Pressure and flow controls
- Servo motors and drives
- Solenoid valves
- Vacuum variable frequency drives

Engineered Materials Group: static and dynamic sealing devices, including:

- Dynamic seals
- Elastomeric o-rings
- Electro-medical instrument design and assembly
- Electromagnetic interference shielding
- Extruded and precision-cut fabricated elastomeric seals
- High-temperature metal seals
- Homogeneous and inserted elastomeric shapes
- Medical device fabrication and assembly
- Metal and plastic retained composite seals
- Shielded optical windows
- Silicone tubing and extrusions
- Thermal management
- Vibration dampening

Filtration Group: filters, systems and diagnostics solutions to monitor and remove contaminants from fuel, air, oil, water and other liquids and gases, including:

- Aerospace filters and systems
- Compressed air and gas treatment solutions
- Engine fuel, oil, air and closed crankcase ventilation filtration systems
- Filtration and purification systems
- Fluid condition monitoring systems
- Hydraulic and lubrication filters
- Industrial and analytical gas generators
- Instrumentation filters
- Membrane and fiber filters
- Process liquid, air and gas filters
- Sterile air filters
- Water purification filters and systems

Fluid Connectors Group: connectors which control, transmit and contain fluid, including:

- Check valves
- Diagnostic equipment
- Hose couplings
- Industrial hose
- Low pressure fittings and adapters
- Polytetrafluoroethylene ("PTFE") hose and tubing
- Quick couplings
- Rubber and thermoplastic hose
- Tube fittings and adapters
- Tubing and plastic fittings

Hydraulics Group: hydraulic components and systems for builders and users of industrial and mobile machinery and equipment, including:

- Accumulators
- Cartridge valves
- Coolers
- Electrohydraulic actuators
- Electronic displays and human machine interfaces
- Electronic I/O controllers
- Fan drives
- Hybrid drives
- Hydraulic cylinders
- Hydraulic motors and pumps
- Hydraulic systems
- Hydraulic valves and controls
- Hydrostatic steering units
- Integrated hydraulic circuits
- Intensifiers
- Power take-offs
- Power units
- Rotary actuators
- Sensors
- Telematic controllers

Instrumentation Group: high quality critical flow components for process instrumentation, healthcare and ultra-high-purity applications and components for use in refrigeration and air conditioning systems and in fluid control applications for processing, fuel dispensing, beverage dispensing and mobile emissions, including:

- Accumulators
- Analytical instruments and sample conditioning systems
- Carbon dioxide controls
- Compressed natural gas dispensers
- Cryogenic valves
- Electronic controllers
- Electronic valves
- Filter driers
- Fluid system fittings, valves, regulators and manifold valves
- Fluoropolymer chemical delivery fittings, valves and pumps
- High pressure fittings, valves, pumps and systems
- High-purity gas delivery fittings, valves and regulators
- Natural gas on-board fuel systems
- Pressure regulating valves
- Refrigeration and air conditioning electronic controls and monitoring

[Table of Contents](#)

Diversified Industrial Segment products include standard products, as well as custom products which are engineered and produced to OEMs' specifications for application to particular end products. Both standard and custom products are also used in the replacement of original products. Diversified Industrial Segment products are marketed primarily through field sales employees and approximately 13,200 independent distributor locations throughout the world.

Aerospace Systems Segment. The principal products of the Company's Aerospace Systems Segment are used on commercial and military airframe and engine programs and include:

- Control actuation systems and components
- Engine systems and components
- Fluid conveyance systems and components
- Fluid metering, delivery and atomization devices
- Fuel systems and components
- Fuel tank inerting systems
- Hydraulic systems and components
- Lubrication components
- Power conditioning and management systems
- Thermal management
- Wheels and brakes

Aerospace Systems Segment products are marketed by the Company's regional sales organizations and are sold directly to original equipment manufacturers and end users throughout the world.

Competition

The Company's business operates in highly competitive markets and industries. The Company offers its products over numerous, varied markets through its divisions operating in 49 countries and consequently has hundreds of competitors when viewed across its various markets and product offerings. The Company's competitors include U.S. and non-U.S. companies. These competitors and the degree of competition vary widely by product lines, end markets, geographic scope and/or geographic locations. Although each of the Company's segments has numerous competitors, given the Company's market and product breadth, no single competitor competes with the Company with respect to all products manufactured and sold by the Company.

In the Diversified Industrial Segment, the Company competes on the basis of product quality and innovation, customer service, manufacturing and distribution capability, and price competitiveness. The Company believes that it is one of the market leaders in most of the major markets for its most significant Diversified Industrial Segment products. The Company has comprehensive motion and control packages for the broadest systems capabilities. While the Company's primary global competitors include Bosch Rexroth AG, Danaher Corporation, Danfoss A/S, Donaldson Company, Inc., Eaton Corporation plc, Emerson Climate Technologies, Emerson/ASCO, Festo AG, Freudenberg-NOK, Gates Corporation, IMI/Norgren, SMC Corporation, Swagelok Company, and Trelleborg AB, none of these businesses compete with every group in the Company's Diversified Industrial Segment and every product line offered by this segment.

In the Aerospace Systems Segment, the Company has developed alliances with key customers based on the Company's advanced technological and engineering capabilities, superior performance in quality, delivery, and service, and price competitiveness, which has enabled the Company to obtain significant original equipment business on new aircraft programs for its systems and components and to thereby obtain the follow-on repair and replacement business for these programs. Further, the Aerospace Systems Segment is able to utilize low-cost manufacturing techniques for similar products in the Diversified Industrial Segment to achieve a lower cost producer status. Although the Company believes that it is one of the market leaders in most of the major markets for its most significant Aerospace Systems Segment products, the Company's primary global competitors for the most significant Aerospace Systems Segment products include Eaton Corporation plc, Honeywell International, Inc., Moog Inc., Triumph Group, Inc., UTC Aerospace Systems, Woodward, Inc. and Zodiac Aerospace SA.

The Company believes that its platform utilizing nine core technologies, which consist of aerospace, electromechanical, filtration, fluid handling, hydraulics, pneumatics, process control, refrigeration, and sealing and shielding, is a positive factor in its ability to compete effectively with both large and small competitors. For both of its segments, the Company believes that the following factors also contribute to its ability to compete effectively:

- decentralized operating structure that allows each division to focus on its customers and respond quickly at the local level;
- systems solution capabilities that use the Company's core technologies from both of its segments;
- global presence; and
- a strong global distribution network.

Research and Product Development

The Company continually researches the feasibility of new products and services through its development laboratories and testing facilities in many of its worldwide manufacturing locations. Its research and product development staff includes chemists, physicists, and mechanical, chemical and electrical engineers.

Total research and development costs relating to the development of new products and services and the improvement of existing products and services amounted to \$359.8 million in 2016, \$403.1 million in 2015 and \$410.1 million in 2014. These amounts include costs incurred by the Company related to independent research and development initiatives as well as costs incurred in connection with research and development contracts. Costs incurred in connection with research and development contracts and included in the total research and development costs reported above for 2016, 2015 and 2014 were \$58.0 million, \$57.8 million and \$55.9 million, respectively.

Patents, Trademarks, Licenses

The Company owns a number of patents, trademarks and licenses related to its products and has exclusive and non-exclusive rights to use a number of patents owned by others. In addition, patent applications on certain products are now pending, although there can be no assurance that patents will be issued. The Company is not dependent to any material extent on any single patent, trademark or license or group of patents, trademarks or licenses.

Backlog and Seasonal Nature of Business

Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale. The Company's backlog by business segment for the past two years is included in Part II, Item 7 of this Annual Report on Form 10-K and is incorporated herein by reference. The Company's backlog was \$3.2 billion at June 30, 2016 and \$3.3 billion at June 30, 2015. Approximately 86% of the Company's backlog at June 30, 2016 is scheduled for delivery in the succeeding twelve months. The Company's business is generally not seasonal in nature.

Environmental Regulation

Certain of the Company's operations necessitate the use and handling of hazardous materials and, as a result, the Company is subject to United States federal, state, and local laws and regulations as well as non-U.S. laws and regulations designed to protect the environment and regulate the discharge of materials into the environment. These laws impose penalties, fines and other sanctions for non-compliance and liability for response costs, property damage and personal injury resulting from past and current spills, disposals or other releases of, or exposures to, hazardous materials. Among other environmental laws, the Company is subject to the United States federal "Superfund" law, under which the Company has been designated as a "potentially responsible party" and may be liable for cleanup costs associated with various waste sites, some of which are on the United States Environmental Protection Agency's Superfund priority list.

As of June 30, 2016, the Company was involved in environmental remediation at various United States and non-U.S. manufacturing facilities presently or formerly operated by the Company and as a "potentially responsible party," along with other companies, at off-site waste disposal facilities and regional sites.

The Company believes that its policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and the consequent financial liability to the Company. Compliance with environmental laws and regulations requires continuing management efforts and expenditures by the Company. Compliance with environmental laws and regulations has not had in the past, and, the Company believes, will not have in the future, a material adverse effect on the capital expenditures, earnings, or competitive position of the Company.

As of June 30, 2016, the Company had a reserve of \$15.2 million for environmental matters that were probable and reasonably estimable. This reserve was recorded based upon the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by governmental authorities and the amount of the Company's liability in proportion to other responsible parties.

The Company's estimated total liability for the above mentioned sites ranges from a minimum of \$15.2 million to a maximum of \$80.6 million. The largest range of the estimated total liability for any one site is approximately \$7.6 million. The actual costs to be incurred by the Company will be dependent on final determination of contamination and required remedial action, negotiations with governmental authorities with respect to cleanup levels, changes in regulatory requirements, innovations in investigatory and remedial technologies, effectiveness of remedial technologies employed, the ability of the other responsible parties to pay, and any insurance or other third-party recoveries.

Energy Matters and Sources and Availability of Raw Materials

The Company's primary energy source for both of its business segments is electric power. While the Company cannot predict future costs of electric power, the primary source for production of the required electric power will be coal from substantial, proven coal reserves available to electric utilities. The Company is subject to governmental regulations in regard to energy supplies in the United States and elsewhere. To date, the Company has not experienced any significant disruptions of its operations due to energy curtailments.

Steel, brass, copper, aluminum, nickel, rubber and thermoplastic materials and chemicals are the principal raw materials used by the Company. These materials are available from numerous sources in quantities sufficient to meet the requirements of the Company.

Employees

The Company employed approximately 48,950 persons as of June 30, 2016, of whom approximately 26,280 were employed by foreign subsidiaries.

Business Segment Information

The Company's net sales, segment operating income and assets by business segment and net sales and long-lived assets by geographic area for the past three years are included in Part II, Item 8 of this Annual Report on Form 10-K and are incorporated herein by reference.

ITEM 1A. Risk Factors.

The following "risk factors" identify what the Company believes to be the risks that could materially adversely affect the Company's financial and/or operational performance. These risk factors should be considered and evaluated together with information incorporated by reference or otherwise included elsewhere in this Annual Report on Form 10-K. Additional risks not currently known to the Company or that the Company currently believes are immaterial also may impair the Company's business, financial condition, results of operations and cash flows.

The Company may be subject to risks arising from uncertainty in worldwide and regional economic conditions.

The Company's business is sensitive to global macro-economic conditions. Slow economic growth persists in the economic regions in which the Company conducts substantial operations. The continued effects of the global economic downturn and the rate of recovery may have an adverse effect on the business, results of operations and financial condition of the Company and its distributors, customers and suppliers, and on the general economic activity in many of the industries and markets in which the Company and its distributors, customers and suppliers operate. Among the economic factors which may have such an effect are manufacturing and other end-market activity, currency exchange rates, air travel trends, difficulties entering new markets, and general economic conditions such as inflation, deflation, interest rates and credit availability. These factors may, among other things, negatively impact the level of purchases, capital expenditures, and creditworthiness of the Company and its distributors, customers and suppliers, and, therefore, the Company's revenues, operating profits, margins, and order rates.

The Company has remained focused on maintaining its financial strength by adjusting its cost structure to reflect changing demand levels, maintaining a strong balance sheet and managing its cash. The Company cannot predict changes in worldwide or regional economic conditions, as such conditions are highly volatile and beyond the Company's control. If these conditions deteriorate or do not return to previous levels, however, the Company's business, results of operations and financial condition could be materially adversely affected.

The Company may be subject to risks relating to its non-U.S. operations.

The Company's net sales derived from customers outside the United States were approximately 41% in 2016, 42% in 2015 and 44% in 2014. In addition, many of the Company's manufacturing operations and suppliers are located outside the United States. The Company expects net sales from non-U.S. markets to continue to represent a significant portion of its total net sales. The Company's non-U.S. operations are subject to risks in addition to those facing its domestic operations, including:

- fluctuations in currency exchange rates;
- limitations on ownership and on repatriation of earnings;
- transportation delays and interruptions;
- political, social and economic instability and disruptions;
- government embargoes or trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- import and export controls;
- labor unrest and current and changing regulatory environments;
- the potential for nationalization of enterprises;
- difficulties in staffing and managing multi-national operations;
- limitations on the Company's ability to enforce legal rights and remedies;
- potentially adverse tax consequences; and
- difficulties in implementing restructuring actions on a timely basis.

If the Company is unable to successfully manage the risks associated with expanding its global business or adequately manage operational fluctuations internationally, the risks could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company may be subject to risks relating to organizational changes.

The Company regularly executes organizational changes such as acquisitions, divestitures and realignments to support its growth and cost management strategies. The Company also engages in initiatives aimed to increase productivity, efficiencies and cash flow and to reduce costs. The Company further commits significant resources to identify, develop and retain key employees to ensure uninterrupted leadership and direction. If the Company is unable to successfully manage these and other organizational changes, the ability to complete such activities and realize anticipated synergies or cost savings as well as the Company's results of operations and financial condition could be materially adversely affected. The Company also cannot offer assurances that any of these initiatives will continue to be beneficial to the extent anticipated, or that the estimated efficiency improvements, incremental cost savings or cash flow improvements will be realized as anticipated or at all.

The Company may be subject to risks relating to acquisitions and joint ventures.

The Company expects to continue its strategy of identifying and acquiring businesses with complementary products and services, and entering into joint ventures, which it believes will enhance its operations and profitability. However, there can be no assurance that the Company will be able to continue to find suitable businesses to purchase or joint venture opportunities or that it will be able to acquire such businesses or enter into such joint ventures on acceptable terms. In addition, there is no assurance that the Company will be able to avoid acquiring or assuming unexpected liabilities, that the Company will be able to integrate successfully any businesses that it purchases into its existing business or that any acquired businesses or joint ventures will be profitable. The successful integration of new businesses and the success of joint ventures depend on the Company's

ability to manage these new businesses and cut excess costs. If the Company is unable to avoid these risks, its results of operations and financial condition could be materially adversely affected.

The Company may be subject to risks relating to its information technology systems.

The Company relies extensively on information technology systems to manage and operate its business, some of which are managed by third parties. The security and functionality of these information technology systems, and the processing of data by these systems, are critical to our business operations. If these systems, or any part of the systems, are damaged, intruded upon, attacked, shutdown or cease to function properly (whether by planned upgrades, force majeure, telecommunications failures, hardware or software break-ins or viruses, or other cybersecurity incidents) and the Company suffers any resulting interruption in its ability to manage and operate its business or if its products are effected, the Company's results of operations and financial condition could be materially adversely affected.

The Company may be subject to risks relating to changes in the demand for and supply of its products.

Demand for and supply of the Company's products may be adversely affected by numerous factors, some of which the Company cannot predict or control. Such factors include:

- changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments, disputes regarding contract terms or significant changes in financial condition, and changes in contract cost and revenue estimates for new development programs;
- changes in product mix;
- changes in the market acceptance of the Company's products;
- increased competition in the markets the Company serves;
- declines in the general level of industrial production;
- weakness in the end-markets the Company serves;
- fluctuations in the availability or the prices of raw materials; and
- fluctuations in currency exchange rates.

If any of these factors occur, the demand for and supply of the Company's products could suffer, which could materially adversely affect the Company's results of operations.

The Company may be subject to risks relating to the development of new products and technologies.

The markets in which the Company operates are characterized by rapidly changing technologies and frequent introductions of new products and services. The Company's ability to develop new products based on technological innovation can affect its competitive position and often requires the investment of significant resources. If the Company does not develop, or has difficulties or delays in the development of, innovative new and enhanced products and services, or fails to gain market or regulatory acceptance of new products and technologies, the Company's revenues may be materially reduced and the Company's competitive position could be materially adversely affected. In addition, the Company may invest in research and development of products and services, or in acquisitions or other investments, that do not lead to significant revenue, which could adversely affect our profitability.

The Company may be subject to risks arising from price and supply fluctuations in raw materials used in the Company's production processes and by its suppliers of component parts.

The Company's supply of raw materials for its businesses could be interrupted for a variety of reasons, including availability and pricing. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect the Company's results of operations and profit margins. Although the Company generally attempts to manage these fluctuations by, among other things, passing along increased raw material prices to its customers in the form of price increases, there may be a time delay between the increased raw material prices and the Company's ability to increase the price of its products, or the Company may be unable to increase the prices of its products due to pricing pressure, contract terms or other factors which could adversely impact results of operations and cash flows.

The Company's suppliers of component parts may significantly and quickly increase their prices in response to increases in costs of raw materials that they use to manufacture the component parts. As a result, the Company may not be able to

increase its prices commensurately with its increased costs. Consequently, the Company's results of operations or financial condition could be materially adversely affected.

The Company may be subject to risks arising from changes in the competitive environment in which it operates.

The Company's operations are subject to competition from a wide variety of global, regional and local competitors, which could adversely affect the Company's results of operations by creating downward pricing pressure and/or a decline in the Company's margins or market shares. To compete successfully, the Company must excel in terms of product quality and innovation, technological and engineering capability, manufacturing and distribution capability, delivery, price competitiveness, and customer service.

The Company may be subject to risks relating to changes in its tax rates or exposure to additional income tax liabilities.

The Company is subject to income taxes in the United States and various non-U.S. jurisdictions. The Company's domestic and international tax liabilities are dependent upon the location of earnings among these different jurisdictions. The Company's future results of operation could be adversely affected by changes in the Company's effective tax rate as a result of changes in the mix of earnings in countries with differing statutory tax rates, changes in overall profitability, changes in generally accepted accounting principles, changes in the valuation of deferred tax assets or changes in tax laws or regulations. In addition, the amount of income taxes paid by the Company is subject to ongoing audits by United States federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments to the Company's tax liabilities, which could have a material adverse effect on the Company's results of operations.

The Company may be subject to product liability risks.

The Company's businesses expose it to potential product liability risks that are inherent in the design, manufacture and sale of its products and the products of third-party vendors that the Company uses or resells. Significant product liability claims could have a material adverse effect on the Company's financial condition, liquidity and results of operations. Although the Company currently maintains what it believes to be suitable and adequate product liability insurance, there can be no assurance that the Company will be able to maintain its insurance on acceptable terms or that its insurance will provide adequate protection against all potential liabilities.

The Company may be subject to risks arising from litigation, legal and regulatory proceedings and obligations.

From time to time, the Company is subject to litigation or other commercial disputes and other legal and regulatory proceedings relating to its business. Due to the inherent uncertainties of any litigation, commercial disputes or other legal or regulatory proceedings, the Company cannot accurately predict their ultimate outcome, including the outcome of any related appeals. An unfavorable outcome could materially adversely impact the Company's business, financial condition or results of operations. Furthermore, as required by U.S. generally accepted accounting principles, the Company establishes reserves based on its assessment of contingencies, including contingencies related to legal claims asserted against it. Subsequent developments in legal proceedings may affect the Company's assessment and estimates of the loss contingency recorded as a reserve and require the Company to make payments in excess of our reserves, which could have an adverse effect on the Company's results of operations.

The Company is subject to national and international laws and regulations, such as the anti-corruption laws of the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, relating to its business and its employees. Despite the Company's policies, procedures and compliance programs, its internal controls and compliance systems may not be able to protect the Company from prohibited acts willfully committed by its employees, agents or business partners that would violate such applicable laws and regulations. Any such improper acts could damage the Company's reputation, subject it to civil or criminal judgments, fines or penalties, and could otherwise disrupt the Company's business, and as a result, could materially adversely impact the Company's business, financial condition or results of operations.

The Company may be subject to risks relating to the preservation of its intellectual property.

Protecting the Company's intellectual property is critical to its innovation efforts. The Company owns a number of patents, trade secrets, copyrights, trademarks, trade names and other forms of intellectual property in its products and services throughout the world. The Company also has exclusive and non-exclusive rights to intellectual property owned by others. The Company's intellectual property may be challenged or infringed upon by third parties or the Company may be unable to maintain, renew or enter into new license agreements with third-party owners of intellectual property on reasonable terms. In addition, the global nature of the Company's business increases the risk that the Company's intellectual property may be subject to infringement or other unauthorized use by others. In some cases, the Company's ability to protect its intellectual property

rights by legal recourse or otherwise may be limited, particularly in countries where laws or enforcement practices are inadequate or undeveloped. Unauthorized use of the Company's intellectual property rights or the Company's inability to preserve existing intellectual property rights could adversely impact the Company's competitive position and results of operations.

The Company may be subject to risks arising from the impact of environmental regulations.

The Company's operations necessitate the use and handling of hazardous materials and, as a result, it is subject to various United States federal, state and local laws and regulations, as well as non-U.S. laws, designed to protect the environment and to regulate the discharge of materials into the environment. These laws impose penalties, fines and other sanctions for non-compliance and liability for response costs, property damages and personal injury resulting from past and current spills, disposals or other releases of, or the exposure to, hazardous materials. Among other laws, the Company is subject to the United States federal "Superfund" law, under which it has been designated as a "potentially responsible party" and may be liable for clean-up costs associated with various waste sites, some of which are on the United States Environmental Protection Agency's Superfund priority list. The Company could incur substantial costs as a result of non-compliance with or liability for cleanup or other costs or damages under environmental laws, including the Superfund law.

In addition, increased worldwide focus on climate change issues has led to recent legislative and regulatory efforts to limit greenhouse gas emissions, including regulation of such emissions through a "cap-and-trade" system globally. Increased regulation of greenhouse gas emissions and other climate changes concerns could subject the Company to additional costs and restrictions, including increased energy and raw material costs. Until definitive regulations are adopted, the Company is not able to predict how such regulations would affect the Company's business, operations or financial results.

The Company may be subject to more stringent environmental laws in the future. If more stringent environmental laws are enacted in the future, these laws could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company may be subject to risks relating to increasing costs of certain employee and retiree benefits.

The funding requirements and the amount of expenses recorded for the Company's defined benefit pension plans are dependent on changes in market interest rates and the value of plan assets, which are dependent on actual plan asset returns. Significant changes in market interest rates and decreases in the fair value of plan assets and investment losses on plan assets would increase funding requirements and expenses and may adversely impact the Company's results of operations.

The Company absorbs a portion of healthcare costs for its employees. If healthcare costs rise significantly and the Company continues to absorb the majority of these costs, these increasing costs may adversely impact the Company's future results of operations.

The Company may be subject to risks arising from regulations applicable to companies doing business with the United States government.

In addition to the risks identified herein, doing business with the United States government subjects the Company to unusual risks, including dependence on the level of government spending and compliance with and changes in governmental procurement regulations. Agreements relating to the sale of products to government entities may be subject to termination, reduction or modification, either at the convenience of the government or for the Company's failure to perform under the applicable contract. The Company is subject to government investigations of business practices and compliance with government procurement regulations. If the Company were charged with wrongdoing as a result of any such investigation, it could be suspended from bidding on or receiving awards of new government contracts, which could have a material adverse effect on the Company's results of operations.

ITEM 1B. Unresolved Staff Comments. None.

ITEM 1C. Executive Officers of the Registrant

The Company's executive officers as of August 15, 2016 were as follows:

| Name | Position | Officer Since(1) | Age as of 8/15/2016 |
|------------------------|---|-------------------------|----------------------------|
| Thomas L. Williams | Chairman of the Board, Chief Executive Officer and Director | 2005 | 57 |
| Lee C. Banks | President, Chief Operating Officer and Director | 2001 | 53 |
| Jon P. Marten | Executive Vice President – Finance & Administration and Chief Financial Officer | 2008 | 60 |
| Mark J. Hart | Executive Vice President – Human Resources & External Affairs | 2016 | 51 |
| Robert W. Bond | Vice President – eBusiness, IoT and Services | 2000 | 58 |
| Yoon "Michael" Chung | Vice President and President – Automation Group | 2008 | 53 |
| John G. Dedinsky, Jr. | Vice President – Global Supply Chain and Procurement | 2006 | 59 |
| William G. Eline | Vice President – Chief Information Officer | 2002 | 60 |
| John R. Greco | Vice President and President – Instrumentation Group | 2006 | 62 |
| Kurt A. Keller | Vice President and President – Asia Pacific Group | 2009 | 58 |
| Joseph R. Leonti | Vice President, General Counsel and Secretary | 2014 | 44 |
| Robert W. Malone | Vice President and President – Filtration Group | 2014 | 52 |
| M. Craig Maxwell | Vice President – Chief Technology and Innovation Officer | 2003 | 58 |
| Jennifer A. Parmentier | Vice President and President – Engineered Materials Group | 2015 | 49 |
| Andrew D. Ross | Vice President and President – Fluid Connectors Group | 2012 | 49 |
| Daniel S. Serbin | Vice President | 2005 | 62 |
| Roger S. Sherrard | Vice President and President – Aerospace Group | 2003 | 50 |
| Catherine A. Suever | Vice President and Controller | 2010 | 57 |
| Andrew M. Weeks | Vice President and President – Hydraulics Group | 2015 | 53 |

- (1) Executive officers of the Company are elected by the Board of Directors to serve for a term of one year or until their respective successors are elected, except in the case of death, resignation or removal. Messrs. Marten, Dedinsky, Eline, Greco, and Maxwell and Ms. Suever have served in the executive capacities indicated above opposite their respective names during each of the past five years.

Mr. Williams has been a Director since January 2015; Chief Executive Officer since February 2015; and Chairman of the Board since January 2016. He was an Executive Vice President from August 2008 to February 2015 and an Operating Officer from November 2006 to February 2015. He is also a Director of Chart Industries, Inc.

Mr. Banks has been a Director since January 2015 and President and Chief Operating Officer since February 2015. He was an Executive Vice President from August 2008 to February 2015 and an Operating Officer from November 2006 to February 2015. He is also a Director of Nordson Corporation.

Mr. Hart has been Executive Vice President - Human Resources & External Affairs since January 2016. He was Vice President - Total Rewards from August 2013 to January 2016 and Area Vice President - Human Resources of the Fluid Connectors Group, Filtration Group and Climate and Industrial Controls Group from October 2010 to August 2013.

Mr. Bond has been Vice President - eBusiness, IoT and Services since September 2015. He was Vice President from July 2000 to September 2015 and President of the Fluid Connectors Group from March 2005 to September 2015.

Mr. Chung has been President of the Automation Group since July 2012 and has been a Vice President since March 2008. He was President of the Asia Pacific Group from March 2008 to July 2012.

Mr. Keller has been President of the Asia-Pacific Group since July 2012 and has been a Vice President since August 2009. He was President of the Engineered Materials Group from August 2009 to July 2012.

Mr. Leonti has been Vice President, General Counsel and Secretary since July 2014. He was Assistant Secretary from April 2011 to July 2014 and Associate General Counsel from January 2008 to July 2014.

Mr. Malone has been Vice President and President of the Filtration Group since December 2014. He was Vice President - Operations of the Filtration Group from January 2013 to December 2014 and President and Chief Executive Officer of Purolator Filters (a German joint venture) from April 2006 to January 2013.

Ms. Parmentier has been Vice President and President of the Engineered Materials Group since September 2015. She was General Manager of the Hose Products Division from May 2014 to September 2015; General Manager of the Sporlan Division from May 2012 to May 2014; and Business Unit Manager of the Sporlan Division from December 2008 to May 2012.

Mr. Ross has been Vice President since July 2012 and President of the Fluid Connectors Group since September 2015. He was President of the Engineered Materials Group from July 2012 to September 2015; Vice President - Operations of the Hydraulics Group from July 2011 to July 2012; and General Manager of the Hydraulic Valve Division from June 2007 to July 2011.

Mr. Serbin has been Vice President since January 2016. He was Executive Vice President - Human Resources & External Affairs from July 2014 to January 2016 and Executive Vice President – Human Resources from January 2011 to July 2014.

Mr. Sherrard has been President of the Aerospace Group since July 2012 and has been Vice President since November 2003. He was President of the Automation Group from March 2005 to July 2012.

Mr. Weeks has been Vice President and President of the Hydraulics Group since September 2015. He was Vice President - Operations of the Aerospace Group from April 2013 to September 2015 and Senior Vice President and General Manager of the Fluid and Electrical Distribution Division of Eaton Corporation plc (power management company) from July 2003 to April 2013.

ITEM 2. Properties. The Company’s corporate headquarters is located in Cleveland, Ohio, and, at June 30, 2016, the Company had 292 manufacturing plants, 88 distribution centers and 154 sales and administrative offices throughout the world, none of which were individually material to its operations. The facilities are situated in 89 states within the United States and in 48 other countries. The Company owns the majority of its manufacturing plants and its leased properties primarily consist of sales and administrative offices and distribution centers. The number of facilities used by each of the Company’s operating segments is summarized by type and geographic location in the tables below:

| | Type of Facility | | |
|------------------------|----------------------|----------------------|----------------------------------|
| | Manufacturing Plants | Distribution Centers | Sales and Administrative Offices |
| Diversified Industrial | 275 | 81 | 140 |
| Aerospace Systems | 17 | 7 | 14 |
| Total | 292 | 88 | 154 |

| | Geographic Location | | | |
|------------------------|---------------------|--------|--------------|---------------|
| | North America | Europe | Asia-Pacific | Latin America |
| Diversified Industrial | 225 | 143 | 108 | 20 |
| Aerospace Systems | 32 | 4 | 2 | — |
| Total | 257 | 147 | 110 | 20 |

Several facilities are shared between the Company’s operating segments. To avoid double counting, each shared facility is counted once, primarily in the Diversified Industrial Segment.

The Company believes that its properties have been adequately maintained, are in good condition generally and are suitable and adequate for its business as presently conducted. The extent to which the Company uses its properties varies by property and from time to time. The Company believes that its restructuring efforts have brought capacity levels closer to present and anticipated needs. Most of the Company’s manufacturing facilities remain capable of handling volume increases.

ITEM 3. Legal Proceedings. Parker ITR S.r.l. (Parker ITR), a subsidiary acquired on January 31, 2002, has been the subject of a number of lawsuits and regulatory investigations. The lawsuits and investigations relate to allegations that for a period of up to 21 years, the Parker ITR business unit that manufactures and sells marine hose, typically used in oil transfer, conspired with competitors in unreasonable restraint of trade to artificially raise, fix, maintain or stabilize prices, rig bids and allocate markets and customers for marine oil and gas hose in the United States and in other jurisdictions. Parker ITR and the Company have cooperated with all of the regulatory authorities investigating the activities of the Parker ITR business unit that manufactures and sells marine hose and continue to cooperate with the investigations that remain ongoing. Several of the investigations and all of the lawsuits have concluded. The following investigation remains pending.

On May 15, 2007, the European Commission issued its initial Request for Information to the Company and Parker ITR. On January 28, 2009, the European Commission announced the results of its investigation of the alleged cartel activities. As part of its decision, the European Commission found that Parker ITR infringed Article 81 of the European Community Treaty from April 1986 to May 2, 2007 and fined Parker ITR 25.61 million euros. The European Commission also determined that the Company was jointly and severally responsible for 8.32 million euros of the total fine which related to the period from January 2002, when the Company acquired Parker ITR, to May 2, 2007, when the cartel activities ceased. Parker ITR and the Company filed an appeal to the General Court of the European Union on April 10, 2009. On May 12, 2013, the court reversed in part the decision of the European Commission, reducing the original fine of 25.61 million euros to 6.40 million euros and holding that the Company and Parker ITR are jointly and severally liable for payment of the fine up to 6.30 million euros. The European Commission appealed the ruling to the European Court of Justice. On December 18, 2014, the European Court of Justice reversed the ruling of the General Court and referred the case back to the General Court. On July 14, 2016, the General Court rendered its judgment and reduced Parker ITR's fine from the initial 25.61 million euros to 19.95 million euros, of which it determined the Company is jointly and severally liable for 6.40 million euros.

ITEM 4. Mine Safety Disclosures. Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) **Market for the Registrant's Common Equity.** The Company's common stock is listed for trading on the New York Stock Exchange (NYSE) under the symbol "PH". Information regarding stock price as reported on the NYSE and dividend information with respect to the Company's common stock, is included in the table below.

| <i>(In dollars)</i> | 1st | 2nd | 3rd | 4th | Fiscal Year |
|---------------------|-----------|-----------|-----------|-----------|-------------|
| 2016 High | \$ 117.98 | \$ 108.00 | \$ 113.51 | \$ 117.78 | \$ 117.98 |
| Low | 94.64 | 93.47 | 83.32 | 99.10 | 83.32 |
| Dividends | 0.63 | 0.63 | 0.63 | 0.63 | 2.52 |
| 2015 High | \$ 127.60 | \$ 133.41 | \$ 129.54 | \$ 125.33 | \$ 133.41 |
| Low | 105.91 | 99.82 | 115.86 | 115.65 | 99.82 |
| Dividends | 0.48 | 0.63 | 0.63 | 0.63 | 2.37 |
| 2014 High | \$ 110.21 | \$ 129.77 | \$ 129.40 | \$ 130.44 | \$ 130.44 |
| Low | 94.81 | 103.36 | 108.66 | 118.46 | 94.81 |
| Dividends | 0.45 | 0.45 | 0.48 | 0.48 | 1.86 |

As of July 31, 2016, the number of shareholders of record of the Company was 3,789.

(b) **Use of Proceeds.** Not Applicable.

(c) *Purchases of Equity Securities by the Issuer and Affiliated Purchasers.*

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|--------------------------------------|----------------------------------|--|--|
| April 1, 2016 through April 30, 2016 | 147,500 | \$ 111.82 | 147,500 | 20,122,709 |
| May 1, 2016 through May 31, 2016 | 404,100 | \$ 111.70 | 404,100 | 19,718,609 |
| June 1, 2016 through June 30, 2016 | 401,504 | \$ 114.20 | 401,504 | 19,317,105 |
| Total: | 953,104 | \$ 112.77 | 953,104 | 19,317,105 |

- (1) On August 16, 1990, the Company publicly announced that its Board of Directors authorized the repurchase by the Company of up to 3 million shares of its common stock. From time to time thereafter, the Board of Directors has adjusted the overall maximum number of shares authorized for repurchase under this program. On October 22, 2014, the Company publicly announced that the Board of Directors increased the overall maximum number of shares authorized for repurchase under this program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 35 million shares. There is no limitation on the amount of shares that can be repurchased in a year. There is no expiration date for this program.

ITEM 6. Selected Financial Data.

| (Amounts in thousands, except per share information) | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------------|---------------|---------------|---------------|---------------|
| Net sales | \$ 11,360,753 | \$ 12,711,744 | \$ 13,215,971 | \$ 13,015,704 | \$ 13,145,942 |
| Net income attributable to common shareholders | 806,840 | 1,012,140 | 1,041,048 | 948,427 | 1,151,823 |
| Basic earnings per share | 5.96 | 7.08 | 6.98 | 6.36 | 7.62 |
| Diluted earnings per share | 5.89 | 6.97 | 6.87 | 6.26 | 7.45 |
| Cash dividends per share | 2.52 | \$ 2.37 | \$ 1.86 | \$ 1.70 | \$ 1.54 |
| Total assets (1) | 12,056,738 | 12,279,282 | 13,259,815 | 12,502,478 | 11,126,276 |
| Long-term debt | 2,675,000 | 2,723,960 | 1,508,142 | 1,495,960 | 1,503,946 |

- (1) Amounts revised to reflect the reclassification of current deferred tax assets and liabilities to noncurrent in accordance with Accounting Standards Update 2015-17. Refer to Note 1 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for further information.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Forward-looking statements contained in this and other written and oral reports are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the Company, including its individual segments, may differ materially from current expectations, depending on economic conditions within its mobile, industrial and aerospace markets, and the Company's ability to maintain and achieve anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins, actions taken to combat the effects of the current economic environment, and growth, innovation and global diversification initiatives. A change in the economic conditions in individual markets may have a particularly volatile effect on segment performance.

Among other factors which may affect future performance are:

- changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments, disputes regarding contract terms or significant changes in financial condition, changes in contract cost and revenue estimates for new development programs, and changes in product mix;
- ability to identify acceptable strategic acquisition targets;
- uncertainties surrounding timing, successful completion or integration of acquisitions and similar transactions;
- the ability to successfully divest businesses planned for divestiture and realize the anticipated benefits of such divestitures;
- the determination to undertake business realignment activities and the expected costs thereof and, if undertaken, the ability to complete such activities and realize the anticipated cost savings from such activities;
- ability to implement successfully the Company's capital allocation initiatives, including timing, price and execution of share repurchases;
- increases in raw material costs that cannot be recovered in product pricing;
- the Company's ability to manage costs related to insurance and employee retirement and health care benefits;
- threats associated with and efforts to combat terrorism and cyber-security risks;
- uncertainties surrounding the ultimate resolution of outstanding legal proceedings, including the outcome of any appeals;
- competitive market conditions and resulting effects on sales and pricing;
and
- global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation, deflation, interest rates and credit availability.

The Company makes these statements as of the date of the filing of its Annual Report on Form 10-K for the year ended June 30, 2016, and undertakes no obligation to update them unless otherwise required by law.

Overview

The Company's order rates provide a near-term perspective of the Company's outlook particularly when viewed in the context of prior and future order rates. The Company publishes its order rates on a quarterly basis. The lead time between the time an order is received and revenue is realized generally ranges from one day to 12 weeks for mobile and industrial orders and from one day to 18 months for aerospace orders. The Company believes the leading economic indicators of these markets that have a correlation to the Company's future order rates are as follows:

- Purchasing Managers Index (PMI) on manufacturing activity specific to regions around the world with respect to most mobile and industrial markets;
- Global aircraft miles flown and global revenue passenger miles for commercial aerospace markets and Department of Defense spending for military aerospace markets; and
- Housing starts with respect to the North American residential air conditioning market and certain mobile construction markets.

A PMI above 50 indicates that the manufacturing activity specific to a region of the world in the mobile and industrial markets is expanding. A PMI below 50 indicates the opposite. Recent PMI levels for some regions around the world were as follows:

| | June 30, 2016 | March 31, 2016 | June 30, 2015 |
|--------------------|----------------------|-----------------------|----------------------|
| United States | 53.2 | 51.8 | 53.5 |
| Eurozone countries | 52.8 | 51.6 | 52.5 |
| China | 48.6 | 49.7 | 49.4 |
| Brazil | 43.2 | 46.0 | 46.5 |

Global aircraft miles flown and global revenue passenger miles have both increased approximately six percent from their comparable 2015 level. The Company anticipates that U.S. Department of Defense spending with regards to appropriations, and operations and maintenance for the U.S. Government's fiscal year 2016 will increase by approximately one percent from the comparable fiscal 2015 level.

Housing starts in June 2016 were approximately nine percent higher than housing starts in March 2016 but were two percent lower than housing starts in June 2015.

The Company has remained focused on maintaining its financial strength by adjusting its cost structure to reflect changing demand levels, maintaining a strong balance sheet and managing its cash. The Company continues to generate substantial cash flows from operations, has controlled capital spending and has proactively managed working capital. The Company has been able to borrow needed funds at affordable interest rates and had a debt to debt-shareholders' equity ratio of 39.9 percent at June 30, 2016 compared to 39.3 percent at March 31, 2016 and 36.6 percent at June 30, 2015. Net of cash and cash equivalents and marketable securities and other investments, the debt to debt-shareholders' equity ratio was 16.9 percent at June 30, 2016 compared to 18.6 percent at March 31, 2016 and 16.8 percent at June 30, 2015.

The Company believes many opportunities for growth are available. The Company intends to focus primarily on business opportunities in the areas of energy, water, food, environment, defense, life sciences, infrastructure and transportation.

The Company believes it can meet its strategic objectives by:

- Serving the customer and continuously enhancing its experience with the Company;
- Successfully executing its Win Strategy initiatives relating to premier customer service, financial performance and profitable growth;
- Maintaining its decentralized division and sales company structure;
- Fostering an entrepreneurial culture;
- Engineering innovative systems and products to provide superior customer value through improved service, efficiency and productivity;

- Delivering products, systems and services that have demonstrable savings to customers and are priced by the value they deliver;
- Acquiring strategic businesses;
- Organizing around targeted regions, technologies and markets;
- Driving efficiency by implementing lean enterprise principles; and
- Creating a culture of empowerment through its values, inclusion and diversity, accountability and teamwork.

Acquisitions will be considered from time to time to the extent there is a strong strategic fit, while at the same time maintaining the Company's strong financial position. The Company will continue to assess its existing businesses and initiate efforts to divest businesses that are not considered to be a good long-term strategic fit for the Company. Future business divestitures could have a negative effect on the Company's results of operations.

The discussion below is structured to separately discuss the financial statements presented in Part II, Item 8 of this Annual Report on Form 10-K. The term "year" and references to specific years refer to the applicable fiscal year.

Discussion of Consolidated Statement of Income

The Consolidated Statement of Income summarizes the Company's operating performance over the last three years.

| (dollars in millions) | 2016 | 2015 | 2014 |
|---|-----------|-----------|-----------|
| Net sales | \$ 11,361 | \$ 12,712 | \$ 13,216 |
| Gross profit margin | 22.3 % | 24.0 % | 22.9 % |
| Selling, general and administrative expenses | \$ 1,359 | \$ 1,545 | \$ 1,634 |
| Selling, general and administrative expenses, as a percent of sales | 12.0 % | 12.2 % | 12.4 % |
| Goodwill and intangible asset impairment | \$ — | \$ — | \$ 189 |
| Interest expense | 137 | 118 | 83 |
| Other (income), net | (62) | (43) | (26) |
| (Gain) loss on disposal of assets | (11) | 4 | (409) |
| Effective tax rate | 27.6 % | 29.3 % | 33.1 % |
| Net income attributable to common shareholders | \$ 807 | \$ 1,012 | \$ 1,041 |

Net sales in 2016 were 10.6 percent lower than 2015. Acquisitions made in the last 12 months contributed approximately \$42 million in sales in 2016 and the effect of currency rate changes decreased net sales in 2016 by approximately \$403 million. Excluding the effect of acquisitions and currency rate changes, net sales in 2016 were 7.8 percent lower than 2015 primarily due to a decrease in volume in the both the Diversified Industrial North American and Diversified Industrial International operations.

Net sales in 2015 were 3.8 percent lower than 2014. Acquisitions made in 2015 contributed approximately \$14 million in sales in 2015 and the effect of currency rate changes decreased net sales in 2015 by approximately \$547 million. Excluding the effect of acquisitions and currency rate changes, net sales in 2015 were essentially unchanged from 2014 as an increase in volume experienced in the Diversified Industrial North American operations and the Aerospace Systems Segment was offset by lower volume experienced in the Diversified Industrial International operations.

Gross profit margin decreased in 2016 primarily due to both lower sales volume, resulting in manufacturing inefficiencies, and higher business realignment charges in the Diversified Industrial Segment, partially offset by favorable product mix and lower engineering costs in the Aerospace Systems Segment. Gross profit margin increased in 2015 primarily due to lower business realignment charges in the Diversified Industrial International operations and lower product support costs in the Aerospace Systems Segment. Foreign currency transaction (gain) loss (relating to cash, marketable securities and other investments and intercompany transactions) included in cost of sales for 2016, 2015 and 2014 were \$22.7 million, \$(77.8) million and \$5.4 million, respectively. Pension cost included in cost of sales in 2016, 2015 and 2014 were \$172.4 million, \$169.8 million and \$174.8 million, respectively. Included in cost of sales in 2016, 2015 and 2014 were business realignment charges of \$76.2 million, \$19.4 million and \$63.6 million, respectively.

Selling, general and administrative expenses decreased 12.0 percent in 2016 and decreased 5.5 percent in 2015. The decrease in 2016 was primarily due to lower research and development expenses, lower incentive compensation expense and lower stock compensation expense, partially offset by higher business realignment charges. The decrease in selling, general and administrative expenses in 2015 was primarily due to lower business realignment charges and stock compensation expense, partially offset by higher net expenses associated with the Company's deferred compensation programs. The decrease in stock compensation expense in 2016 is primarily due to fewer stock awards granted. The decrease in stock compensation expense in 2015 is primarily due to a lower fair value calculated for 2015 stock awards as well as fewer stock awards granted. Pension cost included in selling, general and administrative expenses in 2016, 2015 and 2014 were \$74.4 million, \$69.6 million and \$64.2 million, respectively. Included in selling, general and administrative expenses in 2016, 2015 and 2014 were business realignment charges of \$21.1 million, \$12.9 million and \$38.9 million, respectively.

Goodwill and intangible asset impairment related to the Worldwide Energy Products Division. Refer to Note 7 to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K for further discussion.

Interest expense in 2016 increased primarily due to higher weighted-average borrowings and higher weighted-average interest rates. Interest expense in 2015 increased primarily due to higher weighted-average interest rates.

Other (income), net in 2016, 2015 and 2014 includes \$25.6 million, \$23.2 million and \$11.1 million of income, respectively, related to the Company's equity interests in joint ventures.

(Gain) loss on disposal of assets includes a gain of \$11.5 million related to the sale of businesses in 2016 and a gain of \$412.6 million related to the deconsolidation of a subsidiary in 2014.

Effective tax rate in 2016 was favorably impacted by an increase of discrete tax benefits, an increase in the U.S. Research and Development credit, and an increase in the U.S. Foreign Tax Credit. These benefits were partially offset by an unfavorable geographic mix of earnings. The effective tax rate in 2015 was favorably impacted by the enactment of the U.S. Research and Development credit, an increase in the federal manufacturing deduction and the absence of discrete tax costs incurred in the prior year. These benefits were partially offset by an unfavorable geographic mix of earnings.

Discussion of Business Segment Information

The Business Segment information presents sales, operating income and assets on a basis that is consistent with the manner in which the Company's various businesses are managed for internal review and decision-making.

Diversified Industrial Segment (dollars in millions)

| | 2016 | 2015 | 2014 |
|--|----------|----------|----------|
| Sales | | | |
| North America | \$ 4,955 | \$ 5,716 | \$ 5,694 |
| International | 4,145 | 4,741 | 5,288 |
| Operating income | | | |
| North America | 790 | 956 | 946 |
| International | 448 | 584 | 572 |
| Operating income as a percent of sales | | | |
| North America | 15.9 % | 16.7 % | 16.6 % |
| International | 10.8 % | 12.3 % | 10.8 % |
| Backlog | \$ 1,455 | \$ 1,586 | \$ 1,861 |
| Assets | 8,729 | 8,735 | 9,471 |
| Return on average assets | 14.2 % | 16.9 % | 16.1 % |

Sales in 2016 for the Diversified Industrial North American operations decreased 13.3 percent from 2015 compared to remaining relatively flat between 2014 and 2015. Acquisitions completed within the last 12 months contributed approximately \$8 million in sales in 2016 and the effect of currency exchange rates decreased sales in 2016 by \$60 million. Excluding acquisitions and the effect of currency rate changes, sales in 2016 in the Diversified Industrial North American operations decreased 12.4 percent from 2015 reflecting lower demand from distributors and end-users in most markets. The markets that

[Table of Contents](#)

experienced the largest decline in end-user demand were the oil and gas, construction equipment and farm and agriculture equipment markets. Excluding acquisitions and the effect of currency rate changes, sales in 2015 in the Diversified Industrial North American operations increased 1.2 percent from 2014 reflecting higher demand from distributors as well as from end-users in the car and light truck, heavy-duty truck, refrigeration and air conditioning and construction equipment markets, partially offset by lower demand in the farm and agriculture equipment market.

Sales in the Diversified Industrial International operations decreased 12.6 percent in 2016 after a decrease of 10.3 percent from 2014 to 2015. Acquisitions completed within the last 12 months contributed approximately \$34 million in sales in 2016. The effect of currency rate changes decreased sales by \$338 million, reflecting the strengthening of the U.S. dollar against most currencies. Excluding acquisitions and the effect of currency rate changes, sales in 2016 in the Diversified Industrial International operations decreased 6.1 percent from 2015, primarily due to lower volume in all regions, with approximately 55 percent of the decrease occurring in Europe and approximately 35 percent of the decrease occurring in the Asia Pacific region. Within these regions, the largest decrease in sales was experienced from distributors and end-users in the oil and gas, marine, engine and construction equipment markets. Excluding acquisitions and the effect of currency rate changes, sales in 2015 in the Diversified Industrial International operations decreased 1.3 percent from 2014 primarily due to higher volume in the Asia Pacific region being more than offset by lower volume in Europe, approximately two-thirds of which was due to the absence of sales from divested businesses, and in Latin America.

The decrease in operating margins in 2016 in the Diversified Industrial North American operations was primarily due to the lower sales volume and higher business realignment charges, partially offset by lower operating expenses primarily resulting from the Company's Simplification initiative. The decrease in operating margins in 2016 in the Diversified Industrial International operations was primarily due to the lower sales volume, an unfavorable product mix and higher business realignment charges, partially offset by lower operating expenses primarily resulting from the Company's Simplification initiative and prior-year restructuring activities. The increase in operating margins in 2015 in the Diversified Industrial North American operations was primarily due to the higher sales volume, a favorable product mix and manufacturing efficiencies, partially offset by higher warehouse, shipping, and manufacturing support costs, research and development expenses and raw material costs. Diversified Industrial North American margins in 2015 were also adversely affected by a voluntary retirement expense of \$12.7 million. The increase in operating margins in 2015 in the Diversified Industrial International operations was primarily due to lower fixed overhead costs and lower business realignment charges in the current-year, partially offset by higher raw material costs due to changes in currency exchange rates.

The following business realignment charges are included in Diversified Industrial North America and Diversified Industrial International operating income:

| (dollars in millions) | 2016 | 2015 | 2014 |
|--------------------------------------|-------|------|------|
| Diversified Industrial North America | \$ 31 | \$ 4 | \$ 2 |
| Diversified Industrial International | 60 | 27 | 99 |

The business realignment charges consist primarily of severance costs related to actions taken under the Company's Simplification initiative implemented by operating units throughout the world as well as plant closures. The majority of the Diversified Industrial International business realignment charges were incurred in Europe. In addition to the business realignment charges presented in the table above, the Company recognized \$12 million of expense associated with enhanced retirement benefits in connection with a plant closure during 2016. The Company anticipates that cost savings realized from the work force reduction measures taken during 2016 will increase 2017 operating income by approximately 11 percent in the Diversified Industrial North American business and by approximately 13 percent in the Diversified Industrial International business. In 2017, the Company expects to continue to take actions necessary to structure appropriately the operations of the Diversified Industrial Segment. Such actions are expected to result in approximately \$48 million in business realignment charges in 2017.

The Company anticipates Diversified Industrial North American sales for 2017 will range from a decrease of five percent to a decrease of one percent from the 2016 level and Diversified Industrial International sales for 2017 will increase between one percent and five percent from the 2016 level. Diversified Industrial North American operating margins in 2017 are expected to range from 16.7 percent to 17.1 percent and Diversified Industrial International margins are expected to range from 12.5 percent to 12.9 percent.

The decrease in total Diversified Industrial Segment backlog in 2016 was primarily due to shipments exceeding orders primarily in North America and Europe, with North America accounting for approximately 70 percent of the decrease and

[Table of Contents](#)

Europe accounting for approximately 30 percent of the decrease. The decrease in total Diversified Industrial Segment backlog in 2015 was primarily due to shipments exceeding orders in all regions. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale.

The decrease in total Diversified Industrial Segment assets in 2016 was primarily due to the effect of currency rate fluctuations and a decrease in prepaid expenses, inventory, intangible assets, trade accounts receivable, net and plant and equipment, net, partially offset by an increase in marketable securities and other investments, cash and cash equivalents, deferred income taxes and goodwill. The decrease in total Diversified Industrial Segment assets in 2015 was primarily due to the effect of currency rate fluctuations and a decrease in trade accounts receivable, net, non-trade and notes receivable and intangible assets, partially offset by an increase in cash and cash equivalents and other assets.

Aerospace Systems Segment (dollars in millions)

| | 2016 | 2015 | 2014 |
|--|----------|----------|----------|
| Sales | \$ 2,260 | \$ 2,255 | \$ 2,235 |
| Operating income | 338 | 299 | 271 |
| Operating income as a percent of sales | 14.9 % | 13.3 % | 12.1 % |
| Backlog | \$ 1,762 | \$ 1,756 | \$ 1,994 |
| Assets | 1,431 | 1,376 | 1,359 |
| Return on average assets | 24.1 % | 21.9 % | 21.7 % |

Sales in 2016 were higher than the 2015 level as higher volume in the military original equipment manufacturer (OEM) and commercial and military aftermarket businesses was partially offset by lower volume in the commercial OEM business. Sales in 2015 were higher than the 2014 level as higher volume in the commercial OEM and aftermarket businesses was partially offset by lower volume in the military OEM business.

The higher margin in 2016 was primarily due to a favorable product mix, favorable contract settlements, lower engineering development expenses and lower operating costs. The higher margin in 2015 was primarily due to the higher sales volume and lower engineering and development costs partially offset by a voluntary retirement expense of \$5.4 million. Margins in 2015 and 2014 were favorably impacted by the finalization of contract negotiations related to certain programs.

The increase in backlog in 2016 was primarily due to orders exceeding shipments in the military OEM and commercial and military aftermarket businesses, partially offset by shipments exceeding orders in the commercial OEM business. The decrease in backlog in 2015 was primarily due to shipments exceeding orders in all businesses of the Aerospace Systems Segment. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale.

For 2017, sales are expected to increase between one percent and three percent from the 2016 level and operating margins are expected to range from 15.1 percent to 15.5 percent. A higher concentration of commercial OEM volume in future product mix and higher than expected new product development costs could result in lower margins.

The increase in assets in 2016 was primarily due to an increase in trade accounts receivable, net and other assets, partially offset by a decrease in inventory. The increase in assets in 2015 was primarily due to an increase in inventory and other assets, partially offset by a decrease in trade accounts receivable, net.

Corporate general and administrative expenses were \$173.2 million in 2016 compared to \$215.4 million in 2015 and \$181.9 million in 2014. As a percent of sales, corporate general and administrative expenses were 1.5 percent of sales compared to 1.7 percent in 2015 and 1.4 percent in 2014. The lower expense in 2016 was primarily due to a decrease in research and development expense and lower incentive compensation expense. The higher expense in 2015 was primarily due to an increase in incentive compensation expense and higher net expenses associated with the Company's deferred compensation programs. Corporate general and administrative expenses in 2015 included \$3.1 million in voluntary retirement expense.

[Table of Contents](#)

Corporate assets decreased 12.5 percent in 2016 compared to a decrease of 10.8 percent from 2014 to 2015. The decrease in Corporate assets in 2016 was primarily due to decreases in marketable securities and other investments, non-trade and notes receivable, cash and cash equivalents and the effect of currency rate fluctuations, partially offset by an increase in deferred income taxes. The decrease in Corporate assets in 2015 was primarily due to the effect of currency rate fluctuations and changes in cash and cash equivalents, marketable securities and other investments, non-trade and notes receivable, deferred income taxes and other assets.

Other expense (income) (in the Business Segment Information)

| (dollars in millions) | 2016 | 2015 | 2014 |
|---|---------------|--------------|----------------|
| Foreign currency transaction | \$ 23 | \$ (78) | \$ 5 |
| Stock compensation | 49 | 57 | 71 |
| Pensions | 116 | 97 | 108 |
| Divestitures and asset sales and writedowns | (11) | 4 | (409) |
| Goodwill and intangible asset impairment | — | — | 189 |
| Interest income | (18) | (15) | (11) |
| Other items, net | (8) | 7 | 16 |
| | <u>\$ 151</u> | <u>\$ 72</u> | <u>\$ (31)</u> |

Foreign currency transaction primarily relates to the impact of changes in foreign exchange rates on cash, marketable securities and other investments and intercompany transactions. A significant portion of the foreign currency transaction gain in 2015 related to intercompany loans and was attributable to the Swiss National Bank lifting the cap on the fluctuation of the exchange rate used to measure the Swiss Franc against the Euro. The Company has since settled these particular intercompany loans. The decrease in stock compensation expense in 2016 is primarily due to fewer stock awards granted. The decrease in stock compensation expense in 2015 is primarily due to a lower fair value calculated for 2015 stock awards as well as fewer stock awards granted. Included in divestitures and asset sales and writedowns for 2014 is a gain of approximately \$413 million resulting from the deconsolidation of a subsidiary.

Discussion of Consolidated Balance Sheet

The Consolidated Balance Sheet shows the Company's financial position at year-end, compared with the previous year-end. This discussion provides information to assist in assessing factors such as the Company's liquidity and financial resources.

| (dollars in millions) | 2016 | 2015 |
|--------------------------------|----------|----------|
| Cash | \$ 2,104 | \$ 1,914 |
| Trade accounts receivable, net | 1,594 | 1,620 |
| Inventories | 1,173 | 1,300 |
| Shareholders' equity | 4,575 | 5,104 |
| Working capital | \$ 2,842 | \$ 3,092 |
| Current ratio | 2.2 | 2.3 |

Cash (comprised of cash and cash equivalents and marketable securities and other investments) includes \$2,065 million and \$1,777 million held by the Company's foreign subsidiaries at June 30, 2016 and June 30, 2015, respectively. Generally, cash and cash equivalents and marketable securities and other investments held by foreign subsidiaries are not readily available for use in the United States without adverse tax consequences. The Company's principal sources of liquidity are its cash flows provided by operating activities, commercial paper borrowings or borrowings directly from its line of credit. The Company does not believe the level of its non-U.S. cash position will have an adverse effect on working capital needs, planned growth, repayment of maturing debt, benefit plan funding, dividend payments or share repurchases.

Trade accounts receivable, net are receivables due from customers for sales of product. Days sales outstanding relating to trade receivables for the Company was 49 days in 2016 and 48 days in 2015. The Company believes that its receivables are collectible and appropriate allowances for doubtful accounts have been recorded.

Inventories decreased \$127 million from 2015 (which includes a decrease of \$17 million from the effect of foreign currency translation and an increase of \$7 million from current-year acquisitions). The decrease in inventories was primarily in the

Diversified Industrial Segment, with the decrease occurring evenly between the Diversified Industrial North American businesses and the Diversified Industrial International businesses. Days supply of inventory on hand was 62 days in 2016 and 65 days in 2015.

Shareholders' equity activity during 2016 included a decrease of \$558 million related to share repurchases, a decrease of \$205 million related to foreign currency translation adjustments and a decrease of \$286 million related to pensions and postretirement benefits.

Discussion of Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows reflects cash inflows and outflows from the Company's operating, investing and financing activities.

A summary of cash flows follows:

| (dollars in millions) | 2016 | 2015 | 2014 |
|--|--------------|-----------------|-----------------|
| Cash provided by (used in): | | | |
| Operating activities | \$ 1,170 | \$ 1,302 | \$ 1,388 |
| Investing activities | (265) | (579) | (646) |
| Financing activities | (802) | (1,045) | (958) |
| Effect of exchange rates | (62) | (111) | 48 |
| Net increase (decrease) in cash and cash equivalents | <u>\$ 41</u> | <u>\$ (433)</u> | <u>\$ (168)</u> |

Cash Flows From Operating Activities in 2016 reflects a decrease in net income from 2015 of \$205 million and an increase of \$120 million for cash provided by working capital items. Cash flows from operating activities in 2015 reflects a reduction of \$257 million for cash used by working capital items. Cash flow from operating activities in 2014 benefited from a \$294 million increase in cash provided by working capital items, partially offset by a \$184 million decrease in net income after consideration of non-cash items, including a \$413 million gain on the deconsolidation of a subsidiary and a \$189 million impairment charge. The Company also made voluntary cash contributions to the Company's domestic qualified defined benefit plan of \$200 million in 2016 and \$75 million in 2014.

Cash Flows Used In Investing Activities in 2016 and 2015 includes \$51 million and \$356 million, respectively, in net purchases of marketable securities and other investments. Cash flows used in investing activities in 2014 includes \$625 million in purchases of marketable securities and other investments and \$202 million in proceeds from the sale of a 50 percent equity interest in a subsidiary related to the joint venture with GE Aviation.

Cash Flows Used In Financing Activities during 2015 includes the issuance of \$1,500 million of medium-term notes and the repayment of commercial paper notes outstanding at the time of the debt issuance. The Company repurchased 5.1 million common shares for \$558 million during 2016 as compared to the repurchase of 11.1 million common shares for \$1,394 million in 2015 and 1.7 million common shares for \$200 million in 2014.

Dividends have been paid for 264 consecutive quarters, including a yearly increase in dividends for the last 60 years. The current annual dividend rate is \$2.52 per common share.

The Company's goal is to maintain no less than an "A" rating on senior debt to ensure availability and reasonable cost of external funds. As a means of achieving this objective, the Company has established a financial goal of maintaining a ratio of debt to debt-shareholders' equity of no more than 37 percent. From time to time, such as at June 30, 2016, fluctuations in cash flows from operations or capital deployment actions may cause the ratio of debt to debt-shareholders' equity to exceed the 37 percent goal. The Company does not believe that its ability to borrow funds at affordable interest rates has been or will be impacted when the debt to debt-shareholders' equity ratio temporarily exceeds 37 percent.

| Debt to Debt-Shareholders' Equity Ratio (dollars in millions) | 2016 | 2015 |
|---|----------|----------|
| Debt | \$ 3,037 | \$ 2,947 |
| Debt & Shareholders' Equity | 7,612 | 8,051 |
| Ratio | 39.9 % | 36.6 % |

As of June 30, 2016, the Company had a line of credit totaling \$2,000 million through a multi-currency revolving credit agreement with a group of banks, \$1,696 million of which was available at June 30, 2016. Refer to Note 8 to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K for further discussion.

The Company is currently authorized to sell up to \$1,850 million of short-term commercial paper notes. There were \$304 million outstanding commercial paper notes as of June 30, 2016, and the largest amount of commercial paper notes outstanding during the last quarter of 2016 was \$541 million.

The Company's credit agreements and indentures governing certain debt agreements contain various covenants, the violation of which would limit or preclude the use of the applicable agreements for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the applicable agreements. The Company is in compliance with all covenants and expects to remain in compliance during the term of the credit agreements and indentures.

Contractual Obligations - The total amount of gross unrecognized tax benefits, including interest, for uncertain tax positions was \$152 million at June 30, 2016. Payment of these obligations would result from settlements with worldwide taxing authorities. Due to the difficulty in determining the timing of the settlements, these obligations are not included in the following summary of the Company's fixed contractual obligations. References to Notes are to the Notes to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

| (dollars in millions) | Payments due by period | | | | |
|-------------------------------|------------------------|------------------|---------------|---------------|-------------------|
| Contractual obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt (Note 9) | \$ 2,733 | \$ 58 | \$ 550 | \$ — | \$ 2,125 |
| Interest on long-term debt | 1,708 | 122 | 211 | 181 | 1,194 |
| Operating leases (Note 9) | 195 | 69 | 72 | 24 | 30 |
| Retirement benefits (Note 10) | 367 | 312 | 14 | 13 | 28 |
| Total | \$ 5,003 | \$ 561 | \$ 847 | \$ 218 | \$ 3,377 |

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The policies discussed below are considered by management to be more critical than other policies because their application places the most significant demands on management's judgment.

Revenue Recognition - Substantially all of the Diversified Industrial Segment revenues are recognized when persuasive evidence of an arrangement exists, product has shipped and the risks and rewards of ownership have transferred or services have been rendered, the price to the customer is fixed and determinable and collectibility is reasonably assured, which is generally at the time the product is shipped. The Aerospace Systems Segment recognizes revenues primarily using the percentage-of-completion method and the extent of progress toward completion is primarily measured using the units-of-delivery method. The Company estimates costs to complete long-term contracts for purposes of evaluating and establishing contract reserves. The estimation of these costs requires judgment on the part of management due to the duration of the contractual agreements as well as the technical nature of the products involved. Adjustments to cost estimates are made on a consistent basis and a contract reserve is established when the estimated costs to complete a contract exceed the expected contract revenues.

Impairment of Goodwill and Long-Lived Assets - Goodwill is tested for impairment, at the reporting unit level, on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of a reporting unit may exceed its fair value. For the Company, a reporting unit is one level below the operating segment level. Determining whether an impairment has occurred requires the valuation of the respective reporting unit, which the Company has consistently estimated using primarily a discounted cash flow model. The Company believes that the use of a discounted cash flow model

results in the most accurate calculation of a reporting unit's fair value since the market value for a reporting unit is not readily available. The discounted cash flow analysis requires several assumptions including future sales growth and operating margin levels as well as assumptions regarding future industry specific market conditions. Each reporting unit regularly prepares discrete operating forecasts and uses these forecasts as the basis for the assumptions used in the discounted cash flow analysis. The Company has consistently used a discount rate commensurate with its cost of capital, adjusted for inherent business risks, and an appropriate terminal growth factor. The Company also reconciles the estimated aggregate fair value of its reporting units as derived from the discounted cash flow analysis to the Company's overall market capitalization.

The results of the Company's 2016 annual goodwill impairment test performed as of December 31, 2015 indicated that no goodwill impairment existed. During 2014, the Company made a decision to restructure and change the strategic direction of its Worldwide Energy Products Division (EPD). The Company calculated the fair value of EPD using assumptions reflecting the Company's current strategic direction for this reporting unit, the results of which indicated that the carrying value of EPD exceeded its fair value. As a result, the Company estimated the implied fair value of EPD's goodwill, which resulted in a non-cash impairment charge of \$140 million. The fair value of EPD was calculated using both a discounted cash flow analysis and estimated fair market values of comparable businesses.

The Company continually monitors its reporting units for impairment indicators and updates assumptions used in the most recent calculation of the fair value of a reporting unit as appropriate. The Company is unaware of any current market trends that are contrary to the assumptions made in the estimation of the fair value of any of its reporting units. If actual experience is not consistent with the assumptions made in the estimation of the fair value of the reporting units, especially assumptions regarding penetration into new markets and the recovery of the current economic environment, it is possible that the estimated fair value of certain reporting units could fall below their carrying value resulting in the necessity to conduct additional goodwill impairment tests.

Long-lived assets held for use, which primarily includes finite-lived intangible assets and plant and equipment, are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition are less than their carrying value. The long-term nature of these assets requires the estimation of their cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test. During 2016, there were no events or circumstances that indicated that the carrying value of the Company's long-lived assets held for use were not recoverable. During 2014, in connection with the goodwill impairment review discussed above, the Company determined certain intangible assets of EPD, primarily trademarks and customer lists, and plant and equipment were impaired resulting in a non-cash impairment charge of \$49 million. The fair value of EPD's intangible assets and plant and equipment were determined using the income approach for each asset.

Pensions - The annual net periodic expense and benefit obligations related to the Company's defined benefit plans are determined on an actuarial basis. This determination requires critical assumptions regarding the discount rate, long-term rate of return on plan assets, increases in compensation levels and amortization periods for actuarial gains and losses. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated each year as of the plans' measurement date. Changes in the assumptions to reflect actual experience as well as the amortization of actuarial gains and losses could result in a material change in the annual net periodic expense and benefit obligations reported in the financial statements. Beginning in 2017, the Company will change the method used to estimate the service and interest cost components of net periodic pension and other postretirement benefit costs. The new method uses the spot yield curve approach to estimate the service and interest costs by applying the specific spot rates along the yield curve used to determine the benefit obligations to relevant cash outflows. Previously, these costs were determined using a single-weighted average discount rate. The change does not affect the measurement of the Company's benefit obligations. The new method provides a more precise measure of service and interest costs by improving the correlation between projected benefit cash flows and the discrete spot yield curve rates and will be accounted for as a change in estimate prospectively beginning in the first quarter of 2017. Annual net periodic pension expense in 2017 is expected to be lower by approximately \$33 million compared to the previous method. Annual net periodic postretirement cost is not expected to be materially different.

For the Company's domestic qualified defined benefit plan, a 50 basis point change in the assumed long-term rate of return on plan assets is estimated to have a \$12 million effect on annual pension expense and a 50 basis point decrease in the discount rate is estimated to increase annual pension expense by \$31 million. As of June 30, 2016, \$1,535 million of past years' net actuarial losses related to the Company's domestic qualified defined benefit plan are subject to amortization in the future. These losses will generally be amortized over approximately eight years and will negatively affect earnings in the future. Actuarial gains experienced in future years will help reduce the effect of the actuarial loss amortization. Further information on pensions is provided in Note 10 to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

Income Taxes - Significant judgment is required in determining the Company's income tax expense and in evaluating tax positions. Deferred income tax assets and liabilities have been recorded for the differences between the financial accounting and income tax basis of assets and liabilities. Factors considered by the Company in determining the probability of realizing deferred income tax assets include forecasted operating earnings, available tax planning strategies and the time period over which the temporary differences will reverse. The Company reviews its tax positions on a regular basis and adjusts the balances as new information becomes available. For those tax positions where it is more likely than not that a tax benefit will be sustained, the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon examination by a taxing authority that has full knowledge of all relevant information will be recorded. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the Consolidated Financial Statements. Further information on income taxes is provided in Note 4 to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

Loss Contingencies - The Company has a number of loss exposures incurred in the ordinary course of business such as environmental claims, product liability and litigation reserves. Establishing loss accruals for these matters requires management's estimate and judgment with regards to risk exposure and ultimate liability or realization. These loss accruals are reviewed periodically and adjustments are made to reflect the most recent facts and circumstances.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are described in Note 1 to the Consolidated Financial Statements, included in Part II, Item 8 of this Annual Report on Form 10-K.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk. The Company manages foreign currency transaction and translation risk by utilizing derivative and non-derivative financial instruments, including forward exchange contracts, costless collar contracts, cross-currency swap contracts and certain foreign denominated debt designated as net investment hedges. The derivative financial instrument contracts are with major investment grade financial institutions and the Company does not anticipate any material non-performance by any of the counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value. Further information on the fair value of these contracts is provided in Part II, Item 8 of this Annual Report on Form 10-K. Gains or losses on derivatives that are not hedges are adjusted to fair value through the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive income (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings. The translation of the foreign denominated debt that has been designated as a net investment hedge is recorded in accumulated other comprehensive income (loss) and remains there until the underlying net investment is sold or substantially liquidated.

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company's objective is to maintain a 60/40 mix between fixed rate and variable rate debt thereby limiting its exposure to changes in near-term interest rates. A 100 basis point increase in near-term interest rates would increase annual interest expense on variable rate debt existing at June 30, 2016 by approximately \$6 million.

ITEM 8. Financial Statements and Supplementary Data.

| | Page Number in Form 10-K |
|--|-------------------------------------|
| <u>Financial Statements</u> | |
| Consolidated Statement of Income | 29 |
| Consolidated Statement of Comprehensive Income | 30 |
| Business Segment Information | 31 |
| Consolidated Balance Sheet | 33 |
| Consolidated Statement of Cash Flows | 34 |
| Consolidated Statement of Equity | 35 |
| Notes to Consolidated Financial Statements | 36 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Parker-Hannifin Corporation
Cleveland, Ohio

We have audited the accompanying consolidated balance sheets of Parker-Hannifin Corporation and subsidiaries (the "Company") as of June 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended June 30, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of June 30, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Parker-Hannifin Corporation and subsidiaries as of June 30, 2016 and 2015, the results of their operations and their cash flows for each of the three years in the period ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission

/s/ DELOITTE & TOUCHE LLP
Cleveland, Ohio
August 26, 2016

Consolidated Statement of Income

| (Dollars in thousands, except per share amounts) | For the years ended June 30, | | |
|--|------------------------------|---------------|---------------|
| | 2016 | 2015 | 2014 |
| Net Sales | \$ 11,360,753 | \$ 12,711,744 | \$ 13,215,971 |
| Cost of sales | 8,823,384 | 9,655,245 | 10,188,227 |
| Gross profit | 2,537,369 | 3,056,499 | 3,027,744 |
| Selling, general and administrative expenses | 1,359,360 | 1,544,746 | 1,633,992 |
| Goodwill and intangible asset impairment (Note 7) | — | — | 188,870 |
| Interest expense | 136,517 | 118,406 | 82,566 |
| Other (income), net | (62,199) | (43,374) | (25,513) |
| (Gain) loss on disposal of assets (Note 2) | (11,037) | 4,481 | (408,891) |
| Income before income taxes | 1,114,728 | 1,432,240 | 1,556,720 |
| Income taxes (Note 4) | 307,512 | 419,687 | 515,302 |
| Net Income | 807,216 | 1,012,553 | 1,041,418 |
| Less: Noncontrolling interest in subsidiaries' earnings | 376 | 413 | 370 |
| Net Income Attributable to Common Shareholders | \$ 806,840 | \$ 1,012,140 | \$ 1,041,048 |
| Earnings per Share Attributable to Common Shareholders (Note 5) | | | |
| Basic earnings per share | \$ 5.96 | \$ 7.08 | \$ 6.98 |
| Diluted earnings per share | \$ 5.89 | \$ 6.97 | \$ 6.87 |

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Comprehensive Income

| (Dollars in thousands) | For the years ended June 30, | | |
|--|------------------------------|---------------------|---------------------|
| | 2016 | 2015 | 2014 |
| Net Income | \$ 807,216 | \$ 1,012,553 | \$ 1,041,418 |
| Less: Noncontrolling interests in subsidiaries' earnings | 376 | 413 | 370 |
| Net income attributable to common shareholders | 806,840 | 1,012,140 | 1,041,048 |
| Other comprehensive income (loss), net of tax | | | |
| Foreign currency translation adjustment and other (net of tax of \$(2,342), \$(31,024) and \$4,591 in 2016, 2015 and 2014) | (203,299) | (765,659) | 193,130 |
| Retirement benefits plan activity (net of tax of \$152,203, \$88,547 and \$(54,473) in 2016, 2015 and 2014) | (286,044) | (149,710) | 91,182 |
| Other comprehensive income (loss) | (489,343) | (915,369) | 284,312 |
| Less: Other comprehensive (loss) for noncontrolling interests | (196) | (249) | (23) |
| Other comprehensive income (loss) attributable to common shareholders | (489,147) | (915,120) | 284,335 |
| Total Comprehensive Income Attributable to Common Shareholders | \$ 317,693 | \$ 97,020 | \$ 1,325,383 |

The accompanying notes are an integral part of the financial statements.

Business Segment Information

| (Dollars in thousands) | 2016 | 2015 | 2014 |
|--|----------------------|----------------------|----------------------|
| Net Sales: | | | |
| Diversified Industrial: | | | |
| North America | \$ 4,955,211 | \$ 5,715,742 | \$ 5,693,527 |
| International | 4,145,272 | 4,741,376 | 5,287,916 |
| Aerospace Systems | 2,260,270 | 2,254,626 | 2,234,528 |
| | <u>\$ 11,360,753</u> | <u>\$ 12,711,744</u> | <u>\$ 13,215,971</u> |
| Segment Operating Income: | | | |
| Diversified Industrial: | | | |
| North America | \$ 789,667 | \$ 955,501 | \$ 946,493 |
| International | 448,457 | 583,937 | 572,476 |
| Aerospace Systems | 337,531 | 298,994 | 271,238 |
| Total segment operating income | 1,575,655 | 1,838,432 | 1,790,207 |
| Corporate administration | 173,203 | 215,396 | 181,926 |
| Income before interest expense and other | 1,402,452 | 1,623,036 | 1,608,281 |
| Interest expense | 136,517 | 118,406 | 82,566 |
| Other expense (income) | 151,207 | 72,390 | (31,005) |
| Income before income taxes | <u>\$ 1,114,728</u> | <u>\$ 1,432,240</u> | <u>\$ 1,556,720</u> |
| Assets (a): | | | |
| Diversified Industrial | \$ 8,728,671 | \$ 8,734,942 | \$ 9,470,822 |
| Aerospace Systems (b) | 1,430,577 | 1,375,845 | 1,359,063 |
| Corporate (c) | 1,897,490 | 2,168,495 | 2,429,930 |
| | <u>\$ 12,056,738</u> | <u>\$ 12,279,282</u> | <u>\$ 13,259,815</u> |
| Property Additions: | | | |
| Diversified Industrial | \$ 134,618 | \$ 190,580 | \$ 189,832 |
| Aerospace Systems | 10,857 | 18,427 | 23,261 |
| Corporate | 3,932 | 6,520 | 3,247 |
| | <u>\$ 149,407</u> | <u>\$ 215,527</u> | <u>\$ 216,340</u> |
| Depreciation: | | | |
| Diversified Industrial | \$ 163,014 | \$ 174,102 | \$ 187,347 |
| Aerospace Systems | 18,469 | 19,509 | 19,193 |
| Corporate | 8,825 | 9,165 | 8,425 |
| | <u>\$ 190,308</u> | <u>\$ 202,776</u> | <u>\$ 214,965</u> |

| (Dollars in thousands) | 2016 | 2015 | 2014 |
|-------------------------------|----------------------|----------------------|----------------------|
| By Geographic Area (d) | | | |
| Net Sales: | | | |
| North America | \$ 7,144,481 | \$ 7,891,571 | \$ 7,853,603 |
| International | 4,216,272 | 4,820,173 | 5,362,368 |
| | <u>\$ 11,360,753</u> | <u>\$ 12,711,744</u> | <u>\$ 13,215,971</u> |
| Long-Lived Assets: | | | |
| North America | \$ 817,872 | \$ 856,947 | \$ 861,300 |
| International | 750,228 | 807,075 | 962,994 |
| | <u>\$ 1,568,100</u> | <u>\$ 1,664,022</u> | <u>\$ 1,824,294</u> |

The accounting policies of the business segments are the same as those described in the Significant Accounting Policies footnote except that the business segment results are prepared on a basis that is consistent with the manner in which the Company's management disaggregates financial information for internal review and decision-making.

- (a) Amounts in 2015 and 2014 have been adjusted to reflect the retrospective adoption of Accounting Standards Update (ASU) 2015-17 in the fourth quarter of 2016.
- (b) Includes an investment in a joint venture in which ownership is 50 percent or less and in which the Company does not have operating control (2016 - \$241,728; 2015 - \$251,365; 2014 - \$263,246).
- (c) Corporate assets are principally cash and cash equivalents, marketable securities and other investments, domestic deferred income taxes, deferred compensation plan assets, headquarters facilities and the major portion of the Company's domestic data processing equipment.
- (d) Net sales are attributed to countries based on the location of the selling unit. North America includes the United States, Canada and Mexico. No country other than the United States represents greater than 10 percent of consolidated sales. Long-lived assets are comprised of plant and equipment based on physical location.

[Table of Contents](#)

Consolidated Balance Sheet

(Dollars in thousands)

| June 30, | 2016 | 2015 |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents (Note 1) | \$ 1,221,653 | \$ 1,180,584 |
| Marketable securities and other investments (Note 1) | 882,342 | 733,490 |
| Trade accounts receivable, net (Note 1) | 1,593,920 | 1,620,194 |
| Non-trade and notes receivable (Note 1) | 232,183 | 364,534 |
| Inventories (Note 6) | 1,173,329 | 1,300,459 |
| Prepaid expenses | 104,360 | 241,684 |
| Total Current Assets | 5,207,787 | 5,440,945 |
| Plant and equipment (Note 1) | 4,737,141 | 4,862,611 |
| Less: Accumulated depreciation | 3,169,041 | 3,198,589 |
| | 1,568,100 | 1,664,022 |
| Deferred income taxes (Notes 1 and 4) | 605,155 | 406,267 |
| Investments and other assets (Note 1) | 850,088 | 811,930 |
| Intangible assets, net (Notes 1 and 7) | 922,571 | 1,013,439 |
| Goodwill (Notes 1 and 7) | 2,903,037 | 2,942,679 |
| Total Assets | \$ 12,056,738 | \$ 12,279,282 |
| Liabilities and Equity | | |
| Current Liabilities | | |
| Notes payable and long-term debt payable within one year (Notes 8 and 9) | \$ 361,840 | \$ 223,142 |
| Accounts payable, trade | 1,034,589 | 1,092,138 |
| Accrued payrolls and other compensation | 382,945 | 409,762 |
| Accrued domestic and foreign taxes | 127,597 | 139,285 |
| Other accrued liabilities | 458,970 | 484,793 |
| Total Current Liabilities | 2,365,941 | 2,349,120 |
| Long-term debt (Note 9) | 2,675,000 | 2,723,960 |
| Pensions and other postretirement benefits (Note 10) | 2,076,143 | 1,699,197 |
| Deferred income taxes (Notes 1 and 4) | 54,395 | 63,222 |
| Other liabilities | 306,581 | 336,214 |
| Total Liabilities | 7,478,060 | 7,171,713 |
| Equity (Note 11) | | |
| Shareholders' Equity | | |
| Serial preferred stock, \$.50 par value, authorized 3,000,000 shares; none issued | — | — |
| Common stock, \$.50 par value, authorized 600,000,000 shares; issued 181,046,128 shares in 2016 and 2015 | 90,523 | 90,523 |
| Additional capital | 628,451 | 622,729 |
| Retained earnings | 10,302,866 | 9,841,885 |
| Accumulated other comprehensive (loss) | (2,227,765) | (1,738,618) |
| Treasury shares at cost: 47,033,896 in 2016 and 42,487,389 in 2015 | (4,218,820) | (3,712,232) |
| Total Shareholders' Equity | 4,575,255 | 5,104,287 |
| Noncontrolling interests | 3,423 | 3,282 |
| Total Equity | 4,578,678 | 5,107,569 |
| Total Liabilities and Equity | \$ 12,056,738 | \$ 12,279,282 |

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Cash Flows

| (Dollars in thousands) | For the years ended June 30, | | |
|---|------------------------------|--------------|--------------|
| | 2016 | 2015 | 2014 |
| Cash Flows From Operating Activities | | | |
| Net income | \$ 807,216 | \$ 1,012,553 | \$ 1,041,418 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 190,308 | 202,776 | 214,965 |
| Amortization | 116,535 | 114,715 | 121,737 |
| Goodwill and intangible asset impairment | — | — | 188,870 |
| Stock incentive plan compensation | 71,293 | 96,093 | 103,161 |
| Deferred income taxes | (65,686) | 18,865 | (74,139) |
| Foreign currency transaction loss (gain) | 22,750 | (77,784) | 5,398 |
| Loss on disposal of assets | 414 | 14,953 | 2,997 |
| Gain on sale of businesses | (10,666) | (6,420) | — |
| Net gain on deconsolidation | — | — | (412,612) |
| (Gain) loss on sale of marketable securities | (723) | 3,817 | — |
| Changes in assets and liabilities, net of effects from acquisitions: | | | |
| Accounts receivable | 17,549 | 143,179 | (99,144) |
| Inventories | 120,243 | (70,377) | (3,816) |
| Prepaid expenses | 136,034 | (116,561) | 58,117 |
| Other assets | (5,033) | 20,976 | (79,158) |
| Accounts payable, trade | (52,378) | (86,750) | 92,927 |
| Accrued payrolls and other compensation | (22,865) | (12,657) | 20,840 |
| Accrued domestic and foreign taxes | (17,430) | (66,870) | 86,745 |
| Other accrued liabilities | (61,424) | (46,633) | (23,480) |
| Pensions and other postretirement benefits | (45,796) | 156,859 | 99,569 |
| Other liabilities | (30,498) | 1,207 | 43,498 |
| Net cash provided by operating activities | 1,169,843 | 1,301,941 | 1,387,893 |
| Cash Flows From Investing Activities | | | |
| Acquisitions (less cash acquired of \$3,814 in 2016, \$8,332 in 2015 and \$1,780 in 2014) | (67,552) | (18,618) | (17,593) |
| Capital expenditures | (149,407) | (215,527) | (216,340) |
| Proceeds from disposal of assets | 18,821 | 19,655 | 14,368 |
| Proceeds from sale of businesses | 24,325 | 37,265 | — |
| Net proceeds from deconsolidation | — | — | 202,498 |
| Purchase of marketable securities and other investments | (1,351,464) | (1,747,333) | (624,880) |
| Maturities and sales of marketable securities and other investments | 1,300,633 | 1,391,396 | — |
| Other | (39,995) | (46,001) | (4,454) |
| Net cash (used in) investing activities | (264,639) | (579,163) | (646,401) |
| Cash Flows From Financing Activities | | | |
| Proceeds from exercise of stock options | 126 | 3,355 | 8,013 |
| Payments for common shares | (557,575) | (1,398,446) | (204,043) |
| Tax benefit from stock incentive plan compensation | 11,145 | 23,429 | 33,732 |
| Proceeds from (payments for) notes payable, net | 303,624 | (815,171) | (515,387) |
| Proceeds from long-term borrowings | 2,287 | 1,483,015 | 748 |
| Payments for long-term borrowings | (220,068) | (537) | (2,934) |
| Dividends paid | (341,962) | (340,389) | (278,244) |
| Net cash (used in) financing activities | (802,423) | (1,044,744) | (958,115) |
| Effect of exchange rate changes on cash | (61,712) | (111,005) | 48,766 |
| Net increase (decrease) in cash and cash equivalents | 41,069 | (432,971) | (167,857) |
| Cash and cash equivalents at beginning of year | 1,180,584 | 1,613,555 | 1,781,412 |
| Cash and cash equivalents at end of year | \$ 1,221,653 | \$ 1,180,584 | \$ 1,613,555 |
| Supplemental Data: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 133,999 | \$ 105,202 | \$ 77,144 |
| Income taxes | 250,155 | 515,350 | 472,369 |

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Equity

| (Dollars in thousands) | Common Stock | Additional Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) | Treasury Shares | Noncontrolling Interests | Total |
|-----------------------------------|------------------|-----------------------|----------------------|--|-----------------------|-----------------------------|---------------------|
| Balance June 30, 2013 | \$ 90,523 | \$ 608,752 | \$ 8,421,270 | \$ (1,107,833) | \$ (2,274,286) | \$ 3,055 | \$ 5,741,481 |
| Net income | | | 1,041,048 | | | 370 | 1,041,418 |
| Other comprehensive income (loss) | | | | 284,335 | | (23) | 284,312 |
| Dividends paid | | | (278,222) | | | (22) | (278,244) |
| Stock incentive plan activity | | (13,254) | (9,907) | | 97,002 | | 73,841 |
| Shares purchased at cost | | | | | (200,000) | | (200,000) |
| Balance June 30, 2014 | \$ 90,523 | \$ 595,498 | \$ 9,174,189 | \$ (823,498) | \$ (2,377,284) | \$ 3,380 | \$ 6,662,808 |
| Net income | | | 1,012,140 | | | 413 | 1,012,553 |
| Other comprehensive income (loss) | | | | (915,120) | | (249) | (915,369) |
| Dividends paid | | | (340,132) | | | (257) | (340,389) |
| Stock incentive plan activity | | 27,231 | (4,312) | | 58,630 | | 81,549 |
| Liquidation activity | | | | | | (5) | (5) |
| Shares purchased at cost | | | | | (1,393,578) | | (1,393,578) |
| Balance June 30, 2015 | \$ 90,523 | \$ 622,729 | \$ 9,841,885 | \$ (1,738,618) | \$ (3,712,232) | \$ 3,282 | \$ 5,107,569 |
| Net income | | | 806,840 | | | 376 | 807,216 |
| Other comprehensive (loss) | | | | (489,147) | | (196) | (489,343) |
| Dividends paid | | | (341,923) | | | (39) | (341,962) |
| Stock incentive plan activity | | 5,722 | (3,936) | | 50,916 | | 52,702 |
| Shares purchased at cost | | | | | (557,504) | | (557,504) |
| Balance June 30, 2016 | \$ 90,523 | \$ 628,451 | \$ 10,302,866 | \$ (2,227,765) | \$ (4,218,820) | \$ 3,423 | \$ 4,578,678 |

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

The term "year" and references to specific years refer to the applicable fiscal years.

1. Significant Accounting Policies

The significant accounting policies followed in the preparation of the accompanying consolidated financial statements are summarized below.

Nature of Operations - The Company is a leading worldwide diversified manufacturer of motion and control technologies and systems, providing precision engineered solutions for a wide variety of mobile, industrial and aerospace markets. The Company evaluates performance based on segment operating income before corporate and administrative expenses, interest expense and income taxes.

The Diversified Industrial Segment is an aggregation of several business units, which manufacture motion-control and fluid power system components for builders and users of various types of manufacturing, packaging, processing, transportation, agricultural, construction, and military vehicles and equipment. Diversified Industrial Segment products are marketed primarily through field sales employees and independent distributors. The Diversified Industrial North American operations have manufacturing plants and distribution networks throughout the United States, Canada and Mexico and primarily service North America. The Diversified Industrial International operations provide Parker products and services to 46 countries throughout Europe, Asia Pacific, Latin America, the Middle East and Africa.

The Aerospace Systems Segment produces hydraulic, fuel, pneumatic and electro-mechanical systems and components, which are utilized on virtually every domestic commercial, military and general aviation aircraft and also performs a vital role in naval vessels and land-based weapons systems. This Segment serves original equipment and maintenance, repair and overhaul customers worldwide. Aerospace Systems Segment products are marketed by field sales employees and are sold directly to manufacturers and end-users.

There are no individual customers to whom sales are more than four percent of the Company's consolidated sales. Due to the diverse group of customers throughout the world, the Company does not consider itself exposed to any concentration of credit risks.

The Company manufactures and markets its products throughout the world. Although certain risks and uncertainties exist, the diversity and breadth of the Company's products and geographic operations mitigate the risk that adverse changes with respect to any particular product and geographic operation would materially affect the Company's operating results.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Consolidation - The consolidated financial statements include the accounts of all majority-owned domestic and foreign subsidiaries. All intercompany transactions and profits have been eliminated in the consolidated financial statements. The Company does not have off-balance sheet arrangements. Within the Business Segment Information, intersegment and interarea sales have been eliminated.

Revenue Recognition - Revenue is recognized when persuasive evidence of an arrangement exists, product has shipped and the risks and rewards of ownership have transferred or services have been rendered, the price to the customer is fixed and determinable and collectibility is reasonably assured, which is generally at the time the product is shipped. Shipping and handling costs billed to customers are included in net sales and the related costs in cost of sales. Taxes collected from customers and remitted to governmental authorities are excluded from revenue.

Long-term Contracts - The Company enters into long-term contracts primarily for the production of aerospace products. For financial statement purposes, revenues are primarily recognized using the percentage-of-completion method. The extent of progress toward completion is primarily measured using the units-of-delivery method. Unbilled costs on these contracts are included in inventory. Progress payments are netted against the inventory balances. The Company estimates costs to complete long-term contracts for purposes of evaluating and establishing contract reserves. Adjustments to cost estimates are made on a consistent basis and a contract reserve is established when the estimated costs to complete a contract exceed the expected contract revenues.

Cash - Cash equivalents consist of short-term highly liquid investments, with a three-month or less maturity, carried at cost plus accrued interest, which are readily convertible into cash.

Marketable Securities and Other Investments - Consist of short-term highly liquid investments, with stated maturities of greater than three months from the date of purchase, carried at cost plus accrued interest, and investments classified as available-for-sale, which are carried at fair value with unrealized gains and losses recorded in accumulated other comprehensive (loss). Gains and losses on available-for-sale investments are calculated based on the first-in, first-out method. The Company has the ability to liquidate the available-for-sale investments after giving appropriate notice to the issuer.

Trade Accounts Receivable, Net - Trade accounts receivable are initially recorded at their net collectible amount and are generally recorded at the time the revenue from the sales transaction is recorded. Receivables are written off to bad debt primarily when, in the judgment of the Company, the receivable is deemed to be uncollectible due to the insolvency of the debtor. Allowance for doubtful accounts was \$8,010 and \$9,284 at June 30, 2016 and June 30, 2015, respectively.

Non-Trade and Notes Receivable - The non-trade and notes receivable caption in the Consolidated Balance Sheet is comprised of the following components:

| June 30, | 2016 | 2015 |
|-------------------------------|-------------------|-------------------|
| Notes receivable | \$ 102,400 | \$ 90,470 |
| Reverse repurchase agreements | — | 113,558 |
| Accounts receivable, other | 129,783 | 160,506 |
| Total | <u>\$ 232,183</u> | <u>\$ 364,534</u> |

Reverse repurchase agreements are collateralized lending arrangements and have a maturity longer than three months from the date of purchase. The Company does not record an asset or liability for the collateral associated with the reverse repurchase agreements.

Plant, Equipment and Depreciation - Plant and equipment are recorded at cost and are depreciated principally using the straight-line method for financial reporting purposes. Depreciation rates are based on estimated useful lives of the assets, generally 40 years for buildings, 15 years for land improvements and building equipment, seven to 10 years for machinery and equipment, and three to eight years for vehicles and office equipment. Improvements, which extend the useful life of property, are capitalized, and maintenance and repairs are expensed. The Company reviews plant and equipment for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. When plant and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in current income.

The plant and equipment caption in the Consolidated Balance Sheet is comprised of the following components:

| June 30, | 2016 | 2015 |
|----------------------------------|---------------------|---------------------|
| Land and land improvements | \$ 291,122 | \$ 294,537 |
| Buildings and building equipment | 1,437,601 | 1,457,650 |
| Machinery and equipment | 2,933,818 | 3,017,011 |
| Construction in progress | 74,600 | 93,413 |
| Total | <u>\$ 4,737,141</u> | <u>\$ 4,862,611</u> |

Investments and Other Assets - Investments in joint-venture companies in which ownership is 50 percent or less and in which the Company does not have operating control are stated at cost plus the Company's equity in undistributed earnings and amounted to \$355,876 and \$315,989 at June 30, 2016 and June 30, 2015, respectively. A significant portion of the underlying net assets of the joint ventures are related to goodwill. The Company's share of earnings from these investments were immaterial to the Company's results of operations.

Intangible Assets - Intangible assets primarily include patents, trademarks and customer lists and are recorded at cost and amortized on a straight-line method. Patents are amortized over the shorter of their remaining useful or legal life. Trademarks are amortized over the estimated time period over which an economic benefit is expected to be received. Customer lists are amortized over a period based on anticipated customer attrition rates. The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

Goodwill - The Company conducts a formal impairment test of goodwill on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

Income Taxes - Income taxes are provided based upon income for financial reporting purposes. Tax credits and similar tax incentives are applied to reduce the provision for income taxes in the year in which the credits arise. The Company recognizes accrued interest related to unrecognized tax benefits in income tax expense. Penalties, if incurred, are recognized in income tax expense. Deferred income taxes arise from temporary differences in the recognition of income and expense for tax purposes.

During the fourth quarter of 2016, the Company adopted ASU 2015-17, "Income Taxes - Balance Sheet Classification of Deferred Taxes." ASU 2015-17 requires companies to present deferred tax assets and deferred tax liabilities as noncurrent in the statement of financial position. The following captions within the Consolidated Balance Sheet at June 30, 2015 have been revised:

| | As Previously Reported | Revised |
|------------------------------------|---------------------------|---------|
| Current Assets | | |
| Deferred income taxes | \$ 142,147 | \$ — |
| Noncurrent Assets | | |
| Deferred income taxes | — | 406,267 |
| Investments and other assets | 1,091,805 | 811,930 |
| Current Liabilities | | |
| Accrued domestic and foreign taxes | 140,295 | 139,285 |
| Noncurrent Liabilities | | |
| Deferred income taxes | 77,967 | 63,222 |

Foreign Currency Translation - Assets and liabilities of foreign subsidiaries are translated at current exchange rates, and income and expenses are translated using weighted-average exchange rates. The effects of these translation adjustments, as well as gains and losses from certain intercompany transactions, are reported in the accumulated other comprehensive (loss) component of shareholders' equity. Such adjustments will affect net income only upon sale or liquidation of the underlying foreign investments, which is not contemplated at this time. Exchange (gains) losses from transactions in a currency other than the local currency of the entity involved are included within cost of goods sold caption in the Consolidated Statement of Income and were \$22,750, \$(77,784) and \$5,398, in 2016, 2015 and 2014, respectively.

Subsequent Events - The Company has evaluated subsequent events that have occurred through the date of filing of this Annual Report on Form 10-K for the year ended June 30, 2016. No subsequent events occurred that required adjustment to or disclosure in these financial statements.

Recent Accounting Pronouncements - In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. ASU 2016-13 is effective for fiscal years, and interim periods with those years, beginning after December 15, 2019. Early adoption is permitted. The Company has not yet determined the effect that ASU 2016-13 will have on its financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." Under ASU 2016-09, all excess tax benefits and deficiencies arising from employee share-based payment awards, and dividends on those awards, will be recognized in the income statement during the period in which they occur. ASU 2016-09 allows companies to make an accounting policy election to estimate forfeitures, as required today, or record them when they occur and allows companies to withhold an amount up to the maximum statutory tax rate without causing the award to be classified as a liability. Within the statement of cash flows, ASU 2016-09 requires excess tax benefits to be classified as an operating activity and cash payments to tax authorities in connection with shares withheld to be classified as a financing activity. ASU 2016-09 is effective for annual periods, and interim periods within the annual periods, beginning after December 15, 2016. The Company intends to adopt ASU 2016-09 during the first quarter of 2017. The impact of ASU 2016-09 will generally be dependent on the amount of employee exercises of share-based awards.

In March 2016, the FASB issued ASU 2016-07, "Simplifying the Transition to the Equity Method of Accounting." ASU 2016-07 eliminates the requirement to apply the equity method of accounting, upon obtaining significant influence, as if it was applied to the investment from inception. Instead, at the date significant influence is obtained, companies should add the cost of the additional interest acquired to the current basis of the investment and apply the equity method prospectively. If an available-for-sale security becomes eligible for the equity method of accounting, any unrealized gains or losses within accumulated other comprehensive income should be recognized within earnings on the date the investment becomes qualified for use of the equity method. During fourth quarter of 2016, the Company adopted ASU 2016-07. The adoption of ASU 2016-07 did not affect the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires lessees to put most leases on their balance sheet by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance. Lessor accounting is also largely unchanged from existing guidance. ASU 2016-02 requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company has not yet determined the effect that ASU 2016-02 will have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities." ASU 2016-01 requires equity investments (excluding equity method investments and investments that are consolidated) to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have a readily determinable fair value may be measured at cost, adjusted for impairment and observable price changes. The ASU also simplifies the impairment assessment of equity investments, eliminates the disclosure of the assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at cost on the balance sheet and requires the exit price to be used when measuring fair value of financial instruments for disclosure purposes. Under ASU 2016-01, changes in fair value (resulting from instrument-specific credit risk) will be presented separately in other comprehensive income for liabilities measured using the fair value option and financial assets and liabilities will be presented separately by measurement category and type either on the balance sheet or in the financial statement disclosures. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has not yet determined the effect that ASU 2016-01 will have on its financial statements.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments." ASU 2015-16 requires the recognition of adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are determined. The effects of the adjustments to provisional amounts on depreciation, amortization or other income effects should be recognized in current-period earnings as if the accounting had been completed at the acquisition date. Disclosure of the portion of the adjustment recorded in current-period earnings that would have been reported in prior reporting periods if the adjustment to the provisional amounts had been recognized at the acquisition date is also required. During the first quarter of 2016, the Company adopted ASU 2015-16. The adoption of ASU 2015-16 did not materially affect the Company's financial statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory - Simplifying the Measurement of Inventory." ASU 2015-11 requires companies to measure inventory (valued using first-in, first-out or average cost methods) at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The measurement of inventory valued using the last-in, first-out method is unchanged. During the fourth quarter of 2016, the Company adopted ASU 2015-11. The adoption of ASU 2015-11 did not materially affect the Company's financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the ASU. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect that ASU 2015-03 will have a material impact on its financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration that a company expects to be entitled to in exchange for the goods or services. To achieve this principle, a company must apply five steps including identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) the company satisfies the performance obligations. Additional quantitative and qualitative disclosure to enhance the understanding about the nature, amount, timing, and uncertainty of revenue and cash flows is also required. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing." ASU 2016-10 clarifies the following two aspects of ASU

2014-09: identifying performance obligations and licensing implementation guidance. The effective date of ASU 2016-10 is the same as the effective date of ASU 2014-09. The Company has not yet determined the effect that ASU 2014-09 and ASU 2016-10 will have on its financial statements.

2. Acquisitions and Deconsolidation of Subsidiary

Acquisitions - During 2016, the Company completed two acquisitions whose aggregate sales for their most recent fiscal year prior to acquisition were approximately \$48 million. Total purchase price for the two acquisitions was approximately \$71 million in cash and \$2 million in assumed debt.

During 2015, the Company completed four acquisitions whose aggregate sales for their most recent fiscal year prior to acquisition were approximately \$27 million. Total purchase price for the four acquisitions was approximately \$27 million in cash.

During 2014, the Company completed three acquisitions whose aggregate sales for their most recent fiscal year prior to acquisition were approximately \$14 million. Total purchase price for the three acquisitions was approximately \$19 million in cash.

The results of operations for all acquisitions are included as of the respective dates of acquisition. The initial purchase price allocation and subsequent purchase price adjustments for acquisitions in 2016, 2015 and 2014 are presented below. Some of the 2016 acquisitions are still subject to purchase price adjustments.

| | 2016 | 2015 | 2014 |
|---|------------------|------------------|------------------|
| Assets: | | | |
| Accounts receivable | \$ 6,793 | \$ 7,656 | \$ 954 |
| Inventories | 12,041 | 3,099 | 2,184 |
| Prepaid expenses | 1,350 | 91 | 57 |
| Deferred income taxes | — | 5 | 189 |
| Plant and equipment | 5,647 | 1,123 | 11,211 |
| Intangible and other assets | 26,849 | 7,794 | 5,646 |
| Goodwill | 31,134 | 10,430 | 3,195 |
| | <u>83,814</u> | <u>30,198</u> | <u>23,436</u> |
| Liabilities: | | | |
| Notes payable | 720 | — | — |
| Accounts payable, trade | 2,536 | 2,689 | 915 |
| Accrued payrolls and other compensation | 1,310 | 243 | 263 |
| Accrued domestic and foreign taxes | 604 | 777 | 1 |
| Other accrued liabilities | 1,804 | 5,267 | 3,864 |
| Long-term debt | 1,743 | — | — |
| Deferred income taxes | 7,545 | 2,604 | — |
| Other liabilities | — | — | 800 |
| | <u>16,262</u> | <u>11,580</u> | <u>5,843</u> |
| Net assets acquired | <u>\$ 67,552</u> | <u>\$ 18,618</u> | <u>\$ 17,593</u> |

Deconsolidation of Subsidiary - During 2014, the Company and GE Aviation, a non-related party, finalized a joint venture in which the Company sold a 50 percent equity interest in one of its wholly-owned subsidiaries. The sale of the 50 percent equity interest in the wholly-owned subsidiary resulted in a loss of control of the subsidiary, and therefore it was deconsolidated from the Company's financial statements during 2014.

The Company recognized a pre-tax gain of \$413 million on the deconsolidation, measured as the fair value of the consideration received for the 50 percent equity interest in the former subsidiary and the fair value of the retained investment less the carrying amount of the former subsidiary's net assets. Approximately \$186 million of the pre-tax gain is attributable to the remeasurement of the retained investment in the former subsidiary to its current fair value. The gain is reflected in the (gain)loss on disposal of assets caption in the Consolidated Statement of Income and the other expense (income) caption in the Business Segment Information.

3. Charges Related to Business Realignment

To structure its businesses in light of current and anticipated customer demand, the Company incurred business realignment charges in 2016, 2015 and 2014.

Business realignment charges presented in the Business Segment Information are as follows:

| | 2016 | 2015 | 2014 |
|--------------------------|-----------|-----------|------------|
| Diversified Industrial | \$ 91,404 | \$ 30,882 | \$ 101,524 |
| Aerospace Systems | 3,629 | 967 | 925 |
| Corporate administration | 2,215 | 458 | — |
| Other expense (income) | 116 | 2,399 | 1,331 |

Work force reductions related to the business realignment charges in the Business Segment Information are as follows:

| | 2016 | 2015 | 2014 |
|--------------------------|-------|------|-------|
| Diversified Industrial | 3,515 | 668 | 1,581 |
| Aerospace Systems | 81 | 21 | 44 |
| Corporate administration | 53 | 18 | — |

The charges primarily consist of severance costs related to actions taken under the Company's Simplification initiative aimed at reducing organizational and process complexity, as well as plant closures, with the majority of charges incurred in Europe and North America. In connection with a plant closure during 2016, the Company recognized an expense associated with enhanced retirement benefits (refer to Note 10 for further discussion). The Company believes the realignment actions taken will positively impact future results of operations, but will not have a material effect on liquidity and sources and uses of capital.

The business realignment charges are presented in the Consolidated Statement of Income as follows:

| | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|
| Cost of sales | \$ 76,197 | \$ 19,419 | \$ 63,575 |
| Selling, general and administrative expenses | 21,051 | 12,888 | 38,874 |
| (Gain) loss on disposal of assets | 116 | 2,399 | 1,331 |

As of June 30, 2016, approximately \$55 million in severance payments have been made relating to charges incurred during 2016, the remainder of which are expected to be paid by March 31, 2017. Severance payments relating to prior-year actions are being made as required. Remaining severance payments related to current-year and prior-year actions of approximately \$40 million are primarily reflected within the other accrued liabilities caption in the Consolidated Balance Sheet. Additional charges may be recognized in future periods related to the realignment actions described above, the timing and amount of which are not known at this time.

4. Income Taxes

Income before income taxes was derived from the following sources:

| | 2016 | 2015 | 2014 |
|---------------|---------------------|---------------------|---------------------|
| United States | \$ 672,907 | \$ 779,782 | \$ 1,115,010 |
| Foreign | 441,821 | 652,458 | 441,710 |
| | <u>\$ 1,114,728</u> | <u>\$ 1,432,240</u> | <u>\$ 1,556,720</u> |

[Table of Contents](#)

Income taxes include the following:

| | 2016 | 2015 | 2014 |
|-----------------|-------------------|-------------------|-------------------|
| Federal | | | |
| Current | \$ 235,557 | \$ 185,761 | \$ 377,404 |
| Deferred | (45,797) | 28,108 | (45,643) |
| Foreign | | | |
| Current | 113,146 | 189,826 | 168,177 |
| Deferred | (7,006) | (11,208) | (28,016) |
| State and local | | | |
| Current | 24,495 | 25,235 | 43,860 |
| Deferred | (12,883) | 1,965 | (480) |
| | <u>\$ 307,512</u> | <u>\$ 419,687</u> | <u>\$ 515,302</u> |

A reconciliation of the Company's effective income tax rate to the statutory Federal rate follows:

| | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|
| Statutory Federal income tax rate | 35.0 % | 35.0 % | 35.0 % |
| State and local income taxes | 0.6 | 1.1 | 1.8 |
| Goodwill and intangible asset impairment | — | — | 4.5 |
| Tax related to international activities | (5.2) | (4.5) | (5.6) |
| Cash surrender value of life insurance | 0.2 | (0.1) | (0.9) |
| Federal manufacturing deduction | (1.0) | (1.6) | (1.0) |
| Research tax credit | (1.9) | (0.8) | (0.3) |
| Other | (0.1) | 0.2 | (0.4) |
| Effective income tax rate | <u>27.6 %</u> | <u>29.3 %</u> | <u>33.1 %</u> |

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of assets and liabilities. The differences comprising the net deferred taxes shown on the Consolidated Balance Sheet at June 30 were as follows:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Retirement benefits | \$ 815,545 | \$ 614,127 |
| Other liabilities and reserves | 126,524 | 127,838 |
| Long-term contracts | 64,371 | 49,929 |
| Stock-based incentive compensation | 67,138 | 66,015 |
| Loss carryforwards | 326,707 | 316,994 |
| Unrealized currency exchange gains and losses | (19,491) | (17,218) |
| Inventory | 14,693 | 16,659 |
| Foreign tax credit carryforward | 24,051 | 29,965 |
| Depreciation and amortization | (536,070) | (531,258) |
| Valuation allowance | (332,708) | (330,006) |
| Net deferred tax asset | <u>\$ 550,760</u> | <u>\$ 343,045</u> |

Change in net deferred tax asset:

| | | |
|-------------------------------------|-------------------|------------------|
| Provision for deferred tax | \$ 65,686 | \$ (18,865) |
| Items of other comprehensive (loss) | 149,861 | 57,523 |
| Acquisitions and other | (7,832) | (1,225) |
| Total change in net deferred tax | <u>\$ 207,715</u> | <u>\$ 37,433</u> |

[Table of Contents](#)

As of June 30, 2016, the Company has recorded deferred tax assets of \$326,707 resulting from \$1,145,475 in loss carryforwards. A valuation allowance of \$313,554 related to the loss carryforwards has been established due to the uncertainty of their realization. Of this valuation allowance, \$288,515 relates to non-operating entities whose loss carryforward utilization is considered to be remote. Some of the loss carryforwards can be carried forward indefinitely; others can be carried forward from three to 20 years. In addition, a valuation allowance of \$19,154 related to future deductible items has been established due to the uncertainty of their realization. These future deductible items are recorded in the other liabilities and reserves line in the table above.

Provision has not been made for additional U.S. or foreign taxes on undistributed earnings of certain international operations as those earnings will continue to be reinvested. It is not practicable to estimate the additional taxes, including applicable foreign withholding taxes, that might be payable on the eventual remittance of such earnings. Accumulated undistributed earnings reinvested in international operations amounted to approximately \$3,200,000 at June 30, 2016.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | 2016 | 2015 | 2014 |
|---|------------|------------|------------|
| Balance July 1 | \$ 145,688 | \$ 164,813 | \$ 107,440 |
| Additions for tax positions related to current year | 7,025 | 6,090 | 7,752 |
| Additions for tax positions of prior years | 2,582 | 14,989 | 55,136 |
| Reductions for tax positions of prior years | (627) | (6,945) | (1,359) |
| Reductions for settlements | (10,284) | — | (1,856) |
| Reductions for expiration of statute of limitations | (4,142) | (6,251) | (5,005) |
| Effect of foreign currency translation | (335) | (27,008) | 2,705 |
| Balance June 30 | \$ 139,907 | \$ 145,688 | \$ 164,813 |

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$80,722, \$83,471 and \$71,898 as of June 30, 2016, 2015 and 2014, respectively. If recognized, a significant portion of the gross unrecognized tax benefits as of June 30, 2016 would be offset against an asset currently recorded in the Consolidated Balance Sheet. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, was \$12,357, \$9,514 and \$8,198 as of June 30, 2016, 2015 and 2014, respectively.

It is reasonably possible that within the next 12 months, the amount of gross unrecognized tax benefits could be reduced by up to approximately \$100,000 as a result of the revaluation of existing uncertain tax positions arising from developments in the examination process or the closure of tax statutes. Any increase in the amount of unrecognized tax benefits within the next 12 months is expected to be insignificant.

The Company and its subsidiaries file income tax returns in the United States and in various foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is open to assessment of its federal income tax returns by the U.S. Internal Revenue Service for years after 2011, and its state and local tax returns for years after 2006. The Company is open to assessment for significant foreign jurisdictions for years after 2007.

5. Earnings Per Share

Basic earnings per share are computed using the weighted-average number of common shares outstanding during the year. Diluted earnings per share are computed using the weighted-average number of common shares and common share equivalents outstanding during the year. Common share equivalents represent the dilutive effect of outstanding stock-based awards. The computation of net income per share was as follows:

| | 2016 | 2015 | 2014 |
|---|-------------|--------------|--------------|
| Numerator: | | | |
| Net income attributable to common shareholders | \$ 806,840 | \$ 1,012,140 | \$ 1,041,048 |
| Denominator: | | | |
| Basic - weighted-average common shares | 135,353,321 | 142,925,327 | 149,099,448 |
| Increase in weighted-average common shares from dilutive effect of stock-based awards | 1,558,369 | 2,186,823 | 2,344,655 |
| Diluted - weighted-average common shares, assuming exercise of stock-based awards | 136,911,690 | 145,112,150 | 151,444,103 |
| Basic earnings per share | \$ 5.96 | \$ 7.08 | \$ 6.98 |
| Diluted earnings per share | \$ 5.89 | \$ 6.97 | \$ 6.87 |

For 2016, 2015 and 2014, 3.1 million, 1.1 million and 1.2 million common shares, respectively, subject to stock-based awards were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

6. Inventories

The majority of domestic inventories are valued by the last-in, first-out (LIFO) cost method and the balance of the Company's inventories are valued by the first-in, first-out (FIFO) cost method. Inventories valued by the FIFO cost method are stated at the lower of cost or net realizable value. Inventories valued by the LIFO cost method are stated at lower of cost or market.

Inventories valued on the LIFO cost method were approximately 30 percent of total inventories in 2016 and 32 percent of total inventories in 2015. The current cost of these inventories exceeds their valuation determined on the LIFO basis by \$200,247 in 2016 and \$206,233 in 2015. Progress payments of \$51,104 in 2016 and \$34,820 in 2015 are netted against inventories.

The inventories caption in the Consolidated Balance Sheet is comprised of the following components:

| June 30, | 2016 | 2015 |
|-------------------|--------------|--------------|
| Finished products | \$ 458,657 | \$ 526,708 |
| Work in process | 639,907 | 688,727 |
| Raw materials | 74,765 | 85,024 |
| Total | \$ 1,173,329 | \$ 1,300,459 |

7. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

| | Diversified Industrial Segment | Aerospace Systems Segment | Total |
|---|--------------------------------|---------------------------|---------------------|
| Balance June 30, 2014 | \$ 3,072,724 | \$ 98,701 | \$ 3,171,425 |
| Acquisitions | 10,430 | — | 10,430 |
| Divestitures | (4,757) | — | (4,757) |
| Foreign currency translation and other | (234,352) | (67) | (234,419) |
| Balance June 30, 2015 | \$ 2,844,045 | \$ 98,634 | \$ 2,942,679 |
| Acquisitions | 31,134 | — | 31,134 |
| Foreign currency translation and other | (70,776) | — | (70,776) |
| Balance June 30, 2016 | \$ 2,804,403 | \$ 98,634 | \$ 2,903,037 |

Acquisitions represent the original goodwill allocation, purchase price adjustments and final adjustments to the purchase price allocation for the acquisitions during the measurement period subsequent to the applicable acquisition dates. The impact of the purchase price adjustments and final adjustments to the purchase price allocation on the Company's results of operations and financial position were immaterial.

In 2014, the Company made a decision to restructure and change the strategic direction of its Worldwide Energy Products Division (EPD). The Company calculated the fair value of EPD using assumptions reflecting the Company's updated strategic direction for this reporting unit, the results of which indicated that the carrying value of EPD exceeded its fair value. As a result, the Company estimated the implied fair value of EPD's goodwill, which resulted in a non-cash impairment charge of \$140,334. The impairment charge is reflected in the goodwill and intangible asset impairment caption in the Consolidated Statement of Income and in the other expense (income) caption in the Business Segment Information. The fair value of EPD was calculated using both a discounted cash flow analysis and estimated fair market values of comparable businesses with each valuation method having equal weight. Fair value calculated using a discounted cash flow analysis is classified within level 3 of the fair value hierarchy and requires several assumptions including a risk-adjusted interest rate and future sales and operating margin levels.

The Company's annual impairment tests performed in 2016, 2015 and 2014 resulted in no impairment loss being recognized.

Intangible assets are amortized on a straight-line method over their legal or estimated useful life. The gross carrying value and accumulated amortization for each major category of intangible asset at June 30 are as follows:

| | 2016 | | 2015 | |
|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents | \$ 150,914 | \$ 95,961 | \$ 149,066 | \$ 88,540 |
| Trademarks | 340,805 | 179,156 | 355,108 | 172,187 |
| Customer lists and other | 1,362,521 | 656,552 | 1,369,380 | 599,388 |
| Total | \$ 1,854,240 | \$ 931,669 | \$ 1,873,554 | \$ 860,115 |

During 2016, the Company acquired intangible assets, either individually or as part of a group of assets, with an initial purchase price allocation and weighted-average life as follows:

| | Purchase Price Allocation | Weighted-Average Life |
|--------------------------|---------------------------|-----------------------|
| Patents | \$ 565 | 12 years |
| Trademarks | 761 | 5 years |
| Customer lists and other | 25,523 | 11 years |
| Total | \$ 26,849 | 11 years |

Total intangible amortization expense in 2016, 2015 and 2014 was \$108,019, \$109,887 and \$118,782, respectively. Estimated intangible amortization expense for the five years ending June 30, 2017 through 2021 is \$95,873, \$91,902, \$85,091, \$78,297 and \$70,252, respectively.

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their net carrying value. In 2014, in connection with the goodwill impairment review of EPD, the Company determined that certain intangible assets of EPD, primarily trademarks and customer lists, were impaired resulting in the recognition of a non-cash impairment charge of \$43,664. The impairment charge is reflected in the goodwill and intangible asset impairment caption in the Consolidated Statement of Income and in the other expense (income) caption in the Business Segment Information. The fair value of EPD's intangible assets were determined using an income approach for the individual intangible assets. Fair value calculated using an income approach is classified within level 3 of the fair value hierarchy and requires several assumptions including future sales and operating margins expected to be generated from the use of the individual intangible asset.

8. Financing Arrangements

The Company has a line of credit totaling \$2,000,000 through a multi-currency revolving credit agreement with a group of banks, \$1,696,300 of which was available at June 30, 2016. The credit agreement expires in October 2017; however, the Company has the right to request a one-year extension of the expiration date on an annual basis, which request may result in changes to the current terms and conditions of the credit agreement. Advances from the credit agreement can be used for general corporate purposes, including acquisitions, and for the refinancing of existing indebtedness. The credit agreement requires the payment of an annual facility fee, the amount of which may increase in the event the Company's credit ratings are lowered. Although a lowering of the Company's credit ratings would likely increase the cost of future debt, it would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

The Company is currently authorized to sell up to \$1,850,000 of short-term commercial paper notes. At June 30, 2016, \$303,700 of commercial paper notes were outstanding and no commercial paper notes were outstanding at June 30, 2015.

In addition to commercial paper notes, notes payable includes short-term lines of credit and borrowings from foreign banks. At June 30, 2016, the Company had \$64,310 in lines of credit from various foreign banks, none of which was outstanding at June 30, 2016. Most of these agreements are renewed annually. The weighted-average interest rate on notes payable during 2016 was 0.3 percent and was 0.2 percent during 2015.

The Company's foreign locations in the ordinary course of business may enter into financial guarantees through financial institutions which enable customers to be reimbursed in the event of nonperformance by the Company.

The Company's credit agreements and indentures governing certain debt agreements contain various covenants, the violation of which would limit or preclude the use of the applicable agreements for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the applicable agreements. At the Company's present rating level, the most restrictive covenant contained in the credit agreements and the indentures provides that the ratio of secured debt to net tangible assets be less than 10 percent. As of June 30, 2016, the Company does not have any secured debt outstanding. The Company is in compliance with all covenants.

9. Debt

| <u>June 30,</u> | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Domestic: | | |
| Fixed rate medium-term notes 3.30% to 6.55%, due 2018-2045 | \$ 2,675,000 | \$ 2,675,000 |
| Foreign: | | |
| Bank loans, including revolving credit 1% to 11.75%, due 2016 | — | 322 |
| Euro bonds 4.125%, due 2016 | — | 222,820 |
| Japanese Yen credit facility JPY Libor plus 55 bps, due 2017 | 58,140 | 48,960 |
| Total long-term debt | 2,733,140 | 2,947,102 |
| Less: Long-term debt payable within one year | 58,140 | 223,142 |
| Long-term debt, net | \$ 2,675,000 | \$ 2,723,960 |

Principal amounts of long-term debt payable in the five years ending June 30, 2017 through 2021 are \$58,140, \$450,000, \$100,000, \$0 and \$0, respectively.

Lease Commitments - Future minimum rental commitments as of June 30, 2016, under non-cancelable operating leases, which expire at various dates, are as follows: 2017-\$68,718; 2018-\$44,506; 2019-\$27,412; 2020-\$15,009; 2021-\$9,338 and after 2021-\$29,946.

Rental expense in 2016, 2015 and 2014 was \$119,004, \$125,657 and \$131,948, respectively.

10. Retirement Benefits

Pensions - The Company has noncontributory defined benefit pension plans covering eligible employees, including certain employees in foreign countries. Plans for most salaried employees provide pay-related benefits based on years of service. Plans for hourly employees generally provide benefits based on flat-dollar amounts and years of service. The Company also has arrangements for certain key employees which provide for supplemental retirement benefits. In general, the Company's policy is to fund these plans based on legal requirements, tax considerations, local practices and investment opportunities. The Company also sponsors defined contribution plans and participates in government-sponsored programs in certain foreign countries.

A summary of the Company's defined benefit pension plans follows:

| <u>Benefit cost</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|-------------------|
| Service cost | \$ 94,650 | \$ 97,960 | \$ 99,929 |
| Interest cost | 181,469 | 176,556 | 190,999 |
| Special termination cost | 7,088 | 21,174 | — |
| Settlement cost | 5,102 | — | — |
| Expected return on plan assets | (221,629) | (218,938) | (226,884) |
| Amortization of prior service cost | 7,470 | 9,437 | 14,644 |
| Amortization of unrecognized actuarial loss | 170,407 | 152,664 | 159,584 |
| Amortization of initial net obligation | 17 | 17 | 19 |
| Net periodic benefit cost | \$ 244,574 | \$ 238,870 | \$ 238,291 |

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 4,867,703 | \$ 4,749,447 |
| Service cost | 94,650 | 97,960 |
| Interest cost | 181,469 | 176,556 |
| Special termination cost | 7,088 | 21,174 |
| Actuarial loss | 487,523 | 237,896 |
| Benefits paid | (230,551) | (261,473) |
| Plan amendments | 2,992 | 3,033 |
| Foreign currency translation and other | (95,219) | (156,890) |
| Benefit obligation at end of year | <u>\$ 5,315,655</u> | <u>\$ 4,867,703</u> |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | \$ 3,238,307 | \$ 3,499,274 |
| Actual gain on plan assets | 97,165 | 51,514 |
| Employer contributions | 279,140 | 62,852 |
| Benefits paid | (230,551) | (261,473) |
| Foreign currency translation and other | (77,014) | (113,860) |
| Fair value of plan assets at end of year | <u>\$ 3,307,047</u> | <u>\$ 3,238,307</u> |
| Funded status | <u>\$ (2,008,608)</u> | <u>\$ (1,629,396)</u> |
| Amounts recognized on the Consolidated Balance Sheet | | |
| Other accrued liabilities | \$ (42,763) | \$ (31,206) |
| Pensions and other postretirement benefits | (1,965,845) | (1,598,190) |
| Net amount recognized | <u>\$ (2,008,608)</u> | <u>\$ (1,629,396)</u> |
| Amounts recognized in Accumulated Other Comprehensive (Loss) | | |
| Net actuarial loss | \$ 2,047,103 | \$ 1,639,010 |
| Prior service cost | 27,723 | 32,126 |
| Transition obligation | 103 | 103 |
| Net amount recognized | <u>\$ 2,074,929</u> | <u>\$ 1,671,239</u> |

The presentation of the amounts recognized on the Consolidated Balance Sheet and in accumulated other comprehensive (loss) is on a debit (credit) basis and excludes the effect of income taxes.

During 2016, the Company provided enhanced retirement benefits in connection with a plant closure, which resulted in an increase in net pension benefit cost of \$7,088. During 2015, the Company initiated a voluntary retirement program under which certain participants in its U.S. qualified defined benefit pension plan were offered enhanced retirement benefits, which resulted in an increase in net pension benefit cost of \$21,174.

During 2015, the Company offered lump-sum distributions to certain participants in its U.S. qualified defined benefit plan. Included in benefits paid in 2015 is \$81,496, related to participants who elected to receive lump-sum distributions.

The estimated amount of net actuarial loss, prior service cost and transition obligation that will be amortized from accumulated other comprehensive (loss) into net periodic benefit pension cost in 2017 is \$200,725, \$6,579 and \$19, respectively.

The accumulated benefit obligation for all defined benefit plans was \$4,884,985 and \$4,451,047 at June 30, 2016 and 2015, respectively. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$5,211,768, \$4,796,860 and \$3,206,287, respectively, at June 30, 2016, and \$4,761,438, \$4,352,369 and \$3,129,803, respectively, at June 30, 2015. The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were \$5,310,979 and \$3,302,370, respectively, at June 30, 2016, and \$4,821,675 and \$3,188,293, respectively, at June 30, 2015.

[Table of Contents](#)

The Company expects to make cash contributions of approximately \$306 million to its defined benefit pension plans in 2017, the majority of which relate to its U.S. qualified defined benefit plan. Estimated future benefit payments in the five years ending June 30, 2017 through 2021 are \$239,898, \$220,006, \$224,569, \$248,085 and \$272,250, respectively and \$1,381,405 in the aggregate for the five years ending June 30, 2021 through June 30, 2025.

The assumptions used to measure net periodic benefit cost for the Company's significant defined benefit plans are:

| | 2016 | 2015 | 2014 |
|---------------------------------------|---------------------|--------------|--------------|
| U.S. defined benefit plans | | | |
| Discount rate | 4.19 % | 4.05 % | 4.52 % |
| Average increase in compensation | 5.14 % | 5.12 % | 5.13 % |
| Expected return on plan assets | 7.5 % | 7.5 % | 8.0 % |
| Non-U.S. defined benefit plans | | | |
| Discount rate | 0.7 to 6.0% | 0.9 to 4.2% | 1.5 to 4.59% |
| Average increase in compensation | 2.0 to 5.5% | 2.0 to 5.0% | 2.0 to 6.0% |
| Expected return on plan assets | 1.0 to 5.75% | 1.0 to 6.25% | 1.0 to 6.25% |

The assumptions used to measure the benefit obligation for the Company's significant defined benefit plans are:

| | 2016 | 2015 |
|---------------------------------------|----------------------|-------------|
| U.S. defined benefit plans | | |
| Discount rate | 3.33 % | 4.19 % |
| Average increase in compensation | 5.02 % | 5.14 % |
| Non-U.S. defined benefit plans | | |
| Discount rate | 0.23 to 7.75% | 0.7 to 6.0% |
| Average increase in compensation | 2.0 to 5.5% | 2.0 to 5.5% |

The discount rate assumption is based on current rates of high-quality long-term corporate bonds over the same estimated time period that benefit payments will be required to be made. The expected return on plan assets assumption is based on the weighted-average expected return of the various asset classes in the plans' portfolio. The asset class return is developed using historical asset return performance as well as current market conditions such as inflation, interest rates and equity market performance.

Beginning in 2017, the Company will change the method used to estimate the service and interest cost components of net periodic pension cost. The new method uses the spot yield curve approach to estimate the service and interest costs by applying the specific spot rates along the yield curve used to determine the benefit obligation to the relevant projected cash outflows. Previously, these cost components were determined using a single-weighted average discount rate. This change does not affect the measurement of the Company benefit obligation.

The weighted-average allocation of the majority of the assets related to defined benefit plans is as follows:

| | 2016 | 2015 |
|-------------------|--------------|-------|
| Equity securities | 39 % | 41 % |
| Debt securities | 51 % | 47 % |
| Other investments | 10 % | 12 % |
| | 100 % | 100 % |

The weighted-average target asset allocation as of June 30, 2016 is 41 percent equity securities, 47 percent debt securities and 12 percent other investments. The investment strategy for the Company's worldwide defined benefit pension plan assets focuses on achieving prudent actuarial funding ratios while maintaining acceptable levels of risk in order to provide adequate liquidity to meet immediate and future benefit requirements. This strategy requires investment portfolios that are broadly diversified across various asset classes and external investment managers. Assets held in the U.S. defined benefit plans account for approximately 73 percent of the Company's total defined benefit plan assets. The Company's overall investment strategy with respect to the Company's U.S. defined benefit plans is to opportunistically migrate from its traditional mix between

[Table of Contents](#)

growth seeking assets (primarily consisting of global public equities in developed and emerging countries and hedge fund of fund strategies) and income generating assets (primarily consisting of high quality bonds, both domestic and global, emerging market bonds, high yield bonds and Treasury Inflation Protected Securities) to an allocation more heavily weighted toward income generating assets. Over time, long duration fixed income assets are being added to the portfolio. These securities are highly correlated with the Company's pension liabilities and will serve to hedge a portion of the Company's interest rate risk.

The fair values of pension plan assets at June 30, 2016 and at June 30, 2015, by asset class, are as follows:

| | June 30, 2016 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|---------------------|---|---|--|
| Cash and cash equivalents | \$ 46,052 | \$ 45,474 | \$ 578 | \$ — |
| Equity securities | | | | |
| U.S. based companies | 292,138 | 292,138 | — | — |
| Non-U.S. based companies | 191,647 | 191,647 | — | — |
| Fixed income securities | | | | |
| Corporate bonds | 141,549 | 73,685 | 67,864 | — |
| Government issued securities | 203,000 | 141,935 | 61,065 | — |
| Mutual funds | | | | |
| Equity funds | 149,807 | 149,807 | — | — |
| Fixed income funds | 151,649 | 151,649 | — | — |
| Mutual funds measured at net asset value | 246,075 | | | |
| Common/Collective trusts | | | | |
| Equity funds | 65,404 | 65,404 | — | — |
| Fixed income funds | 43,981 | 43,981 | — | — |
| Common/Collective trusts measured at net asset value | 1,487,170 | | | |
| Limited Partnerships measured at net asset value | 280,248 | | | |
| Miscellaneous | 8,327 | — | 8,327 | — |
| Total at June 30, 2016 | \$ 3,307,047 | \$ 1,155,720 | \$ 137,834 | \$ — |

| | June 30, 2015 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|---------------------|---|---|--|
| Cash and cash equivalents | \$ 75,015 | \$ 75,015 | \$ — | \$ — |
| Equity securities | | | | |
| U.S. based companies | 299,321 | 299,321 | — | — |
| Non-U.S. based companies | 203,199 | 203,199 | — | — |
| Fixed income securities | | | | |
| Corporate bonds | 165,226 | 77,224 | 88,002 | — |
| Government issued securities | 143,697 | 90,785 | 52,912 | — |
| Mutual funds | | | | |
| Equity funds | 149,383 | 149,383 | — | — |
| Fixed income funds | 135,949 | 135,949 | — | — |
| Mutual funds measured at net asset value | 5,564 | | | |
| Common/Collective trusts | | | | |
| Equity funds | 77,429 | 77,429 | — | — |
| Fixed income funds | 46,184 | 46,184 | — | — |
| Common/Collective trusts measured at net asset value | 1,635,135 | | | |
| Limited Partnerships measured at net asset value | 290,904 | | | |
| Miscellaneous | 11,301 | — | 11,301 | — |
| Total at June 30, 2015 | <u>\$ 3,238,307</u> | <u>\$ 1,154,489</u> | <u>\$ 152,215</u> | <u>\$ —</u> |

Cash and cash equivalents, which include repurchase agreements and other short-term investments, are valued at cost, which approximates fair value.

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded. U.S. based companies include Company stock with a fair value of \$143,652 as of June 30, 2016 and \$154,660 as of June 30, 2015.

Fixed income securities are valued using both market observable inputs for similar assets that are traded on an active market and the closing price on the active market on which the individual securities are traded.

Mutual funds are valued using the closing market price reported on the active market on which the fund is traded or at net asset value per share and primarily consist of equity and fixed income funds. The equity funds primarily provide exposure to U.S. and international equities, real estate and commodities. The fixed income funds primarily provide exposure to high-yield securities and emerging market fixed income instruments. Mutual funds measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy and are being presented in the tables above to permit a reconciliation of the fair value hierarchy to the Consolidated Balance Sheet.

Common/Collective trusts primarily consist of equity and fixed income funds and are valued using the closing market price reported on the active market on which the fund is traded or at net asset value per share. Common/Collective trust investments can be redeemed daily and without restriction. Redemption of the entire investment balance generally requires a 30-day notice period. The equity funds provide exposure to large, mid and small cap U.S. equities, international large and small cap equities and emerging market equities. The fixed income funds provide exposure to U.S., international and emerging market debt securities. Common/Collective trusts measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy and are being presented in the tables above to permit a reconciliation of the fair value hierarchy to the Consolidated Balance Sheet.

Limited Partnerships primarily consist of hedge funds valued using a net asset value per share and provide exposure to a variety of hedging strategies including long/short equity, relative value, event driven and global macro. Limited Partnership investments can be redeemed daily and without restriction. Redemption of the entire investment balance generally requires a 30-day notice period. Limited Partnerships measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy and are being presented in the tables above to permit a reconciliation of the fair value hierarchy to the Consolidated Balance Sheet.

[Table of Contents](#)

Miscellaneous primarily includes real estate funds, insurance contracts held in the asset portfolio of the Company's non-U.S. defined benefit pension plans, and net payables for securities purchased but not settled in the asset portfolio of the Company's U.S. defined benefit pension plans. Insurance contracts are valued at the present value of future cash flows promised under the terms of the insurance contracts.

The primary investment objective of equity securities and equity funds, within both the mutual fund and common/collective trust asset class, is to obtain capital appreciation in an amount that at least equals various market-based benchmarks. The primary investment objective of fixed income securities and fixed income funds, within both the mutual fund and common/collective trust asset class, is to provide for a constant stream of income while preserving capital. The primary investment objective of limited partnerships is to achieve capital appreciation through an investment program focused on specialized investment strategies. The primary investment objective of insurance contracts, included in the miscellaneous asset class, is to provide a stable rate of return over a specified period of time.

Employee Savings Plan - The Company sponsors an employee stock ownership plan (ESOP) as part of its existing savings and investment 401(k) plan. The ESOP is available to eligible domestic employees. Company matching contributions, up to a maximum of four percent of an employee's annual compensation, are recorded as compensation expense. Prior to August 1, 2014, Company stock was used to match employee contributions. Effective August 1, 2014, participants may direct company matching contributions to any investment option within the savings and investment 401(k) plan.

| | 2016 | 2015 | 2014 |
|--------------------------------|-----------|-----------|-----------|
| Shares held by ESOP | 7,728,332 | 8,407,858 | 8,944,697 |
| Company matching contributions | \$ 58,922 | \$ 63,914 | \$ 63,441 |

In addition to shares within the ESOP, as of June 30, 2016, employees have elected to invest in 2,317,924 shares of common stock within a company stock fund of the savings and investment 401(k) plan.

The Company has a retirement income account (RIA) within the employee savings plan. The Company makes a cash contribution to the participant's RIA each year, the amount of which is based on the participant's age and years of service. Participants do not contribute to the RIA. The Company recognized \$25,780, \$29,570 and \$25,247 in expense related to the RIA in 2016, 2015 and 2014, respectively.

Other Postretirement Benefits - The Company provides postretirement medical and life insurance benefits to certain retirees and eligible dependents. Most plans are contributory, with retiree contributions adjusted annually. The plans are unfunded and pay stated percentages of covered medically necessary expenses incurred by retirees, after subtracting payments by Medicare or other providers and after stated deductibles have been met. For most plans, the Company has established cost maximums to more effectively control future medical costs. The Company has reserved the right to change these benefit plans.

The Company recognized \$8,754, \$4,340 and \$4,478 in expense related to other postretirement benefits in 2016, 2015 and 2014, respectively. During 2016, the Company provided enhanced retirement benefits in connection with a plant closure, which resulted in an increase in expense related to other postretirement benefits of \$4,521.

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 75,953 | \$ 76,207 |
| Service cost | 591 | 632 |
| Interest cost | 2,834 | 2,723 |
| Special termination cost | 4,521 | — |
| Actuarial loss | 10,217 | 655 |
| Benefits paid | (4,331) | (4,264) |
| Benefit obligation at end of year | \$ 89,785 | \$ 75,953 |
| Funded status | \$ (89,785) | \$ (75,953) |

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Amounts recognized on the Consolidated Balance Sheet | | |
| Other accrued liabilities | \$ (6,216) | \$ (5,629) |
| Pensions and other postretirement benefits | (83,569) | (70,324) |
| Net amount recognized | <u>\$ (89,785)</u> | <u>\$ (75,953)</u> |
| Amounts recognized in Accumulated Other Comprehensive (Loss) | | |
| Net actuarial loss | \$ 22,914 | \$ 13,626 |
| Prior service credit | (556) | (676) |
| Net amount recognized | <u>\$ 22,358</u> | <u>\$ 12,950</u> |

The presentation of the amounts recognized on the Consolidated Balance Sheet and in accumulated other comprehensive (loss) is on a debit (credit) basis and is before the effect of income taxes. The amount of net actuarial loss and prior service credit that will be amortized from accumulated other comprehensive (loss) into net periodic postretirement cost in 2017 is \$2,101 and \$(121), respectively.

The assumptions used to measure the net periodic benefit cost for postretirement benefit obligations are:

| | 2016 | 2015 | 2014 |
|--|--------|--------|--------|
| Discount rate | 3.96 % | 3.74 % | 4.10 % |
| Current medical cost trend rate (Pre-65 participants) | 7.61 % | 7.75 % | 7.75 % |
| Current medical cost trend rate (Post-65 participants) | 9.00 % | 7.75 % | 7.75 % |
| Ultimate medical cost trend rate | 4.50 % | 5.00 % | 5.00 % |
| Medical cost trend rate decreases to ultimate in year | 2025 | 2021 | 2021 |

The discount rate assumption used to measure the benefit obligation was 3.15 percent in 2016 and 3.96 percent in 2015.

Estimated future benefit payments for other postretirement benefits in the five years ending June 30, 2017 through 2021 are \$6,216, \$6,796, \$6,717, \$6,349 and \$6,287, respectively, and \$27,882 in the aggregate for the five years ending June 30, 2021 through June 30, 2025.

A one percentage point change in assumed health care cost trend rates would not have a material effect on the benefit cost or benefit obligation.

Other - The Company has established nonqualified deferred compensation programs, which permit officers, directors and certain management employees annually to elect to defer a portion of their compensation, on a pre-tax basis, until their retirement. The retirement benefit to be provided is based on the amount of compensation deferred, Company matching contributions and earnings on the deferrals. During 2016, 2015 and 2014, the Company recorded (income) expense relating to deferred compensation of \$(2,917), \$5,676 and \$24,549, respectively.

The Company has invested in corporate-owned life insurance policies to assist in meeting the obligation under these programs. The policies are held in a rabbi trust and are recorded as assets of the Company.

11. Equity

Changes in accumulated other comprehensive (loss) in shareholders' equity by component:

| | Foreign Currency Translation Adjustment and Other | Retirement Benefit Plans | Total |
|--|--|-----------------------------|-----------------------|
| Balance June 30, 2014 | \$ 124,392 | \$ (947,890) | \$ (823,498) |
| Other comprehensive (loss) before reclassifications | (769,431) | (253,206) | (1,022,637) |
| Amounts reclassified from accumulated other comprehensive (loss) | 4,021 | 103,496 | 107,517 |
| Balance June 30, 2015 | \$ (641,018) | \$ (1,097,600) | \$ (1,738,618) |
| Other comprehensive (loss) before reclassifications | (202,444) | (400,053) | (602,497) |
| Amounts reclassified from accumulated other comprehensive (loss) | (659) | 114,009 | 113,350 |
| Balance June 30, 2016 | \$ (844,121) | \$ (1,383,644) | \$ (2,227,765) |

Significant reclassifications out of accumulated other comprehensive (loss) in shareholders' equity during 2016:

| Details about Accumulated Other Comprehensive (Loss) Components | Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss) | Consolidated Statement of Income Classification |
|---|---|---|
| Retirement benefit plans | | |
| Amortization of prior service cost and initial net obligation | \$ (7,366) | See Note 10 |
| Recognized actuarial loss | (171,337) | See Note 10 |
| Total before tax | (178,703) | |
| Tax benefit | 64,694 | Income taxes |
| Net of tax | <u>\$ (114,009)</u> | |

Significant reclassifications out of accumulated other comprehensive (loss) in shareholders' equity during 2015:

| Details about Accumulated Other Comprehensive (Loss) Components | Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss) | Consolidated Statement of Income Classification |
|---|---|---|
| Retirement benefit plans | | |
| Amortization of prior service cost and initial net obligation | \$ (9,333) | See Note 10 |
| Recognized actuarial loss | (153,770) | See Note 10 |
| Total before tax | (163,103) | |
| Tax benefit | 59,607 | Income taxes |
| Net of tax | <u>\$ (103,496)</u> | |

Share Repurchases - The Company has a program to repurchase its common shares. On October 22, 2014, the Board of Directors of the Company approved an increase in the overall number of shares authorized to repurchase under the program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 35 million. There is no limitation on the number of shares that can be repurchased in a year. Repurchases may be funded primarily from operating cash flows and commercial paper borrowings and the shares are initially held as treasury shares. The number of common shares repurchased at the average purchase price follows:

| | 2016 | 2015 | 2014 |
|-------------------------|-----------|------------|-----------|
| Shares repurchased | 5,121,051 | 11,091,759 | 1,741,143 |
| Average price per share | \$ 108.87 | \$ 125.64 | \$ 114.87 |

12. Stock Incentive Plans

The Company's 2009 Omnibus Stock Incentive Plan provides for the granting of share-based incentive awards in the form of nonqualified stock options, stock appreciation rights (SARs), restricted stock units (RSUs) and restricted and unrestricted stock to officers and key employees of the Company. The aggregate number of shares authorized for issuance under the 2009 Omnibus Stock Incentive Plan is 14.7 million. At June 30, 2016, 3.4 million common shares were reserved for issuance in connection with stock incentive plans.

The Company satisfies share-based incentive award obligations by issuing shares of common stock out of treasury, which have been repurchased pursuant to the Company's share repurchase program described in Note 11, or through the issuance of previously unissued common stock.

Stock Options/SARs - Stock options allow the participant to purchase shares of common stock at a price not less than 100 percent of the fair market value of the stock on the date of grant. Upon exercise, SARs entitle the participant to receive shares of common stock equal to the increase in value of the award between the grant date and the exercise date. Stock options and SARs are exercisable from one to three years after the date of grant and expire no more than 10 years after grant.

The fair value of each stock option and SAR award granted in 2016, 2015 and 2014 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

| | 2016 | 2015 | 2014 |
|----------------------------------|----------|----------|----------|
| Risk-free interest rate | 1.9 % | 2.0 % | 1.55 % |
| Expected life of award | 5.4 yrs | 5.4 yrs | 5.1 yrs |
| Expected dividend yield of stock | 1.9 % | 1.8 % | 1.9 % |
| Expected volatility of stock | 28.7 % | 32.3 % | 39.1 % |
| Weighted-average fair value | \$ 26.88 | \$ 30.50 | \$ 32.57 |

The risk-free interest rate was based on U.S. Treasury yields with a term similar to the expected life of the award. The expected life of the award was derived by referring to actual exercise and post-vesting employment termination experience. The expected dividend yield was based on the Company's historical dividend rate and stock price over a period similar to the expected life of the award. The expected volatility of stock was derived by referring to changes in the Company's historical common stock prices over a time-frame similar to the expected life of the award.

Stock option and SAR activity during 2016 is as follows (aggregate intrinsic value in millions):

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|------------------|---------------------------------|---|---------------------------|
| Outstanding June 30, 2015 | 8,134,206 | \$ 79.84 | | |
| Granted | 968,445 | 113.23 | | |
| Exercised | (945,191) | 67.65 | | |
| Canceled | (101,012) | 108.32 | | |
| Outstanding June 30, 2016 | 8,056,448 | \$ 84.93 | 5.3 years | \$ 199.2 |
| Exercisable June 30, 2016 | 6,018,552 | \$ 75.80 | 4.3 years | \$ 198.4 |

[Table of Contents](#)

A summary of the status and changes of shares subject to stock option and SAR awards and the related average price per share follows:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|--------------------------------|------------------|---|
| Nonvested June 30, 2015 | 2,310,089 | \$ 30.71 |
| Granted | 968,445 | 26.88 |
| Vested | (1,164,552) | 29.80 |
| Canceled | (76,086) | 29.31 |
| Nonvested June 30, 2016 | 2,037,896 | \$ 29.46 |

At June 30, 2016, \$15,844 of expense with respect to nonvested stock option and SAR awards has yet to be recognized and will be amortized into expense over a weighted-average period of approximately 18 months. The total fair value of shares vested during 2016, 2015 and 2014 was \$34,706, \$34,064 and \$42,363, respectively.

Information related to stock option and SAR awards exercised during 2016, 2015 and 2014 is as follows:

| | 2016 | 2015 | 2014 |
|--------------------|--------|----------|----------|
| Net cash proceeds | \$ 126 | \$ 3,355 | \$ 8,013 |
| Intrinsic value | 40,612 | 72,140 | 155,903 |
| Income tax benefit | 7,188 | 17,355 | 37,993 |

During 2016, 2015 and 2014, the Company recognized stock-based compensation expense of \$28,129, \$34,617 and \$49,998, respectively, relating to stock option and SAR awards. The Company derives a tax deduction measured by the excess of the market value over the grant price at the date stock-based awards are exercised. The related tax benefit is credited to additional capital as the Company is currently in a windfall tax benefit position.

Shares surrendered upon exercise of stock options and SARs: 2016 - 158,808; 2015 - 243,799; 2014 - 775,163.

RSUs - RSUs constitute an agreement to deliver shares of common stock to the participant at the end of a vesting period. Generally, the RSUs vest and the underlying stock is issued ratably over a three-year graded vesting period. Unvested RSUs may not be transferred and do not have dividend or voting rights. For each unvested RSU, recipients are entitled to receive a dividend equivalent, payable in cash or common shares, equal to the cash dividend per share paid to common shareholders.

The fair value of each RSU award granted in 2016, 2015 and 2014 was based on the fair market value of the Company's common stock on the date of grant. A summary of the status and changes of shares subject to RSU awards and the related average price per share follows:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|--------------------------------|------------------|---|
| Nonvested June 30, 2015 | 449,288 | \$ 105.63 |
| Granted | 180,487 | 113.19 |
| Vested | (210,777) | 100.45 |
| Canceled | (44,830) | 108.68 |
| Nonvested June 30, 2016 | 374,168 | \$ 111.82 |

During 2016, 2015 and 2014, the Company recognized stock-based compensation expense of \$21,190, \$22,547 and \$21,475 respectively, relating to RSU awards. At June 30, 2016, \$14,714 of expense with respect to nonvested RSU awards has yet to be recognized and will be amortized into expense over a weighted-average period of approximately 17 months. The total fair value of RSU awards vested during 2016, 2015 and 2014 was \$21,173, \$18,953 and \$18,007, respectively. The Company recognized a tax benefit of \$870, \$704 and \$2,509 relating to the issuance of common stock for RSU awards that vested during 2016, 2015 and 2014, respectively.

[Table of Contents](#)

In 2016, 14,404 RSU awards, with a one-year vesting period, were granted to certain non-employee members of the Board of Directors. In 2016, the Company recognized \$824 of expense with respect to these awards.

LTIP - The Company's Long Term Incentive Plans (LTIP) provide for the issuance of unrestricted stock to certain officers and key employees based on the attainment of certain goals relating to the Company's revenue growth, earnings per share growth and return on invested capital during the three-year performance period. No dividends or dividend equivalents are paid on unearned shares.

| Stock issued for LTIP | 2016 | | 2015 | | 2014 | |
|---|-------------------|----|-------------|--|-------------|--------|
| LTIP three-year plan | 2013-14-15 | | 2012-13-14 | | 2011-12-13 | |
| Number of shares issued | 175,291 | | 185,063 | | 298,813 | |
| Average share value on date of issuance | \$ 113.91 | \$ | 119.06 | | \$ | 126.17 |
| Total value | \$ 19,967 | \$ | 22,034 | | \$ | 37,701 |

Under the Company's 2014-15-16 LTIP, a payout of unrestricted stock will be issued in April 2017.

The fair value of each LTIP award granted in 2016, 2015 and 2014 was based on the fair market value of the Company's common stock on the date of grant. A summary of the status and changes of shares relating to the LTIP and the related average price per share follows:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|--------------------------------|-------------------------|---|
| Nonvested June 30, 2015 | 876,171 | \$ 109.27 |
| Granted | 262,032 | 88.63 |
| Vested | (298,105) | 93.05 |
| Canceled | (26,336) | 115.60 |
| Nonvested June 30, 2016 | 813,762 | \$ 108.37 |

During 2016, 2015 and 2014, the Company recorded stock-based compensation expense of \$21,150, \$38,929 and \$31,688, respectively, relating to the LTIP. During 2016, 2015 and 2014, the Company recognized a tax benefit (cost) of \$3,119, \$5,373 and \$(6,983), respectively, relating to the LTIP.

Shares surrendered in connection with the LTIP: 2016 - 78,173; 2015 - 42,394; 2014 - 140,406.

Restricted Shares - In 2015 and 2014, 12,716 and 12,353 restricted shares, respectively, were issued to non-employee members of the Board of Directors. Transferability of the restricted shares is restricted for one to three years following issuance, and they vest ratably, on an annual basis, over the term of office of the director. The fair value of the restricted shares was based on the fair market value of the Company's common stock on the date of grant. During 2016, 2015 and 2014 the Company recognized expense of \$468, \$1,401 and \$1,304, respectively, related to the restricted shares. During 2016, 2015 and 2014, the Company recognized a tax (cost) benefit of \$(32), \$(3) and \$212, respectively, related to the restricted shares.

13. Shareholders' Protection Rights Agreement

On January 25, 2007, the Board of Directors of the Company declared a dividend of one Shareholders' Right for each common share outstanding on February 17, 2007 in relation to the Company's Shareholders Protection Rights Agreement. As of June 30, 2016, 134,012,232 common shares were reserved for issuance under this Agreement. Under certain conditions involving acquisition of, or an offer for, 15 percent or more of the Company's common shares, all holders of Shareholders' Rights would be entitled to purchase one common share at an exercise price currently set at \$160. In addition, in certain circumstances, all holders of Shareholders' Rights (other than the acquiring entity) would be entitled to purchase a number of common shares equal to twice the exercise price, or at the option of the Board of Directors, to exchange each Shareholders' Right for one common share. The Shareholders' Rights remain in existence until February 17, 2017, unless extended by the Board of Directors or earlier redeemed (at one cent per Shareholders' Right), exercised or exchanged under the terms of the agreement. In the event of an unfriendly business combination attempt, the Shareholders' Rights will cause substantial dilution to the person attempting the business combination. The Shareholders' Rights should not interfere with any merger or other business combination that is in the best interest of the Company and its shareholders since the Shareholders' Rights may be redeemed.

14. Research and Development

Research and development costs amounted to \$359,796 in 2016, \$403,085 in 2015 and \$410,132 in 2014. These amounts include both costs incurred by the Company related to independent research and development initiatives as well as costs incurred in connection with research and development contracts. Costs incurred in connection with research and development contracts amounted to \$57,999 in 2016, \$57,799 in 2015 and \$55,916 in 2014. These costs are included in the total research and development cost for each of the respective years.

15. Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities and other investments, accounts receivable and long-term investments as well as obligations under accounts payable, trade, notes payable and long-term debt. Due to their short-term nature, the carrying values for cash and cash equivalents, accounts receivable, accounts payable, trade and notes payable approximate fair value.

Marketable securities and other investments include deposits, which are recorded at cost, and investments classified as available-for-sale, which are recorded at fair value with unrealized gains and losses recorded in accumulated other comprehensive (loss). Gross unrealized gains and losses were not material as of June 30, 2016 and 2015. Substantially all of the available-for-sale investments in an unrealized loss position have been in that position for less than 12 months. There were no facts or circumstances that indicated the unrealized losses were other than temporary.

The contractual maturities of available-for-sale investments at June 30, 2016 and 2015 are as follows:

| | June 30, 2016 | | June 30, 2015 | |
|--------------------|----------------|------------|----------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Less than one year | \$ 29,960 | \$ 29,990 | \$ 13,561 | \$ 13,555 |
| One to three years | 144,100 | 144,625 | 188,539 | 188,057 |
| Over three years | 34,276 | 34,275 | 15,673 | 15,587 |

Actual maturities of available-for-sale investments may differ from their contractual maturities as the Company has the ability to liquidate the available-for-sale investments after giving appropriate notice to the issuer.

The carrying value of long-term debt and estimated fair value of long-term debt at June 30 are as follows:

| | 2016 | 2015 |
|--|--------------|--------------|
| Carrying value of long-term debt | \$ 2,733,140 | \$ 2,947,102 |
| Estimated fair value of long-term debt | 3,133,989 | 3,107,735 |

The fair value of long-term debt was determined based on observable market prices in the active market in which the security is traded and is classified within level 2 of the fair value hierarchy.

The Company utilizes derivative and non-derivative financial instruments, including forward exchange contracts, costless collar contracts, cross-currency swap contracts and certain foreign denominated debt designated as net investment hedges, to manage foreign currency transaction and translation risk. The derivative financial instrument contracts are with major investment grade financial institutions and the Company does not anticipate any material non-performance by any of the counterparties. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company's Euro bonds, which matured in November 2015, and Japanese Yen credit facility have each been designated as a hedge of the Company's net investment in certain foreign subsidiaries. The translation of the Euro bonds and Japanese Yen credit facility into U.S. dollars is recorded in accumulated other comprehensive (loss) and remains there until the underlying net investment is sold or substantially liquidated.

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value.

The location and fair value of derivative financial instruments reported in the Consolidated Balance Sheet are as follows:

| | Balance Sheet Caption | 2016 | 2015 |
|-------------------------------|--------------------------------|-----------|-----------|
| Net investment hedges | | | |
| Cross-currency swap contracts | Other assets | \$ 24,771 | \$ 17,994 |
| Cash flow hedges | | | |
| Costless collar contracts | Non-trade and notes receivable | — | 5,627 |
| Costless collar contracts | Other accrued liabilities | 8,368 | 1,970 |

The cross-currency swap and costless collar contracts are reflected on a gross basis in the Consolidated Balance Sheet. The Company has not entered into any master netting arrangements.

Gains or losses on derivatives that are not hedges are adjusted to fair value through the cost of sales caption in the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings.

The cross-currency swap contracts have been designated as hedging instruments. The costless collar contracts have not been designated as hedging instruments and are considered to be economic hedges of forecasted transactions.

Gains (losses) on derivative financial instruments that were recorded in the Consolidated Statement of Income during 2016, 2015 and 2014 were not material.

Gains (losses) on derivative and non-derivative financial instruments that were recorded in accumulated other comprehensive (loss) in the Consolidated Balance Sheet are as follows:

| | 2016 | 2015 |
|-------------------------------|----------|-----------|
| Cross-currency swap contracts | \$ 6,869 | \$ 39,406 |
| Foreign denominated debt | (8,180) | 37,871 |

There was no ineffectiveness of the cross-currency swap contracts or foreign denominated debt, nor were any portion of these financial instruments excluded from the effectiveness testing, during 2016, 2015 and 2014.

A summary of financial assets and liabilities that were measured at fair value on a recurring basis at June 30, 2016 and 2015 are as follows:

| | June 30, 2016 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---------------|---|---|--|
| Assets: | | | | |
| Equity securities | \$ 1,296 | \$ 1,296 | \$ — | \$ — |
| Government bonds | 15,764 | 15,764 | — | — |
| Corporate bonds | 184,380 | 184,380 | — | — |
| Asset-backed and mortgage-backed securities | 8,746 | — | 8,746 | — |
| Derivatives | 25,303 | — | 25,303 | — |
| Investments measured at net asset value | 361,770 | | | |
| Liabilities: | | | | |
| Derivatives | 13,028 | — | 13,028 | — |

| | June 30, 2015 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---------------|---|---|--|
| Assets: | | | | |
| Government bonds | \$ 60,512 | \$ 60,512 | \$ — | \$ — |
| Corporate bonds | 145,717 | 145,717 | — | — |
| Asset-backed and mortgage-backed securities | 10,970 | — | 10,970 | — |
| Derivatives | 23,598 | — | 23,598 | — |
| Investments measured at net asset value | 187,534 | | | |
| Liabilities: | | | | |
| Derivatives | 1,970 | — | 1,970 | — |

The fair values of the equity securities, government bonds, corporate bonds and asset-backed and mortgage-backed securities are determined using the closing market price reported in the active market in which the fund is traded or the market price for similar assets that are traded in an active market.

Derivatives consist of forward exchange, costless collar and cross-currency swap contracts, the fair values of which are calculated using market observable inputs including both spot and forward prices for the same underlying currencies. The calculation of fair value of the cross-currency swap contracts also utilizes a present value cash flow model that has been adjusted to reflect the credit risk of either the Company or the counterparty.

Investments measured at net asset value primarily consist of investments in fixed income mutual funds, which are measured at fair value using the net asset value per share practical expedient. These investments have not been categorized in the fair value hierarchy and are presented in the table above is to permit reconciliation of the fair value hierarchy to the Consolidated Balance Sheet. The Company has the ability to liquidate these investments after giving appropriate notice to the issuer.

The primary investment objective for all investments is the preservation of principal and liquidity while earning income.

There are no other financial assets or financial liabilities that are marked to market on a recurring basis. Fair values are transferred between levels of the fair value hierarchy when facts and circumstances indicate that a change in the method of estimating the fair value of a financial asset or financial liability is warranted.

16. Contingencies

The Company is involved in various litigation matters arising in the normal course of business, including proceedings based on product liability claims, workers' compensation claims and alleged violations of various environmental laws. The Company is self-insured in the United States for health care, workers' compensation, general liability and product liability up to predetermined amounts, above which third party insurance applies. Management regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and the established accruals for liabilities. While the outcome of pending proceedings cannot be predicted with certainty, management believes that any liabilities that may result from these proceedings will not have a material adverse effect on the Company's liquidity, financial condition or results of operations.

Environmental - The Company is currently responsible for environmental remediation at various manufacturing facilities presently or formerly operated by the Company and has been named as a "potentially responsible party," along with other companies, at off-site waste disposal facilities and regional sites.

As of June 30, 2016, the Company had an accrual of \$15,152 for environmental matters, which are probable and reasonably estimable. The accrual is recorded based upon the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by governmental authorities and the amount of the Company's liability in proportion to other responsible parties.

The Company's estimated total liability for environmental matters ranges from a minimum of \$15.2 million to a maximum of \$80.6 million. The largest range for any one site is approximately \$7.6 million. The actual costs to be incurred by the Company will be dependent on final determination of contamination and required remedial action, negotiations with governmental authorities with respect to cleanup levels, changes in regulatory requirements, innovations in investigatory and remedial technologies, effectiveness of remedial technologies employed, the ability of other responsible parties to pay, and any insurance or other third-party recoveries.

17. Quarterly Information (Unaudited)

| 2016 | 1st | 2nd | 3rd | 4th | Total |
|--|--------------|--------------|--------------|--------------|---------------|
| Net sales | \$ 2,869,348 | \$ 2,705,590 | \$ 2,828,665 | \$ 2,957,150 | \$ 11,360,753 |
| Gross profit | 668,444 | 564,966 | 619,264 | 684,695 | 2,537,369 |
| Net income attributable to common shareholders | 194,978 | 182,982 | 187,084 | 241,796 | 806,840 |
| Diluted earnings per share | 1.41 | 1.33 | 1.37 | 1.77 | 5.89 |

| 2015 | 1st | 2nd | 3rd | 4th | Total |
|--|--------------|--------------|--------------|--------------|---------------|
| Net sales | \$ 3,269,932 | \$ 3,134,993 | \$ 3,162,311 | \$ 3,144,508 | \$ 12,711,744 |
| Gross profit | 810,067 | 733,409 | 789,295 | 723,728 | 3,056,499 |
| Net income attributable to common shareholders | 280,089 | 267,252 | 285,345 | 179,454 | 1,012,140 |
| Diluted earnings per share | 1.85 | 1.80 | 2.02 | 1.27 | 6.97 |

Earnings per share amounts are computed independently for each of the quarters presented, therefore, the sum of the quarterly earnings per share amounts may not equal the total computed for the year.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. None.

ITEM 9A. Controls and Procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2016. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of June 30, 2016, the Company's disclosure controls and procedures were effective.

There was no change in the Company's internal control over financial reporting during the quarter ended June 30, 2016 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report On Internal Control Over Financial Reporting

Our management, including the principal executive officer and the principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). We assessed the effectiveness of our internal control over financial reporting as of June 30, 2016. In making this assessment, we used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control-Integrated Framework (2013)." We concluded that based on our assessment, the Company's internal control over financial reporting was effective as of June 30, 2016.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements, has issued an attestation report on the Company's internal control over financial reporting as of June 30, 2016, which is included in Part II, Item 8 of this Annual Report on Form 10-K.

ITEM 9B. Other Information. None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance. Information required with respect to the Directors of the Company is set forth under the caption "Item I – Election of Directors" in the definitive Proxy Statement for the Company's 2016 Annual Meeting of Shareholders, to be held October 26, 2016 (the 2016 Proxy Statement), and is incorporated herein by reference. Information with respect to the executive officers of the Company is included in Part I, Item 1C of this Annual Report on Form 10-K under the caption "Executive Officers of the Registrant."

The information set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2016 Proxy Statement is incorporated herein by reference.

The Company has adopted a Global Code of Business Conduct that applies to its Chief Executive Officer, Chief Financial Officer and Controller. The Global Code of Business Conduct is posted on the Company's investor relations internet website at www.phstock.com under the Corporate Governance page. Any amendment to, or waiver from, a provision of the Company's Global Code of Business Conduct that applies to its Chief Executive Officer, Chief Financial Officer or Controller will also be posted at www.phstock.com under the Corporate Governance page.

The information set forth under the captions "The Audit Committee" and "Report of the Audit Committee" in the 2016 Proxy Statement is incorporated herein by reference.

ITEM 11. Executive Compensation. The information set forth under the captions "Compensation Discussion and Analysis," "Compensation Committee Report," and "Compensation Tables" in the 2016 Proxy Statement is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters The information set forth under the captions "Principal Shareholders" and "Equity Compensation Plan Information" in the 2016 Proxy Statement is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence. The information set forth under the captions "Review and Approval of Transactions with Related Persons" and "Director Independence" in the 2016 Proxy Statement is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services. The information set forth under the captions "Audit Fees," "Audit-Related Fees," "Tax Fees," "All Other Fees" and "Audit Committee Pre-Approval Policies and Procedures" in the 2016 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

a. The following are filed as part of this report:

| | <u>Page Number in Form 10-K</u> |
|---|--|
| 1. <u>Financial Statements</u> | |
| Consolidated Statement of Income | 29 |
| Consolidated Statement of Comprehensive Income | 30 |
| Business Segment Information | 31 |
| Consolidated Balance Sheet | 33 |
| Consolidated Statement of Cash Flows | 34 |
| Consolidated Statement of Equity | 35 |
| Notes to Consolidated Financial Statements | 36 |
| 2. <u>Schedule</u> | |
| II - Valuation and Qualifying Accounts | 65 |
| 3. <u>Exhibits</u> | |
| The exhibits listed in the accompanying Exhibit Index and required by Item 601 of Regulation S-K (numbered in accordance with Item 601 of Regulation S-K) are filed, furnished or incorporated by reference as part of this Annual Report on Form 10-K. | |

Individual financial statements and related applicable schedules for the Registrant (separately) have been omitted because the Registrant is primarily an operating company and its subsidiaries are considered to be wholly-owned.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PARKER-HANNIFIN CORPORATION

By: /s/ Jon P. Marten
Jon P. Marten
Executive Vice President - Finance &
Administration and Chief Financial Officer

August 26, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature and Title

THOMAS L. WILLIAMS, Chairman of the Board of Directors and Principal Executive Officer; CATHERINE A. SUEVER, Principal Accounting Officer; LEE C. BANKS, Director; ROBERT G. BOHN, Director; LINDA S. HARTY, Director; ROBERT J. KOHLHEPP, Director; KEVIN A. LOBO, Director; KLAUS-PETER MÜLLER, Director; CANDY M. OBOURN, Director; JOSEPH SCAMINACE, Director; WOLFGANG R. SCHMITT, Director; ÅKE SVENSSON, Director; JAMES R. VERRIER, Director; JAMES L. WAINSCOTT, Director; and DONALD E. WASHKEWICZ, Director.

Date: August 26, 2016

/s/ Jon P. Marten
Jon P. Marten, Executive Vice President –
Finance & Administration and Chief Financial
Officer (Principal Financial Officer and
Attorney-in-Fact)

PARKER-HANNIFIN CORPORATION
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEARS ENDED June 30, 2014, 2015 and 2016
 (Dollars in Thousands)

| Column A | Column B | Column C | Column D | Column E |
|--|--------------------------------|---|-----------------------------------|--------------------------|
| Description | Balance at Beginning Of Period | Additions Charged to Costs and Expenses | Other (Deductions)/ Additions (A) | Balance At End Of Period |
| <u>Allowance for doubtful accounts:</u> | | | | |
| Year ended June 30, 2014 | \$ 14,824 | \$ 9,649 | \$ (8,433) | \$ 16,040 |
| Year ended June 30, 2015 | \$ 16,040 | \$ 2,685 | \$ (9,441) | \$ 9,284 |
| Year ended June 30, 2016 | \$ 9,284 | \$ 1,419 | \$ (2,693) | \$ 8,010 |
| <u>Deferred tax asset valuation allowance:</u> | | | | |
| Year ended June 30, 2014 | \$ 273,413 | \$ 74,032 | \$ 1,392 | \$ 348,837 |
| Year ended June 30, 2015 | \$ 348,837 | \$ (18,831) | \$ — | \$ 330,006 |
| Year ended June 30, 2016 | \$ 330,006 | \$ 2,702 | \$ — | \$ 332,708 |

(A) For allowance for doubtful accounts, net balance is comprised of deductions due to uncollectible accounts charged off, additions due to acquisitions or recoveries, and currency translation adjustments. For deferred tax asset valuation allowance, the balance primarily represents adjustments due to acquisitions.

Exhibit Index

| <u>Exhibit No.</u> | <u>Description of Exhibit</u> |
|--------------------|---|
| | <u>Articles of Incorporation and By-Laws:</u> |
| (3)(a) | Amended Articles of Incorporation.* |
| (3)(b) | Code of Regulations, as amended, incorporated by reference to Exhibit 3(ii) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2007 (Commission File No. 1-4982). |
| | <u>Instruments Defining Rights of Security Holders</u> |
| (4)(a) | Shareholder Protection Rights Agreement, dated as of February 8, 2007, between the Registrant and Wells Fargo Bank, N.A. (as successor to National City Bank), as Rights Agent, incorporated by reference to Exhibit 1 to the Registrant's Form 8-A filed on February 8, 2007 (Commission File No. 1-4982). |
| (4)(b) | First Amendment to Shareholder Protection Rights Agreement, dated as of July 6, 2009, between the Registrant and Wells Fargo Bank, N.A. (as successor to National City Bank), as Rights Agent, incorporated by reference to Exhibit 4(a) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2009 (Commission File No. 1-4982). |
| | The Registrant is a party to other instruments, copies of which will be furnished to the Commission upon request, defining the rights of holders of its long-term debt identified in Note 9 of the Notes to Consolidated Financial Statements included within Part II, Item 8 of this Annual Report on Form 10-K. |
| | <u>Material Contracts:</u> |
| (10)(a) | Form of Parker-Hannifin Corporation Amended and Restated Change in Control Severance Agreement entered into by the Registrant and executive officers incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982). |
| (10)(b) | Termination Amendment to Parker-Hannifin Corporation Amended and Restated Change in Control Severance Agreement between Donald E. Washkewicz and the Registrant effective February 1, 2015 incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2015 (Commission File No. 1-4982). |
| (10)(c) | Form of Parker-Hannifin Corporation Change in Control Severance Agreement for executive officers elected after September 1, 2015 at or above Grade 29.* |
| (10)(d) | Form of Parker-Hannifin Corporation Change in Control Severance Agreement for executive officers elected after September 1, 2015 below Grade 29.* |
| (10)(e) | Parker-Hannifin Corporation Amended and Restated Change in Control Severance Plan incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982). |
| (10)(f) | Form of Indemnification Agreement entered into by the Registrant and its directors and executive officers incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission File No. 1-4982). |
| (10)(g) | Description of the Parker-Hannifin Corporation Officer Life Insurance Plan incorporated by reference to Exhibit 10(h) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2005 (Commission File No. 1-4982). |
| (10)(h) | Parker-Hannifin Corporation Amended and Restated Supplemental Executive Retirement Benefits Program, effective July 1, 2014, incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2016 (Commission File No. 1-4982). |
| (10)(i) | Parker-Hannifin Corporation Amended and Restated Defined Contribution Supplemental Executive Retirement Program, effective January 22, 2015, incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2015 (Commission File No. 1-4982). |
| (10)(j) | Summary of the Parker-Hannifin Corporation Executive Disability Insurance Plan.* |

[Table of Contents](#)

- (10)(k) Parker-Hannifin Corporation Amended and Restated 2003 Stock Incentive Plan incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2010 (Commission File No. 1-4982).
- (10)(l) Parker-Hannifin Corporation Amended and Restated 2009 Omnibus Stock Incentive Plan incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement filed with the Commission on September 24, 2012 (Commission File No. 1-4982).
- (10)(m) Parker-Hannifin Corporation 2010 Performance Bonus Plan incorporated by reference to Exhibit A to the Registrant's Definitive Proxy Statement filed with the Commission on September 27, 2010 (Commission File No. 1-4982).
- (10)(n) Parker-Hannifin Corporation 2015 Performance Bonus Plan incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed with the Commission on September 28, 2015 (Commission File No. 1-4982).
- (10)(o) Form of 2007 Notice of Grant of Stock Options with Tandem Stock Appreciation Rights for executive officers incorporated by reference to Exhibit 10.3 to the Registrant's Report on Form 8-K filed with the Commission on August 22, 2006 (Commission File No. 1-4982).
- (10)(p) Form of 2008 Notice of Grant of Stock Options with Tandem Stock Appreciation Rights for executive officers incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K/A filed with the Commission on September 5, 2007 (Commission File No. 1-4982).
- (10)(q) Form of 2009 Notice of Stock Options Award with Tandem Stock Appreciation Rights for executive officers incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).
- (10)(r) Form of 2010 Notice of Stock Options with Tandem Stock Appreciation Rights for executive officers incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2009 (Commission File No. 1-4982).
- (10)(s) Form of FY2011 Parker-Hannifin Corporation Stock Appreciation Rights Award Agreement for executive officers incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 17, 2010 (Commission File No. 1-4982).
- (10)(t) FY2011 Parker-Hannifin Corporation Stock Appreciation Rights Terms and Conditions for executive officers incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 8-K filed with the Commission on August 17, 2010 (Commission File No. 1-4982).
- (10)(u) Form of Parker-Hannifin Corporation Stock Appreciation Rights Award Agreement for executive officers incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2011 (Commission File No. 1-4982).
- (10)(v) Parker-Hannifin Corporation Stock Appreciation Rights Terms and Conditions for executive officers incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2011 (Commission File No. 1-4982).
- (10)(w) Parker-Hannifin Corporation Target Incentive Plan incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2010 (Commission File No. 1-4982).
- (10)(x) Parker-Hannifin Corporation Target Incentive Plan Subject to Performance Bonus Plan incorporated by reference to Exhibit 10(e) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2010 (Commission File No. 1-4982).
- (10)(y) Parker-Hannifin Corporation Long-Term Incentive Performance Plan Under the Performance Bonus Plan incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2013 (Commission File No. 1-4982).
- (10)(z) Form of Parker-Hannifin Corporation Long-Term Incentive Performance Award Under the Performance Bonus Plan incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on February 1, 2011 (Commission File No. 1-4982).
- (10)(aa) Parker-Hannifin Corporation Long-Term Incentive Performance Plan Under the Performance Bonus Plan, as amended and restated, effective January 20, 2016.*
- (10)(bb) Form of Notice of Award under the Parker-Hannifin Corporation Long-Term Incentive Performance Plan Under the Performance Bonus Plan, as amended and restated.*

[Table of Contents](#)

- (10)(cc) Parker-Hannifin Corporation Restricted Stock Unit Award Agreement dated August 14, 2013 for Jeffery A. Cullman incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2014 (Commission File No. 1-4982).
- (10)(dd) Parker-Hannifin Corporation Restricted Stock Unit Terms and Conditions for Jeffery A. Cullman incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2014 (Commission File No. 1-4982).
- (10)(ee) Parker-Hannifin Corporation Profitable Growth Incentive Plan incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2014 (Commission File No. 1-4982).
- (10)(ff) Form of Notice of RONA Bonus Award Under the Parker-Hannifin Corporation Performance Bonus Plan incorporated by reference to Exhibit 10(h) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2009 (Commission File No. 1-4982).
- (10)(gg) Parker-Hannifin Corporation RONA Plan Subject to Performance Bonus Plan incorporated by reference to Exhibit 10(f) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2010 (Commission File No. 1-4982).
- (10)(hh) Parker-Hannifin Corporation Summary of RONA Bonus Awards in Lieu of Certain Executive Perquisites incorporated by reference to Exhibit 10(h) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2008 (Commission File No. 1-4982).
- (10)(ii) Parker-Hannifin Corporation Amended and Restated Savings Restoration Plan, as of September 1, 2004, incorporated by reference to Exhibit 10(t) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission File No. 1-4982).
- (10)(jj) Parker-Hannifin Corporation Amended and Restated Savings Restoration Plan, effective January 22, 2015, incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2015 (Commission File No. 1-4982).
- (10)(kk) Parker-Hannifin Corporation Amended and Restated Savings Restoration Plan, effective July 1, 2016.*
- (10)(ll) Parker-Hannifin Corporation Amended and Restated Pension Restoration Plan, effective January 22, 2015, incorporated by reference to Exhibit 10(e) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2015 (Commission File No. 1-4982).
- (10)(mm) Parker-Hannifin Corporation Amended and Restated Pension Restoration Plan, effective July 1, 2016.*
- (10)(nn) Parker-Hannifin Corporation Amended and Restated Executive Deferral Plan, as of September 1, 2004, incorporated by reference to Exhibit 10(v) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2004 (Commission File No. 1-4982).
- (10)(oo) Parker-Hannifin Corporation Amended and Restated Executive Deferral Plan, effective January 22, 2015, incorporated by reference to Exhibit 10(f) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2015 (Commission File No. 1-4982).
- (10)(pp) Parker-Hannifin Corporation Amended and Restated Executive Deferral Plan, effective September 2, 2015.*
- (10)(qq) Parker-Hannifin Corporation Global Employee Stock Purchase Plan incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on September 22, 2014 (Commission File No. 1-4982).
- (10)(rr) Parker-Hannifin Corporation Claw-back Policy incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 8-K filed with the Commission on August 18, 2009 (Commission File No. 1-4982).
- (10)(ss) Parker-Hannifin Corporation Amended and Restated 2004 Non-Employee Directors' Stock Incentive Plan incorporated by reference to Exhibit 10(aa) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2009 (Commission File No. 1-4982).
- (10)(tt) Form of Parker-Hannifin Corporation Non-Employee Directors' Restricted Stock Award Agreement incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2011 (Commission File No. 1-4982).
- (10)(uu) Parker-Hannifin Corporation Non-Employee Directors' Restricted Stock Award Terms and Conditions incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2011 (Commission File No. 1-4982).

[Table of Contents](#)

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| (10)(vv) | Form of Parker-Hannifin Corporation Non-Employee Directors' Restricted Stock Unit Award Agreement incorporated by reference to Exhibit 10(g) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2015 (Commission File No. 1-4982). |
| (10)(ww) | Parker-Hannifin Corporation Non-Employee Directors' Restricted Stock Unit Award Terms and Conditions incorporated by reference to Exhibit 10(h) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2015 (Commission File No. 1-4982). |
| (10)(xx) | Amended and Restated Deferred Compensation Plan for Directors of Parker-Hannifin Corporation, effective January 22, 2015, incorporated by reference to Exhibit 10(i) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2015 (Commission File No. 1-4982). |
| (10)(yy) | Summary of the Compensation of the Non-Employee Members of the Board of Directors, effective October 22, 2014, incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2014 (Commission File No. 1-4982). |
| (12) | Computation of Ratio of Earnings to Fixed Charges as of June 30, 2016.* |
| (21) | List of subsidiaries of the Registrant.* |
| (23) | Consent of Independent Registered Public Accounting Firm.* |
| (24) | Power of Attorney.* |
| (31)(a) | Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.* |
| (31)(b) | Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002.* |
| (32) | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002.* |
| 101.INS | XBRL Instance Document.* |
| 101.SCH | XBRL Taxonomy Extension Schema Document.* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.* |

* Submitted electronically
herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income for the years ended June 30, 2016, 2015 and 2014, (ii) Consolidated Statement of Comprehensive Income for the years ended June 30, 2016, 2015 and 2014, (iii) Consolidated Balance Sheet at June 30, 2016 and 2015, (iv) Consolidated Statement of Cash Flows for the years ended June 30, 2016, 2015 and 2014, (v) Consolidated Statement of Equity for the years ended June 30, 2016, 2015 and 2014, and (vi) Notes to Consolidated Financial Statements.

Shareholders may request a copy of any of the exhibits to this Annual Report on Form 10-K by writing to the Secretary, Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141.



AMENDED ARTICLES OF INCORPORATION
OF
PARKER-HANNIFIN CORPORATION

FIRST. The name of this Corporation is Parker-Hannifin Corporation.

SECOND. The place in the State of Ohio where its principal office is located is the City of Mayfield Heights, in Cuyahoga County.

THIRD. The purpose or purposes for which it is formed are:

1. To buy or otherwise acquire, produce, manufacture, assemble, repair, or otherwise process, and to sell, lease, or otherwise dispose of, and generally to deal in machinery, equipment, pipe fittings, valves, mechanical appliances, and parts therefor of every kind and description.

2. To manufacture, compound, refine, fabricate, prepare, process, convert, or otherwise turn substances of every kind and description into compounds, combinations, forms, and products of any kind which can be developed or made therefrom.

3. To undertake, conduct, assist, promote, and participate in every kind of chemical, industrial, manufacturing, mercantile, or mining enterprise, business, undertaking, venture, or operation in any state, territory, dependency, or colony of the United States, or its insular possessions, or in the District of Columbia, or in any foreign country.

4. To acquire by purchase or otherwise and to own, hold, improve, develop, maintain, use, lease, sell, convey, transfer, mortgage, guarantee, pledge, exchange, or otherwise deal in or dispose of real and personal property, tangible or intangible, including minerals of all kinds, of any character whatsoever, including, but not by way of limitation, letters patent, patent rights, copyrights, licenses, and franchises, and any or all interests of rights therein.

5. To purchase, apply for, register, obtain, or otherwise acquire, and to hold, own, use, operate, develop, and introduce, and to sell, lease, assign, pledge, or in any manner dispose of, and in any manner to deal with and contract with reference to applications for letters patent, patents, patent rights, patented processes, designs, and similar rights, copyrights, trademarks, trade names, and similar rights granted by the United States or any other government or country, or any interest therein, or any inventions, and to acquire, own, use, or in any manner dispose of any and all inventions, improvements, and processes, labels, designs, marks, brands, or other rights, and to work, operate, or develop the same.



6. To acquire by purchase, subscription, or otherwise, and to own, hold, invest in, sell, negotiate, assign, exchange, dispose of, transfer, pledge, hypothecate, mortgage, guarantee, deal in, lend, or borrow money upon all forms and kinds of securities, shares of stock, scrip, bonds, coupons, debentures, mortgages, notes, commercial paper, trust certificates, land trust certificates, certificates of interest, certificates of deposit, certificates of indebtedness, bills receivable, accounts receivable, contracts, obligations, investments, warrants, and interim receipts and certificates issued or created by, or claims against, any person, firm, corporation, joint stock company, trust, or association, public or private, wherever or however organized or created, or any nation, state, municipality, or political subdivision thereof, and to issue in exchange therefor, in any manner permitted by law, shares of the capital stock, bonds, or other obligations of this Corporation; and, while the holder or owner of any such securities or property, to possess and exercise in respect thereof any and all rights, powers, and privileges of ownership, including all voting, consenting, or other rights in or in respect thereof.

7. To promote, carry on, or participate with others in the organization, merger, consolidation, financing, liquidation, realization, or reorganization of corporations, partnerships, or associations engaged in any lawful business enterprise; to become interested in or participate with others in any subscription, underwriting, or syndicate; and to enter into contracts, whether alone or with others, for the purchase, issuance, and sale of any securities, property, or rights.

8. To make, enter into, perform and carry out any arrangements, contracts, and/or agreements of every kind, for any lawful purpose, without limit as to amount or otherwise, with any corporation, association, partnership, firm, trustee, syndicate, individual, and/or any political or governmental division or subdivision, domestic or foreign; to obtain therefrom or otherwise to acquire by purchase, lease, assignment, or otherwise any powers, rights, privileges, immunities, franchises, guaranties, grants, and concessions; to hold, own, exercise, exploit, dispose of, and realize upon the same; and to undertake, conduct, operate, or participate in any business dependent thereon.

9. To borrow or acquire, in any manner permitted by law, money for any of the purposes of this Corporation, with or without security, and to mortgage, pledge, hypothecate, encumber in any manner, and/or place in the hands of trustees, as security for the payment of money borrowed or in fulfillment of any obligation of this Corporation, any or all property and assets which this Corporation may own or acquire; to draw, make, accept, endorse, discount and have discounted, execute, issue, and deal in every lawful manner in promissory notes, bills of exchange, debentures, bonds, warrants, scrip, drafts, and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof, together with interest thereon, by pledge, mortgage, conveyance, or assignment of the whole or any part of the property and assets of this Corporation, whether at the time owned or thereafter acquired.

10. To lend money on time or call and with or without collateral security, and to give credit to individuals, firms, corporations, associations, or co-partnerships, and to municipalities, states, nations or any political subdivisions thereof, and to realize upon any property taken by the Corporation as collateral security for any loans.



11. To cause or allow the legal title and/or estate, right, or interest in any property, whether real, personal, or mixed, owned, acquired, controlled, or operated by the Corporation, to remain or to be vested or registered in the name of or operated by any person, firm, association, or corporation, domestic or foreign, formed or to be formed, either upon trust for or as agents or nominees of this Corporation or upon any other proper terms or conditions which the Board of Directors may consider for the benefit of the Corporation.

12. To purchase its own shares in accordance with the provisions of the Ohio General Corporation Law, by action of its Board of Directors, and without action by its shareholders, such purchases to be made either in the open market or at public or private sale, in such manner and amounts, from such holder or holders of outstanding share of the Corporation, and at such prices as the Board of Directors shall from time to time determine.

13. To have one or more offices or plants, to carry on and conduct all or any part of its operations and business, without restriction or limitation as to amount, both within and without the State of Ohio; and this Corporation may qualify under the laws of, be domiciled in, and conduct any or all of its business in any city, state, commonwealth, district, territory, or colony of the United States, and in any or all foreign countries.

14. To do any one or more of the acts and things expressed in this Article THIRD either as principal or as agent or representative for any other person, firm, association, corporation, municipality, county, state, body politic, government, or dependency thereof.

15. In general to do any and all things herein set forth and, in addition, such other acts and things as are incident or conducive to the attainment of the purposes of this Corporation, or any of them, to the same extent that natural persons lawfully might or could do in any part of the world, insofar as such acts and things are not inconsistent with the provisions of the laws of the State of Ohio.

The objects and purposes specified in the foregoing clauses of this Article THIRD shall be construed both as objects and powers, and shall, except where otherwise expressed, be in no wise limited or restricted by reference to, or inference from, the terms of any other clause in this Article THIRD or elsewhere in these Amended Articles of Incorporation, but the objects and purposes specified in each of the foregoing clauses of this Article THIRD shall be regarded as independent objects and purposes and shall not be held to limit or restrict in any way the general powers of the Corporation to do any act permitted by the laws of the State of Ohio.

FOURTH. The authorized number of shares of the Corporation is 603,000,000 consisting of 3,000,000 shares of Serial Preferred Stock of the par value of \$.50 per share (hereafter called "Serial Preferred Stock") and 600,000,000 Common Shares of the par value of \$.50 per share (hereinafter called "Common Shares").



The shares of each class shall have the following express terms:

**DIVISION A
EXPRESS TERMS OF THE SERIAL PREFERRED STOCK**

1. The Serial Preferred Stock may be issued from time to time in series. All shares of Serial Preferred Stock of any one series shall be identical with each other in all respects, except as to the date from which dividends thereon shall be cumulative. All shares of Serial Preferred Stock shall rank equally and shall be identical, except in respect of the matters that may be fixed by the Board of Directors as hereinafter provided. Subject to the provisions of sections 2 to 8, both inclusive, of this Division A, which provisions shall apply to all shares of Serial Preferred Stock, the Board of Directors is hereby authorized to cause such shares of Serial Preferred Stock to be issued in one or more series and with respect to each such series prior to the issuance thereof to fix:

(a) The designation of the series, which may be by distinguishing number, letter or title.

(b) The number of shares of the series, which number the Board of Directors may increase or decrease, except where otherwise provided in the creation of the series.

(c) The dividend rate of the series.

(d) The dates at which dividends, if declared, shall be payable, and the dates from which dividends shall be cumulative.

(e) The liquidation price of the series.

(f) The redemption rights and price or prices, if any, for shares of the series.

(g) The terms and amount of any sinking fund provided for the purchase or redemption of shares of the series.

(h) Whether the shares of the series shall be convertible into Common Shares, and, if so, the conversion price or prices and the adjustments thereof, if any, and all other terms and conditions upon which such conversion may be made.

(i) Restrictions (in addition to those set forth in sections 6(b) and 6(c) of this Division A) on the issuance of shares of the same series or of any other class or series.

The Board of Directors is authorized to adopt from time to time amendments to the Articles of Incorporation of the Corporation fixing, with respect to each such series, the matters specified in clauses (a) to (i) both inclusive of this section 1.



2. The holders of Serial Preferred Stock of each series, in preference to the holders of Common Shares and any other class of shares ranking junior to the Serial Preferred Stock, shall be entitled to receive out of any funds legally available and when and as declared by the Board of Directors cash dividends at the rate (and no more) for such series fixed in accordance with the provisions of section 1 of this Division A, payable quarterly on the dates fixed for such series. Such dividends shall be cumulative, in the case of shares of each particular series, from and after the date or dates fixed with respect to such series. No dividends may be paid upon or declared and set apart for any of the Serial Preferred Stock for any quarterly dividend period unless at the same time a like proportionate dividend for the same quarterly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon or declared or set apart for all Serial Preferred Stock of all series then outstanding and entitled to receive such dividend.

3. So long as any Serial Preferred Stock is outstanding, no dividend, except a dividend payable in Common Shares or any other shares of the Corporation ranking junior to the Serial Preferred Stock, shall be paid or declared or any distribution be made except as aforesaid on the Common Shares or any other shares of the Corporation ranking junior to the Serial Preferred Stock, nor shall any Common Shares or any other shares of the Corporation ranking junior to the Serial Preferred Stock be purchased, retired or otherwise acquired by the Corporation (except out of the proceeds of the sale of Common Shares or any other shares of the Corporation ranking junior to the Serial Preferred Stock received by the Corporation subsequent to June 30, 1967):

(a) Unless all accrued and unpaid dividends on the Serial Preferred Stock, including the full dividends for the current quarterly dividend period, shall have been declared and paid or a sum sufficient for payment thereof set apart; and

(b) Unless there shall be no default with respect to the redemption of Serial Preferred Stock of any series from, and no default with respect to any required payment into, any sinking fund provided for shares of such series in accordance with the provisions of section 1 of this Division A.

4. (a) Subject to the express terms of each series and to the provisions of section 6(b)(iii) of this Division A, the Corporation (i) may from time to time redeem all or any part of the Serial Preferred Stock of any series at the time outstanding at the option of the Board of Directors at the applicable redemption price for such series fixed in accordance with the provisions of section 1 of this Division A, or (ii) shall from time to time make such redemptions of the Serial Preferred Stock as may be required to fulfill the requirements of any sinking fund provided for shares of such series at the applicable sinking fund redemption price fixed in accordance with the provisions of section 1 of this Division A, together in each case with accrued and unpaid dividends to the redemption date.

(b) Notice of every such redemption shall be mailed, by first class mail, postage prepaid, to the holders of record of the Serial Preferred Stock to be redeemed at their respective addresses then appearing on the books of the Corporation, not less than 30 nor more than 60 days prior to the date fixed for such redemption. At any time before or after notice has been given as



above provided, the Corporation may deposit the aggregate redemption price of the shares of Serial Preferred Stock to be redeemed, together with accrued and unpaid dividends thereon to the redemption date, with any bank or trust company in Cleveland, Ohio, or New York, New York, having capital and surplus of more than \$5,000,000, named in such notice, directed to be paid to the respective holders of the shares of Serial Preferred Stock so to be redeemed, in amounts equal to the redemption price of all shares of Serial Preferred Stock so to be redeemed, together with accrued and unpaid dividends thereon to the redemption date, on surrender of the stock certificate or certificates held by such holders, and upon the giving of such notice and the making of such deposit such holders shall cease to be shareholders with respect to such shares, and after such notice shall have been given and such deposit shall have been made such holders shall have no interest in or claim against the Corporation with respect to such shares except only to receive such money from such bank or trust company without interest or the right to exercise, before the redemption date, any unexpired rights of conversion. In case less than all of the outstanding shares of Serial Preferred Stock are to be redeemed, the Corporation shall select by lot the shares so to be redeemed in such manner as shall be prescribed by its Board of Directors.

If the holders of shares of Serial Preferred Stock which shall have been called for redemption shall not, within six years after such deposit, claim the amount deposited for the redemption thereof, any such bank or trust company shall, upon demand, pay over to the Corporation such unclaimed amounts and thereupon such bank or trust company and the Corporation shall be relieved of all responsibility in respect thereof and to such holders.

(c) Any shares of Serial Preferred Stock which are redeemed by the Corporation pursuant to the provisions of this section 4 of this Division A and any shares of Serial Preferred Stock which are purchased and delivered in satisfaction of any sinking fund requirements provided for shares of such series and any shares of Serial Preferred Stock which are converted in accordance with their express terms shall be cancelled and not reissued. Any shares of Serial Preferred Stock otherwise acquired by the Corporation shall be restored to the status of authorized and unissued shares of Serial Preferred Stock without serial designation.

5. (a) The holders of Serial Preferred Stock of any series shall, in case of liquidation, dissolution or winding up of the Corporation, be entitled to receive in full out of the assets of the Corporation, including its capital, before any amount shall be paid or distributed among the holders of Common Shares or any other shares ranking junior to the Serial Preferred Stock, the amounts fixed with respect to shares of such series in accordance with Section 1 of this Division A, plus in any such event an amount equal to all dividends accrued and unpaid thereon to the date of payment of the amount due pursuant to such liquidation, dissolution or winding up of the Corporation. In case the net assets of the Corporation legally available therefor are insufficient to permit the payment upon all outstanding shares of Serial Preferred Stock of the full preferential amount to which they are respectively entitled, then such net assets shall be distributed ratably upon outstanding shares of Serial Preferred Stock in proportion to the full preferential amount to which each such share is entitled.



After payment to holders of Serial Preferred Stock of the full preferential amounts as aforesaid, holders of Serial Preferred Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

(b) The merger or consolidation of the Corporation into or with any other corporation, or the merger of any other corporation into it, or the sale, lease, or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to be a dissolution, liquidation or winding up of the Corporation for the purposes of this Section 5 of this Division A.

6. (a) The holders of Serial Preferred Stock shall be entitled to one vote for each share of such stock upon all matters presented to shareholders; and, except as otherwise provided herein or required by law, the holders of Serial Preferred Stock and the holders of Common Shares shall vote together as one class on all matters.

If, and so often as, the Corporation shall be in default in the payment of the equivalent of six quarterly dividends (whether or not consecutive) on any series of Serial Preferred Stock at the time outstanding, whether or not earned or declared, the holders of Serial Preferred Stock of all series voting separately as a class and in addition to all other rights to vote for Directors shall be entitled to elect, as herein provided, two members of the Board of Directors of the Corporation; provided, however, that the holders of shares of Serial Preferred Stock shall not have or exercise such special class voting rights except at meetings of the shareholders for the election of Directors at which the holders of not less than a majority of the outstanding shares of Serial Preferred Stock of all series are present in person or by proxy; and provided further that the special class voting rights provided for herein when the same shall have become vested shall remain so vested until all accrued and unpaid dividends on the Serial Preferred Stock of all series then outstanding shall have been paid, whereupon the holders of Serial Preferred Stock shall be divested of their special class voting rights in respect of subsequent elections of Directors, subject to the revesting of such special class voting rights in the event hereinabove specified in this section 6(a).

In the event of default entitling the holders of Serial Preferred Stock to elect two Directors as above specified, a special meeting of the shareholders for the purpose of electing such Directors shall be called by the Secretary of the Corporation upon written request of, or may be called by, the holders of record of at least 10% of the shares of Serial Preferred Stock of all series at the time outstanding, and notice thereof shall be given in the same manner as that required for the annual meeting of shareholders; provided, however, that the Corporation shall not be required to call such special meeting if the annual meeting of shareholders shall be held within 90 days after the date of receipt of the foregoing written request from the holders of Serial Preferred Stock. At any meeting at which the holders of Serial Preferred Stock shall be entitled to elect Directors, the holders of not less than a majority of the outstanding shares of Serial Preferred Stock of all series, present in person or by proxy, shall be sufficient to constitute a quorum, and the vote of the holders of a majority of such shares so present at any such meeting at which there shall be a quorum shall be sufficient to elect the members of the Board of Directors which the holders of Serial Preferred Stock are entitled to elect as hereinbefore provided.



The two Directors who may be elected by the holders of Serial Preferred Stock pursuant to the foregoing provision shall be in addition to any other Directors then in office or proposed to be elected otherwise than pursuant to such provisions, and nothing in such provisions shall prevent any change otherwise permitted in the total number of Directors of the Corporation or require the resignation of any Director elected otherwise than pursuant to such provisions.

(b) The vote or consent of the holders of at least two-thirds of the then outstanding shares of Serial Preferred Stock, given in person or by proxy, either in writing or at a meeting called for the purpose at which the holders of Serial Preferred Stock shall vote separately as a class, shall be necessary to effect any one or more of the following (but so far as the holders of Serial Preferred Stock are concerned, such action may be effected with such vote or consent):

(i) Any amendment, alteration or repeal of any of the provisions of the Articles of Incorporation or of the Code of Regulations of the Corporation which affects adversely the voting powers, rights or preferences of the holders of Serial Preferred Stock; provided, however, that for the purpose of this clause (i) only, neither the amendment of the Articles of Incorporation of the Corporation to authorize, or to increase the authorized or outstanding number of shares of, Serial Preferred Stock or of any shares of any class ranking on a parity with or junior to the Serial Preferred Stock, nor the increase by the shareholders pursuant to the Code of Regulations of the number of Directors of the Corporation shall be deemed to affect adversely the voting powers, rights or preferences of the holders of Serial Preferred Stock; and provided further, that if such amendment, alteration or repeal affects adversely the rights or preferences of one or more but not all then outstanding series of Serial Preferred Stock, only the vote or consent of the holders of at least two-thirds of the number of the then outstanding shares of the series so affected shall be required;

(ii) The authorization of, or the increase in the authorized number of, any shares of any class ranking prior to the Serial Preferred Stock; or

(iii) The purchase or redemption (whether for sinking fund purposes or otherwise) of less than all the then outstanding shares of Serial Preferred Stock except in accordance with a purchase offer made to all holders of record of Serial Preferred Stock, unless all dividends on all Serial Preferred Stock then outstanding for all previous quarterly dividend periods shall have been declared and paid or funds therefor set apart and all accrued sinking fund obligations applicable to all Serial Preferred Stock shall have been complied with.

(c) The vote or consent of the holders of at least a majority of the then outstanding shares of Serial Preferred Stock, given in person or by proxy, either in writing or at a meeting called for the purpose at which the holders of Serial Preferred Stock shall vote separately as a class, shall be necessary (but so far as the holders of Serial Preferred Stock are concerned such action may be effected with such vote or consent) to authorize any shares ranking on a parity with the Serial Preferred Stock or an increase in the authorized number of shares of Serial Preferred Stock.



7. No holder of Serial Preferred Stock of any series shall be entitled as such as a matter of right to subscribe for or purchase any part of any issue of shares of the Corporation, of any class whatsoever, or any part of any issue of securities convertible into shares of the Corporation, of any class whatsoever, and whether issued for cash, property, services, or otherwise.

8. For the purposes of this Division A:

(a) Whenever reference is made to shares “ranking prior to the Serial Preferred Stock”, such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation are given preference over the rights of the holders of Serial Preferred Stock.

(b) Whenever reference is made to shares “on a parity with the Serial Preferred Stock”, such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation on an equality with the rights of the holders of Serial Preferred Stock.

(c) Whenever reference is made to shares “ranking junior to the Serial Preferred Stock”, such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof as to the payment of dividends and as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation are junior or subordinate to the rights of the holders of Serial Preferred Stock.

**DIVISION B
EXPRESS TERMS OF COMMON SHARES**

1. The Common Shares shall be subject to the express terms of the Serial Preferred Stock and any series thereof. Each Common Share shall be equal to every other Common Share. The holders of Common Shares shall be entitled to one vote for each share held by them upon all matters presented to the shareholders.

2. No holder of Common Shares shall be entitled as such as a matter of right to subscribe for or purchase any part of any issue of shares of the Corporation, of any class whatsoever, or any part of any issue of securities convertible into shares of the Corporation, of any class whatsoever, and whether issued for cash, property, services or otherwise.

FIFTH.

A. A Business Combination (as hereinafter defined) shall be authorized and approved by the affirmative vote of the holders of not less than eighty percent (80%) of the outstanding shares of the Corporation entitled to vote generally in elections of Directors; provided, however, that the eighty percent (80%) voting requirement shall not be applicable if:



1. The Board of Directors of the Corporation by affirmative vote, which shall include not less than a majority of the entire number of Continuing Directors (as hereinafter defined), (a) has approved in advance the acquisition of those outstanding shares of the Corporation which caused the Interested Party (as hereinafter defined) to become an Interested Party or (b) has approved the Business Combination; or

2. The Business Combination is a merger or consolidation and the cash or Fair Market Value of other consideration to be received per share by holders of the Common Shares and, if outstanding, the Serial Preferred Stock of the Corporation in said merger or consolidation is not less than an amount equal to (a) the highest of (i) the highest per share price, including commissions, paid by the Interested Party for any shares of the same class or series during the two-year period ending on the date of the most recent purchase by the Interested Party of any such shares, (ii) the highest sales price reported for shares of the same class or series traded on a national securities exchange or in the over-the-counter market during the two-year period preceding the first public announcement of the proposed Business Combination, or (iii) in the case of the Serial Preferred Stock, the amount of the per share liquidation preference, plus (b) interest compounded annually from the date on which the Interested Party became an Interested Party through the date of the Business Combination (the "Interest Period") at the average discount interest rate on six-month U.S. Treasury Bills, as published each week, less (c) the aggregate amount of any cash dividends paid on the shares of the same class or series during the Interest Period, in an amount up to but not exceeding the amount of interest so payable per share under clause (b) hereof.

B. For purposes of this Article Fifth:

1. The term "Business Combination" shall mean (a) any merger or consolidation of the Corporation or a subsidiary of the Corporation with or into an Interested Party, (b) any merger or consolidation of an Interested Party with or into the Corporation or a subsidiary, (c) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) in which an Interested Party is involved, of any of the assets either of the Corporation (including without limitation any voting securities of a subsidiary) or of a subsidiary having a Fair Market Value in excess of \$20,000,000, (d) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of any Interested Party, (e) the issuance or transfer (in one transaction or a series of transactions) by the Corporation or a subsidiary of the Corporation to an Interested Party of any securities of the Corporation or such subsidiary, which securities have a Fair Market Value of \$20,000,000 or more, or (f) any recapitalization, reclassification, merger or consolidation involving the Corporation or a subsidiary of the Corporation that would have the effect of increasing, directly or indirectly, the Interested Party's voting power in the Corporation or such subsidiary.

2. The term "Interested Party" shall mean and include (a) any individual, corporation, partnership, trust or other person or entity which, together with its "affiliates" and "associates" (as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on September 24, 1984) is or, with respect to a



Business Combination, was within two years prior thereto a beneficial owner of shares aggregating twenty percent (20%) or more of the aggregate voting power of any class of capital stock of the Corporation entitled to vote generally in the election of Directors, and (b) any affiliate or associate of any such individual, corporation, partnership, trust or other person or entity. For the purposes of determining whether a person is an Interested Party, the number of shares deemed to be outstanding shall include shares which the Interested Party or any of its affiliates or associates has the right to acquire (whether immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants, or options, or otherwise, but shall not include any other shares which may be issuable to any other person.

3. The term "Continuing Director" shall mean a director who is not an affiliate of an Interested Party and who was a member of the Board of Directors of the Corporation immediately prior to the time that the Interested Party involved in a Business Combination became an Interested Party, and any successor to a Continuing Director who is not such an affiliate and who is nominated to succeed a Continuing Director by a majority of the Continuing Directors in office at the time of such nomination.

4. "Fair Market Value" shall mean the fair market value of the property in question as determined by a majority of the Continuing Directors in good faith.

C. The provisions of this Article Fifth shall be construed liberally to the end that the consideration paid to holders whose shares are acquired by an Interested Party in connection with a merger or consolidation shall not be less favorable than that paid to holders of such shares prior to such merger or consolidation. Nothing contained in this Article Fifth shall be construed to relieve any Interested Party from any fiduciary duties or obligations imposed by law.

D. Notwithstanding any other provision of the Amended Articles of Incorporation or the Regulations of the Corporation and notwithstanding the fact that a lesser percentage may be specified by law, these Amended Articles or the Regulations of the Corporation, the affirmative vote of the holders of not less than eighty percent (80%) of the then outstanding shares shall be required to amend, alter, change or repeal, or adopt any provisions inconsistent with, this Article Fifth; provided, however, that this paragraph D shall not apply to, and the eighty percent (80%) vote shall not be required for, any amendment, alteration, change or repeal recommended to the shareholders by the Board of Directors of the Corporation if the recommendation has been approved by at least two-thirds of the Continuing Directors.

SIXTH. No holder of shares of the Corporation of any class shall have any right to cumulate the voting power of such shares in the election of Directors. The right to cumulate the voting power of the holder as provided in Section 1701.55 of the Ohio Revised Code (or any successor provision) is hereby specifically denied to all holders of shares of any class of stock of the Corporation.

SEVENTH. At each meeting of shareholders at which directors are to be elected, a candidate for Director shall be elected only if the votes "for" the candidate exceed the votes "against" the candidate. Abstentions and broker non-votes shall not be counted as votes "for" or "against" a



candidate. Notwithstanding the foregoing, if the Board of Directors determines that the number of candidates exceeds the number of Directors to be elected, then in that election the candidates receiving the greatest number of votes shall be elected.

EIGHTH. These Amended Articles of Incorporation supersede the existing Articles of Incorporation of the Corporation.

Parker-Hannifin Corporation
Long-Term Incentive Performance Plan Under the Performance Bonus Plan
(as Amended and Restated)

1. Effective Date and Purpose. Parker-Hannifin Corporation, an Ohio corporation (the "Company"), adopted this Parker-Hannifin Corporation Long-Term Incentive Performance Plan Under the Performance Bonus Plan (the "Plan") effective as of January 26, 2011, and the Plan is amended and restated as set forth herein, effective as of January 20, 2016. The purpose of the Plan is to attract and retain key executives for the Company and to provide such persons with incentives for superior performance in the form of an opportunity to earn an award that qualifies as a Long-Term Incentive Bonus (as defined in the Company's Performance Bonus Plan), while preserving the ability of the Company to deduct Long-Term Incentive Bonuses paid under this Plan as "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code. This Plan and each Award Opportunity granted hereunder shall be subject to the terms and conditions set forth below and the terms and conditions of the Company's Performance Bonus Plan and Stock Incentive Plan. Capitalized terms not defined in this Plan shall have the meanings set forth in the Performance Bonus Plan or the Stock Incentive Plan, as applicable.

2. Eligibility. The Committee shall designate the Participants, if any, for each Performance Period. An Eligible Officer who is designated as a Participant for a given Performance Period is not guaranteed of being selected as a Participant for any other Performance Period.

3. Establishment of Award Opportunities. Not later than the 90th day of each Performance Period and subject to the terms and conditions of Section 5 of the Performance Bonus Plan (including the limits on a Participant's maximum Long-Term Incentive Bonuses with respect to the Performance Period), the Committee shall establish the Maximum Shares and Target Shares for each Participant's Award Opportunity for the Performance Period. The Committee shall provide a Notice of Award to each Participant as soon as practical following the establishment of the Maximum Shares and Target Shares under the Participant's Award Opportunity for the Performance Period.

4. Determination of Amount Payable Under Award Opportunities.

A. Committee Certification of Management Objectives. Subject to potential reduction as set forth in Section 4.B and further subject to the other terms and conditions of this Plan, the full number of Maximum Shares granted to a Participant with respect to a Performance Period shall be earned as of the last day of such Performance Period, provided that (i) following the end of the Performance Period, the Committee has certified that the Company has achieved either (a) average Return on Average Equity of 4% during the Performance Period, or (b) average Free Cash Flow Margin of 4% during the Performance Period; and (ii) the Participant has been continuously employed by the Company and its Affiliates through the last day of the Performance Period.

B. Committee Discretion to Reduce Long-Term Incentive Awards. Notwithstanding Section 4.A, the actual number of shares of Common Stock payable to a Participant with respect to a Performance Period may be reduced (including a reduction to zero) by the Committee in its sole and absolute discretion based on such factors as the Committee determines to be appropriate, including, without limitation, the Company's performance with respect to the performance measures (the "Peer Performance Measures") set out below, with the number of a Participant's Target Shares under an Award Opportunity allocated to each of the Peer Performance Measures in proportion to the percentages set out below. The Peer Performance Measures shall be determined for the Company at the conclusion of the Performance Period, in comparison to the performance of the members of the Company's Peer Group, determined for each member of the Peer Group based on its performance at the conclusion of the three fiscal year period of such company ending with or immediately prior to the conclusion of the Performance Period:

| Peer Performance Measure: | Weight: |
|------------------------------------|----------------|
| Revenue Growth | 20% |
| Earnings Per Share Growth | 40% |
| Average Return on Invested Capital | 40% |

It is the intention of the Committee that the Committee will exercise its discretion as it deems appropriate to reduce the number of shares of Common Stock that may be delivered to a Participant with respect to each Performance Period based upon the Company's percentile ranking among the members of the Peer Group with respect to each Peer Performance Measure in accordance with the following table; provided, however, that the Committee reserves the right to deviate from such approach and may exercise its discretion to reduce the number shares of Common Stock that may be delivered to a Participant with respect to each Performance Period, if any, based on such other factors as the Committee in its sole and absolute discretion determines to be appropriate:

| Company Percentile Ranking Among Peer Group: | % of Allocable Target Shares Earned: |
|---|---|
| 75th percentile or higher | 200% |
| 50th percentile | 100% (Target Shares) |
| 35th percentile | 50% |
| lower than 35th percentile | 0% |

To the extent that the Company's percentile ranking among the members of the Peer Group with respect to a Peer Performance Measure is between the 35th and the 50th percentile, or between the 50th and the 75th percentile, it is currently intended that the Committee will exercise its discretion to determine the appropriate percentage of the allocable Target Shares that are earned by straight-line interpolation between the percentages set out in the table above.

5. Payment of Long-Term Incentive Bonuses. Except as otherwise provided in this Plan, during the fourth month following the end of the applicable Performance Period and following the certification of the achievement of the management objectives in accordance with Section 4.A., the Company shall deliver to each Participant the shares of Common Stock, if any, that the Committee has determined (in accordance with Section 4) to be payable with respect to any Award Opportunity.

6. Terminations. Except as otherwise provided in this Section 6 or Section 7, a Participant must remain continuously employed by the Company and its Affiliates through the last day of a Performance Period in order to be entitled to receive payment of any Long-Term Incentive Bonus pursuant to this Plan for such Performance Period.

A. Qualifying Retirement. Notwithstanding the foregoing, in the event of a Participant's termination of employment during a Performance Period due to a Qualifying Retirement with respect to such Performance Period, the Participant will be entitled to receive the Award Opportunity, if any, that the Committee determines (in accordance with Section 4) to be payable for such Performance Period, as if the Participant had remained continuously employed through the end of the Performance Period. Any such Award Opportunity will be payable at the time provided in Section 5, following the certification of the achievement of the management objectives by the Committee in accordance with Section 4.A.

B. Death, Disability, Termination Without Cause, Other Retirement. Notwithstanding the foregoing, in the event of a Participant's termination of employment during a Performance Period due to death, Disability, termination of employment by the Company without Cause, or Other Retirement, the Participant will be entitled to receive a prorated Long-Term Incentive Bonus for that Performance Period equal to the product of the amount of the Award Opportunity, if any, determined to be payable by the Committee pursuant to Section 4 multiplied by a fraction, the numerator of which is the number of full quarters of continuous employment during the Performance Period and the denominator of which is 12. Any such prorated bonus will be payable at the time provided in Section 5, following the certification of the achievement of the management objectives by the Committee in accordance with Section 4.A.

C. Other Terminations. Except as otherwise provided pursuant to Section 7, in the event of a Participant's termination of employment during a Performance Period for any reason other than Qualifying Retirement, Other Retirement, death, Disability, or termination of employment by the Company without Cause, the Participant will forfeit his or her Award Opportunity for such Performance Period, without any further action or notice.

7. Change in Control.

A. In General. In the event of a Change in Control (as defined in the Stock Incentive Plan) of the Company during a Performance Period, each Participant then holding an outstanding Award Opportunity granted under this Plan for such Performance Period shall receive payment of his or her Award Opportunity as follows: (a) within fifteen (15) days following the date of the Change in Control, each such Participant shall receive a number of shares of Common Stock equal to the number of Target Shares subject to such Award Opportunity; and (b) within forty-five (45) days after the date of such Change in Control, each such Participant shall receive a number of shares of Common Stock equal to the excess, if any, of (i) the number of shares of Common Stock that would be payable in accordance with Section 4 if the Company had achieved the management objectives described in Section 4.A for the Performance Period, the Committee had exercised its discretion to reduce the number of shares of Common Stock payable in accordance with Section 4.B based upon the Company's percentile ranking among the Peer Group with respect to the Peer Performance Measures as described therein, and the Company's percentile ranking among the Peer Group for each of those Peer Performance Measures during the Performance Period through the end of the fiscal quarter immediately preceding the date of the Change in Control continued throughout the Performance Period at the same level; over (ii) the number of Target Shares subject to such Award Opportunity.

B. Anticipatory Termination. Notwithstanding the foregoing, in the event a Change in Control is deemed to occur during the Performance Period under the Stock Incentive Plan as a result of a Participant's termination of employment prior to a Change in Control at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control ("Anticipatory Termination"), such Participant shall receive payment of his or her Award Opportunity with respect to such Performance Period in accordance with the provisions of Section 6.A, applied as if such Participant had terminated employment due to a Qualifying Retirement on the date of such Anticipatory Termination; provided, however, that if a Change in Control occurs after such Anticipatory Termination and prior to payment of such Award Opportunity, such Participant shall receive payment of his or her Award Opportunity as follows: (a) within fifteen (15) days following such Change in Control, such Participant shall receive a number of shares of Common Stock equal to the number of Target Shares subject to such Award Opportunity; and (b) within forty-five (45) days after the date of such Change in Control, such Participant shall receive a number of shares of Common Stock equal to the excess, if any, of (i) the greater of (x) the number of shares of Common Stock that would be payable in accordance with Section 4 if the Company had achieved the management objectives described in Section 4.A for the Performance Period, the Committee had exercised its discretion to reduce the number of shares of Common Stock payable in accordance with Section 4.B based upon the Company's percentile ranking among the Peer Group with respect to the Peer Performance Measures as described therein, and the Company's percentile ranking among the Peer Group for each of those Peer Performance Measures during the Performance Period through the end of the fiscal quarter immediately preceding the Anticipatory Termination had continued throughout the Performance Period at the same level, or (y) the number of shares of Common Stock that would have been payable in accordance with Section 4 if the Company had achieved the management objectives described in Section 4.A for the Performance Period, the Committee had exercised its discretion to reduce the number of shares of Common Stock in accordance with Section 4.B based upon the Company's percentile ranking

among the Peer Group with respect to the Peer Performance Measures as described therein, and the Company's percentile ranking among the Peer Group for each of those Peer Performance Measures during the Performance Period through the end of the fiscal quarter immediately preceding the subsequent Change in Control had continued throughout the Performance Period at the same level; over (ii) the number of Target Shares subject to such Award Opportunity.

8. Promotions and New Hires. With respect to a Participant who is newly hired or is promoted by the Company during a Performance Period, the Committee shall grant an Award Opportunity, or adjust an Award Opportunity previously granted, to such Participant for such Performance Period pursuant to the provisions of this Section 8; provided, however, that no Award Opportunity shall be granted or adjusted in such a manner as to cause any Long-Term Incentive Bonus payable under this Plan to fail to qualify as "performance-based compensation" within the meaning of section 162(m)(4)(C) of the Code and Section 1.162-27 of the Treasury Regulations promulgated thereunder.

A. Pro-Rated Award Opportunities for Newly-Eligible Executives. A Participant who is granted an Award Opportunity more than 90 days after the beginning of the Performance Period, either because the Participant is a newly hired Eligible Officer or is promoted into an Eligible Officer position, will be granted an Award Opportunity under the Plan for such Performance Period based on the number of Maximum Shares and Target Shares established by the Committee during the first 90 days of the Performance Period for the Participant's grade level, with the number of Maximum Shares and Target Shares pro-rated based on the ratio of the number of full quarters remaining in the Performance Period on and after the date of hire or promotion (as applicable) to the total number of quarters in the Performance Period. For any salary grade created between the salary grades for which the Committee has established the number of Maximum Shares and Target Shares as described above, straight-line interpolation shall be used to determine the pro-rated number of Maximum Shares and Target Shares in accordance with this Section 8.A.

B. Adjustments to Outstanding Award Opportunities. If a Participant is promoted after the beginning of a Performance Period, the Participant's outstanding Award Opportunity granted for such Performance Period will be adjusted, effective as of the date of such promotion, based on the number of Maximum Shares and Target Shares established by the Committee during the first 90 days of the Performance Period for the Participant's grade level. The adjustments to each such Participant's Award Opportunity shall be pro-rated on a quarterly basis, with the number of Maximum Shares and Target Shares for the Participant's original position applicable for the number of full quarters preceding the effective date of the promotion and the number of Maximum Shares and Target Shares for the Participant's new position applicable for the remaining number of quarters in the Performance Period. For any salary grade created between the salary grades for which the Committee has established the number of Maximum Shares and Target Shares as described above, straight-line interpolation shall be used to determine the pro-rated number of Maximum Shares and Target Shares in accordance with this Section 8.B.

C. Negative Discretion. Notwithstanding any other provision of this Section 8, the Committee retains the discretion to reduce the amount of any Long-Term Incentive Bonus, including a reduction of such amount to zero. By way of illustration, and not in limitation of the foregoing, the Committee may, in its discretion, determine (i) not to grant a pro-rated Award Opportunity pursuant to Section 8.A above, (ii) not to adjust an outstanding Award Opportunity pursuant to Section 8.B above, (iii) to grant a pro-rated Award Opportunity in a smaller amount than would otherwise be provided by Section 8.A above, or (iv) to adjust an outstanding Award Opportunity to produce a smaller Long-Term Incentive Award than would otherwise be provided by Section 8.B above.

9. Plan Administration. The Committee shall be responsible for administration of the Plan. The Committee is authorized to interpret the Plan, to prescribe, amend and rescind regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan, the Performance Bonus Plan and the Stock Incentive Plan. Determinations, interpretations or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final, binding and conclusive for all purposes and upon all Participants, Eligible Officers, Beneficiaries and all other persons who have or claim an interest herein. The Committee may, in its discretion, but only to the extent permitted by 162(m) of the Code and applicable law, delegate to one or more directors or employees of the Company any of the Committee's authority under the Plan. The acts of any such delegates shall be treated under this Plan as acts of the Committee with respect to any matters so delegated, and any reference to the Committee in the Plan shall be deemed a reference to any such delegates with respect to any matters so delegated.

10. Tax Withholding. Each Participant is responsible for any federal, state, local, foreign or other taxes with respect to any Long-Term Incentive Bonus payable under the Plan. To the extent the Company is required to withhold any federal, state, local, foreign or other taxes in connection with the delivery of Common Stock under this Plan, then the Company may, in its sole discretion, (a) retain a number of shares of Common Stock otherwise deliverable hereunder with a value equal to the required withholding (based on the Fair Market Value (as defined in the Stock Incentive Plan) of the Common Stock on the applicable date), (b) facilitate a sale of shares of Common Stock payable pursuant to the Award Opportunity to cover such tax withholding obligation, or (c) apply any other withholding method determined by the Company; provided that in no event shall the value of the shares of Common Stock retained exceed the minimum amount of taxes required to be withheld or such other amount that will not result in a negative accounting impact.

11. Unfunded Plan. Each Award Opportunity granted under this Plan represents only a contingent right to receive all or a portion of the number of Maximum Shares granted subject to the terms and conditions of the Notice of Award, the Plan, the Performance Bonus Plan and the Stock Incentive Plan. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right to payment of a Long-Term Incentive Bonus other than as an unsecured general creditor with respect to any payment to which he or she may be entitled under this Plan.

12. Rights of Employer. Neither anything contained in this Plan nor any action taken under this Plan shall be construed as a contract of employment or as giving any Participant or Eligible Officer any right to continued employment with the Company or any Affiliate.

13. Nontransferability. Except as otherwise provided in this Plan, the benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, and these benefits shall be exempt from the claims of creditors of any Participant or other claimants and from all orders, decrees, levies, garnishment or executions against any Participant to the fullest extent allowed by law. Notwithstanding the foregoing, to the extent permitted by the Company, a Participant may designate a Beneficiary or Beneficiaries (both primary and contingent) to receive, in the event of the Participant's death, any shares of Common Stock remaining to be delivered with respect to the Participant under the Plan. The Participant shall have the right to revoke any such designation and to re-designate a Beneficiary or Beneficiaries in such manner as may be prescribed by the Company.

14. Successors. The rights and obligations of the Company under the Plan shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company.

15. Governing Law. The Plan and all Award Opportunities shall be construed in accordance with and governed by the laws of the State of Ohio, but without regard to its conflict of law provisions.

16. Amendment or Termination. The Committee reserves the right, at any time, without either the consent of, or any prior notification to, any Participant, Eligible Officer or other person, to amend, suspend or terminate the Plan or any Award Opportunity granted thereunder, in whole or in part, in any manner, and for any reason; provided that any such amendment shall be subject to approval by the shareholders of the Company to the extent required to satisfy the requirements of Section 162(m) of the Code and the Treasury Regulations promulgated thereunder, and provided further that any such amendment shall not, after the end of the 90-day period described in Section 3 of the Plan, cause the amount payable under an Award Opportunity to be increased as compared to the amount that would have been paid in accordance with the terms established as of the end of such period. Notwithstanding the foregoing, no amendment, suspension or termination of the Plan following a Change in Control (as defined in the Stock Incentive Plan) may adversely affect in a material way any Award Opportunity that was outstanding on the date of the Change in Control, without the consent of the affected Participant.

17. Claw-back Policy. Each Award Opportunity granted, and each Long-Term Incentive Bonus paid, pursuant to this Plan shall be subject to the terms and conditions of the Claw-back Policy.

18. Section 409A of the Code. It is the Company's intent that each Long-Term Incentive Bonus payable under this Plan shall be exempt from the requirements of Section 409A of the Code under the "short-term deferral" exception set out in Section 1.409A-1(b)(4) of the Treasury Regulations. The Plan shall be interpreted and administered in a manner consistent with such intent.

19. Plan and Performance Bonus Plan Terms Control. In the event of a conflict between the terms and conditions of any Notice of Award and the terms and conditions of the Plan, the terms and conditions of the Plan shall prevail. In the event of a conflict between the terms and conditions of any Notice of Award or of this Plan and the terms and conditions of the Performance Bonus Plan, the terms and conditions of the Performance Bonus Plan shall prevail to the extent necessary for Long-Term Incentive Bonuses paid under this Plan to qualify as "performance-based compensation" for purposes of Section 162(m) of the Code and Section 1.162-27 of the Treasury Regulations promulgated thereunder. In the event of a conflict between the terms and conditions of any Notice of Award and the terms and conditions of the Stock Incentive Plan, the terms and conditions of the Stock Incentive Plan shall prevail.

20. Severability. If any provision of the Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of the Plan.

21. Waiver. The waiver by the Company of any breach of any provision of the Plan by a Participant shall not operate or be construed as a waiver of any subsequent breach.

22. Captions. The captions of the sections of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

23. Consent to Transfer Personal Data. By acknowledging an Award Opportunity, each Participant will voluntarily acknowledge and consent to the collection, use, processing and transfer of personal data as described in this Section 23. Participants are not obliged to consent to such collection, use, processing and transfer of personal data. However, failure to provide the consent may affect the Participant's ability to participate in the Plan. The Company and its Affiliates hold certain personal information about each Participant, that may include name, home address and telephone number, fax number, email address, family size, marital status, sex, beneficiary information, emergency contacts, passport / visa information, age, language skills, drivers license information, date of birth, birth certificate, social security number or other employee identification number, nationality, C.V. (or resume), wage history, employment references, job title, employment or severance contract, current wage and benefit information, personal bank account number, tax related information, plan or benefit enrollment forms and elections, option or benefit statements, any shares of stock or directorships in the Company, details of all options or any other entitlements to shares of Common Stock awarded, canceled, purchased, vested, unvested or outstanding in your favor, for the purpose of managing and administering the Plan ("Data"). The Company and its Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of each Participant's participation in the Plan, and may further transfer Data to any third parties assisting the Company and its Affiliates in the implementation, administration and management of the Plan. These recipients may be located throughout the world, including the United States. By acknowledging an Award Opportunity, each Participant will authorize such third parties to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Plan, including any requisite transfer of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares of stock on the Participant's behalf to a broker or other third party with whom the Participant may elect to deposit any shares of stock acquired pursuant to the Plan. A Participant may, at any time, review Data, require any necessary amendments to it or withdraw the consents herein in writing by contacting the Company; however, withdrawing such consent may affect the

Participant's ability to participate in the Plan.

24. Notification of Change in Personal Data. If your address or contact information changes prior to the delivery of any shares of Common Stock pursuant to an Award Opportunity, the Company must be notified in order to administer the Plan and such Award Opportunity. Notification of such changes should be provided to the Company as follows:

A. U.S. and Canada Participants (employees who are on the U.S. or Canadian payroll system):

- Active employees: Update your address and contact information directly through your Personal Profile section in the Employee Self-Service site.
- Retired, terminated or family member of deceased Participant: Contact the Benefits Service Center at 1-800-992-5564.

B. Rest of World Participants (employees who are not on the U.S. or Canadian payroll system): Contact your country Human Resources Manager.

25. Electronic Delivery. By acknowledging an Award Opportunity, each Participant will consent and agree to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with any Award Opportunity granted under the Plan. By acknowledging an Award Opportunity, each Participant will consent to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and each Participant will agree that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. By acknowledging an Award Opportunity, each Participant will consent and agree that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

26. Prospectus Notification. Copies of the Stock Incentive Plan, the plan summary and prospectus which describes the Stock Incentive Plan (the "Prospectus") and the most recent Annual Report and Proxy Statement issued by the Company (collectively, the "Prospectus Information") are available for review by Participants on the UBS One Source Web site. Each Participant shall have the right to receive a printed copy of the Prospectus Information, free of charge, upon request by either calling the third party Plan Administrator at 877-742-7471 or by sending a written request to Parker's Benefits Department.

27. Definitions. The following capitalized words as used in this Plan shall have the following meanings:

"Affiliate" means any corporation or other entity (including, but not limited to, partnerships, limited liability companies and joint ventures) controlled by the Company.

"Award Opportunity" means an opportunity granted by the Committee to a Participant to earn a Long-Term Incentive Bonus under this Plan with respect to a Performance Period, payable in shares of Common Stock to be delivered under the Stock Incentive Plan, with such opportunity subject to the terms and conditions of this Plan, the Performance Bonus Plan and the Stock Incentive Plan.

"Beneficiary" means a person designated by a Participant in accordance with Section 13 of the Plan to receive, in the event of the Participant's death, any shares of Common Stock remaining to be delivered with respect to the Participant under the Plan.

"Board" means the Board of Directors of the Company.

"Cause" means any conduct or activity, whether or not related to the business of the Company, that is determined in individual cases by the Committee to be detrimental to the interests of the Company, including without limitation (a) the rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee, in competition with the Company; (b) the disclosure to anyone outside of the Company, or the use for any purpose other than the Company's business, of confidential information or material related to the Company, whether acquired by the Participant during or after employment with the Company; (c) fraud, embezzlement, theft-in-office or other illegal activity; or (d) a violation of the Company's Code of Conduct or other policies.

"Claw-back Policy" means the Parker-Hannifin Corporation Claw-back Policy, as amended from time to time, or any successor policy.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Human Resources and Compensation Committee of the Board, or such other committee appointed by the Board to administer the Performance Bonus Plan; provided, however, that in any event the Committee shall be comprised of not less than two directors of the Company, each of whom shall qualify as an "outside director" for purposes of Section 162(m) of the Code and Section 1.162-27(e)(3) of the Treasury Regulations promulgated thereunder.

"Common Stock" means the common stock of the Company.

"Company" has the meaning given such term in Section 1 of the Plan.

"Disability" has the meaning set forth in the Parker-Hannifin Corporation Executive Long-Term Disability Plan or such other long-term disability program of the Company or an Affiliate in which the Participant participates.

"Eligible Officer" means any employee of the Company or an Affiliate who is an executive officer of the Company, whether such person is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

"Free Cash Flow Margin" means the Company's net cash flow provided by operating activities less capital expenditures for a calendar year in the Performance Period, expressed as a percentage of the Company's net sales for such calendar year. Free Cash Flow Margin shall be determined in accordance with generally accepted accounting principles as in effect on the first day of the applicable Performance Period. Discretionary pension contributions by the Company during the Performance Period are not included in the calculation of Free Cash Flow Margin. For this purpose, a discretionary pension contribution means a contribution by the Company or one of its subsidiaries to a qualified pension plan for employees of the Company or its subsidiaries where absent actions taken by the Company to affect its funding level in a particular year, no minimum required contribution would have been required under applicable laws and regulations.

"Maximum Shares" means, with respect to an Award Opportunity granted to a Participant for a Performance Period, the notional number of shares of Common Stock equal to 200% of the Participant's Target Shares for such Performance Period. Each Maximum Share shall represent the contingent right to receive one share of Common Stock and shall at all times be equal in value to one share of Common Stock. The number of Maximum Shares granted pursuant to each outstanding Award Opportunity is subject to adjustment in accordance with the terms of the Performance Bonus Plan.

"Notice of Award" means a written or electronic communication to a Participant with respect to a Performance Period, which provides notice of the Participant's Maximum Shares and Target Shares for such Performance Period, subject to the terms and conditions of the Plan, the Performance Bonus Plan and the Stock Incentive Plan.

"Other Retirement" means a termination of employment by a Participant during a Performance Period that constitutes "retirement" under the policy of the Company or an Affiliate applicable to the Participant at the time of such termination of employment, other than a Qualifying Retirement. For purposes of clarity, whether a Participant's termination of employment constitutes an Other Retirement will be determined separately with respect to each Performance Period for which such Participant has an outstanding Award Opportunity at the time of termination of employment.

"Participant" means an Eligible Officer who has been granted an Award Opportunity with respect to a Performance Period.

"Peer Group" means the group of peer companies established as such by the Committee for each Award Opportunity and set forth in the grant of such Award Opportunity.

"Performance Bonus Plan" means the Parker-Hannifin Corporation 2015 Performance Bonus Plan, as amended from time to time, or any successor plan approved by the shareholders of the Company.

"Performance Period" means a period of three consecutive calendar years.

"Plan" means this Parker-Hannifin Corporation Long-Term Incentive Performance Plan Under the Performance Bonus Plan, as amended from time to time.

"Qualifying Retirement" means termination of employment by a Participant during a Performance Period (i) after attainment of age 65, or (ii) after attainment of age 60 with at least 10 years of service and after completion of at least 12 months of continuous employment during such Performance Period. For purposes of clarity, whether a Participant's termination of employment constitutes a Qualifying Retirement will be determined separately with respect to each Performance Period for which such Participant has an outstanding Award Opportunity at the time of termination of employment.

"Return on Average Equity" means the Company's net income for a calendar year in the Performance Period, divided by the average of shareholder's equity as of the first and last day of such calendar year. Return on Average Equity shall be determined in accordance with generally accepted accounting principles as in effect on the first day of the applicable Performance Period.

"Stock Incentive Plan" means the Amended and Restated Parker-Hannifin Corporation 2009 Omnibus Stock Incentive Plan, as amended from time to time, or any successor plan.

"Target Shares" means the notional number of shares of Common Stock specified as such in a Participant's Notice of Award for a Performance Period, which may be used by the Committee in the exercise of its discretion under Section 4.B of the Plan to reduce the amount otherwise payable pursuant to the Participant's Award Opportunity.

TO: [PARTICIPANT NAME]

NOTICE OF AWARD

**PARKER-HANNIFIN CORPORATION
LONG-TERM INCENTIVE PERFORMANCE (LTIP)
UNDER PERFORMANCE BONUS PLAN**

The Human Resources and Compensation Committee of the Board of Directors (the "Committee") of Parker-Hannifin Corporation (the "Company") has awarded to you the contingent right to receive the following number of shares of Common Stock of the Company ("Maximum Shares") under the Company's Long-Term Incentive Performance Plan Under the Performance Bonus Plan (as Amended and Restated) (the "LTIP Plan"), the Company's Stock Incentive Plan (as defined in the LTIP Plan) and the Company's 20XX Performance Bonus Plan (the "Performance Bonus Plan"):

| | | | |
|-----------------------------------|---|-----------------------------------|--|
| Grant Date [Grant Date] | Performance Period (in Calendar Years) CY 20XX-20XX-20XX | Maximum Shares [Number] | Target Shares [Number Granted] |
|-----------------------------------|---|-----------------------------------|--|

The number of Maximum Shares granted is based on your grade level at the Grant Date and your expected service in your position through the end of the Performance Period. The number of Maximum Shares granted is subject to adjustment in the event of a change in your grade level or your employment status with the Company during the Performance Period as provided in the LTIP Plan.

Payout of Your Award. Your right to earn all or a portion of the Maximum Shares under your award will be based upon the Company's performance during the Performance Period for certain key objective financial metrics described in the LTIP Plan, and the Committee's discretion to reduce the amount payable under your award (including, for example, a possible reduction to the number of Target Shares set out above), based on the Company's performance in comparison to its peer group and otherwise as described in the LTIP Plan. Subject to your continued employment through the end of the Performance Period, any amount payable under your award will be paid in the form of shares of Common Stock in the Company, to be issued in April 20XX following the Committee's certification of performance results of the Company, subject to the Committee's exercise of any discretion to reduce the amount payable, and the Committee's authorization of payment.

Peer Group (as defined in the LTIP Plan):

| | |
|-----------------------|--------------------------------|
| Caterpillar Inc. | Honeywell International Inc. |
| Colfax Corporation | Illinois Tool Works Inc. |
| Cummins Inc. | ITT Industries Inc. |
| Danaher Corporation | Ingersoll-Rand Company Limited |
| Deer & Company | Johnson Controls Inc. |
| Dover Corporation | Rockwell Automation Inc. |
| Eaton Corporation | SPX Corporation |
| Emerson Electric Co. | Textron Inc. |
| FlowsERVE Corporation | |

Your Action Items. Please take the following actions:

- **Before you accept your grant**, click on the links below to review the LTIP Plan, Stock Incentive Plan and Performance Bonus Plan which govern this award.
- **Acknowledge** receipt of this award and indicate your agreement with its terms by clicking on the "OK" button below.
- **Inform the Company of any change in address or contact information, as necessary.** Refer to the section of the LTIP Plan titled "Notification of Change in Personal Data" for instructions on how to provide notification to the Company.

[Long-Term Incentive Performance Plan Under the Performance Bonus Plan \(As Amended and Restated\) \(LT-003O\)](#)
[Stock Incentive Plan](#)
[20XX Performance Bonus Plan](#)

To view the most recent [Annual Report](#), please click here

To view the most recent [Proxy Statement](#), please click here

To view the [Stock Incentive Plan Summary and Prospectus](#), please click here

PARKER-HANNIFIN CORPORATION
CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (“Agreement”), dated as of the ____ day of _____, ____, is entered into by and between Parker-Hannifin Corporation (the “Company”) and _____ (the “Executive”).

W I T N E S S E T H

WHEREAS, the Company considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Company and its stockholders; and

WHEREAS, the Company recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control (as defined in Section 1) may arise and that such possibility may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board (as defined in Section 1) has determined that it is in the best interests of the Company and its stockholders to secure the Executive’s continued services and to ensure the Executive’s continued and undivided dedication to his duties in the event of any threat or occurrence of a Change in Control (as defined in Section 1); and

WHEREAS, the Board has authorized the Company to enter into this Agreement.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, the Company and the Executive hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

- (a) “Affiliated Group” means the Company and all entities with which the Company would be considered a single employer under Sections 414(b) and 414(c) of the Code, provided that in applying Section 1563(a)(1), (2), and (3) of the Code, for purposes of determining a controlled group of corporations under Section 414(b) of the Code, the language “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Section 1563(a)(1), (2), and (3) of the Code, and in applying Section 1.414(c)-2 of the Treasury Regulations for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code, “at least 50 percent” is used instead of “at least 80 percent” each place it appears in that regulation. Such term shall be interpreted in a manner consistent with the definition of “service recipient” contained in Section 409A of the Code.
- (b) “Board” means the Board of Directors of the Company.

- (c) “Bonus” means the annual bonuses payable pursuant to the RONA Plan and the Target Incentive Program, except to the extent determined by the Company to be extraordinary.
- (d) “Cause” means:
- (i) a material breach by the Executive of the duties and responsibilities of the Executive (other than as a result of incapacity due to physical or mental illness) which is demonstrably willful and deliberate on the Executive’s part, which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company and which is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach; or
 - (ii) the commission by the Executive of a felony involving moral turpitude. The determination of Cause shall be made by the Board. Cause shall not exist unless and until the Company has delivered to the Executive a copy of a resolution duly adopted by three-quarters (3/4) of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive’s counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Executive was guilty of the conduct set forth in this Section 1(d) and specifying the particulars thereof in detail. The Company must notify the Executive that it believes Cause has occurred within ninety (90) days of its knowledge of the event or condition constituting Cause or such event shall not constitute Cause under this Agreement. For purposes of clause (i) above, any act, or failure to act, by the Executive based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company.
- (e) “Change in Control” means the occurrence of one of the following events:
- (i) any “person” (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the “Exchange Act”) and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of the Board (the “Company Voting Securities”); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following situations: (A) an acquisition by the Company or any Subsidiary; (B) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (C) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (D) a Non-Control Transaction (as defined in paragraph (iii)); (E) any acquisition by the Executive or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Executive (or any entity in which the Executive or a group of persons

including the Executive, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (F) the acquisition of Company Voting Securities from the Company, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (F) does not constitute a Change in Control under this paragraph (i);

- (ii) individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority thereof; provided, that any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Company's shareholders was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board who are then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (ii), considered as though such person were a member of the Incumbent Board; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be a member of the Incumbent Board;
- (iii) the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Company or any Subsidiary that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), unless (A) immediately following such Business Combination: (1) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (2) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (3) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Incumbent Board at

the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (a "Non-Control Transaction") or (B) the Business Combination is effected by means of the acquisition of Company Voting Securities from the Company, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Change in Control under this paragraph (iii); or

- (iv) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company and its Subsidiaries.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which, by reducing the number of Company Voting Securities outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control shall then occur.

Notwithstanding anything in this Agreement to the contrary, if the Executive's employment is terminated prior to a Change in Control, and the Executive reasonably demonstrates that such termination was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (a "Third Party") (such a termination of employment an "Anticipatory Termination"), then for all purposes of this Agreement except with respect to benefits under Sections 2(a)(i)(B) and 2(d)(ii) that constitute nonqualified deferred compensation subject to Section 409A of the Code, the date immediately prior to the date of such Anticipatory Termination shall be deemed to be the date of a Change in Control.

- (f) "Code" means the Internal Revenue Code of 1986, as amended, or any successor statute, and regulations or other guidance issued thereunder.
- (g) "Company" means Parker-Hannifin Corporation, an Ohio corporation.
- (h) "Corporate Change 409A Event" means the occurrence of one of the following events:
 - (i) A change in ownership of the Company, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total voting power of the stock of the Company. Notwithstanding the foregoing, if any one person or group is considered to own more than 50% of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the ownership of the Company or a change in the effective control of the Company

(within the meaning of Section 1(h)(ii) of this Agreement). Notwithstanding the foregoing, a Corporate Change 409A Event shall not be deemed to occur solely because any person acquires ownership of more than 50% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Corporate Change 409A Event would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Corporate Change 409A Event shall then occur.

- (ii) A change in effective control of the Company, which occurs on either of the following dates:
 - (A) The date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Company possessing 30% or more of the total voting power of the Company. Notwithstanding the foregoing, if any one person or group is considered to own 30% or more of total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the effective control of the Company or a change in ownership of the Company (within the meaning of Section 1(h)(i) of this Agreement). Notwithstanding the foregoing, a Corporate Change 409A Event shall not be deemed to occur solely because any person acquires ownership of more than 30% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Corporate Change 409A Event would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Corporate Change 409A Event shall then occur.
 - (B) The date that a majority of the Company's Board is replaced during any 12-month period by directors whose appointment or election was not endorsed by a majority of the members of the Board prior to the date of such appointment or election.
- (iii) a change in the ownership of a substantial portion of the Company's assets, which occurs on the date that any one person or more than one person acting as a group

(within the meaning of the regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets that have a total gross fair market value equal to or more than 65% of the total gross fair market value of all the assets of the Company immediately before such acquisition or acquisitions. The gross fair market value of assets shall be determined without regard to liabilities associated with such assets. Notwithstanding the foregoing, a transfer of assets shall not result in a change in ownership of a substantial portion of the Company's assets if such transfer is to (a) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (b) an entity 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (c) a person or group (within the meaning of the regulations under Section 409A of the Code) that owns, directly or indirectly, 50% or more of the total value or voting power of the stock of the Company, or (d) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly by a person or group described in Section 1(h)(iii)(c) of this Agreement.

Notwithstanding Sections 1(h)(i), 1(h)(ii)(a) and 1(h)(iii) above, the consummation of a Business Combination shall not be deemed a Corporate Change 409A Event if, immediately following such Business Combination: (a) more than 50% of the total voting power of the Surviving Corporation resulting from such Business Combination or, if applicable, the Parent Corporation of such Surviving Corporation, is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (b) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (c) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Company's Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

Notwithstanding the foregoing, an acquisition of stock of the Company described in Section 1(h)(i) or 1(h)(ii)(a) above shall not be deemed to be a Corporate Change 409A Event by virtue of any of the following situations: (a) an acquisition by the Company or any Subsidiary; (b) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (c) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; or (d) the acquisition of stock of the Company from the Company.

- (i) "Date of Termination" means the date of the Executive's separation from service with the Company, within the meaning of Section 1.409A-1(h) of the Regulations; provided, that in applying Section 1.409A-1(h)(ii) of the Regulations, a separation from service shall be

deemed to occur if the Company and the Executive reasonably anticipate that the level of bona fide services the Executive will perform for the Affiliated Group after a certain date (whether as an employee or as an independent contractor) will permanently decrease to less than 50% of the average level of bona fide services performed by the Executive for the Affiliated Group (whether as an employee or as an independent contractor) over the immediately preceding 36-month period (or the full period of services performed for the Affiliated Group if the Executive has been providing services to the Affiliated Group for less than 36 months). In the event of a disposition of assets by the Company to an unrelated person, the Company reserves the discretion to specify (in accordance with Section 1.409A-1(h)(4) of the Regulations) whether the Executive, if the Executive would otherwise experience a separation from service with the Company as part of the disposition of assets, will be considered to experience a separation of service for purposes of Section 1.409A-1(h) of the Regulations.

- (j) “Disability” means the condition whereby the Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under any accident and health plan covering employees of the Company. The Company, in its complete and sole discretion, shall determine the Executive’s Disability. The Company may require that the Executive submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Company to confirm Disability. On the basis of such medical evidence, the determination of the Company as to whether or not a condition of Disability exists or continues shall be conclusive.
- (k) “Good Reason” means, without the Executive’s express written consent, the occurrence of any of the following events after a Change in Control:
- (i) the assignment to the Executive of any duties (including a diminution of duties) inconsistent in any adverse respect with the Executive’s position(s), duties, responsibilities or status with the Company immediately prior to such Change in Control;
 - (ii) an adverse change in the Executive’s reporting responsibilities, titles or offices with the Company as in effect immediately prior to such Change in Control;
 - (iii) any removal or involuntary termination of the Executive from the Company otherwise than as expressly permitted by this Agreement or any failure to re-elect the Executive to any position with the Company held by the Executive immediately prior to such Change in Control;

- (iv) a reduction by the Company in the Executive's rate of annual base salary as in effect immediately prior to such Change in Control or as the same may be increased from time to time thereafter;
- (v) any requirement of the Company that the Executive (A) be based anywhere more than twenty-five (25) miles from the facility where the Executive is located at the time of the Change in Control or (B) travel on Company business to an extent substantially more burdensome than the travel obligations of the Executive immediately prior to such Change in Control;
- (vi) the failure of the Company to (A) continue in effect any employee benefit plan or compensation plan in which the Executive is participating immediately prior to such Change in Control, or the taking of any action by the Company which would adversely affect the Executive's participation in or reduce the Executive's benefits under any such plan (including the failure to provide the Executive with a level of discretionary incentive award grants consistent with the past practice of the Company in granting such awards to the Executive during the three-Year period immediately preceding the Change in Control), (B) provide the Executive and the Executive's dependents with welfare benefits (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and dismemberment and travel accident insurance plans and programs) in accordance with the most favorable plans, practices, programs and policies of the Company and the Affiliated Group in effect for the Executive immediately prior to such Change in Control, (C) provide fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Company and the Affiliated Group in effect for the Executive immediately prior to such Change in Control, or (D) provide the Executive with paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and the Affiliated Group as in effect for the Executive immediately prior to such Change in Control, unless in the case of any violation of (A), (B) or (C) above, the Executive is permitted to participate in other plans, programs or arrangements which provide the Executive (and, if applicable, the Executive's dependents) with no less favorable benefits at no greater cost to the Executive; or (vii) the failure of the Company to obtain the assumption agreement from any successor as contemplated in Section 10(b).

For purposes of this Agreement, any good faith determination of Good Reason made by the Executive shall be conclusive; provided, however, that an isolated, insubstantial and inadvertent action taken in good faith and which is remedied by the Company promptly after receipt of notice thereof given by an Executive shall not constitute Good Reason. The Executive's right to terminate employment for Good Reason shall not be affected by the Executive's incapacitation due to mental or physical illness and the Executive's continued employment shall not constitute consent to or a waiver of rights with respect to any event or condition constituting Good Reason. The Executive must provide notice of termination within ninety (90) days of his knowledge of an event or condition constituting Good Reason hereunder or such event shall not constitute Good Reason hereunder. A

transaction which results in the Company no longer being a publicly traded entity shall not in and of itself be treated as Good Reason unless and until one of the events or conditions set forth in Sections 1(k)(i) through (vii) occurs.

Any event or condition described in Sections 1(k)(i) through (vi) which occurs prior to a Change in Control, but was at the request of a Third Party, shall constitute Good Reason following a Change in Control for purposes of this Agreement (as if a Change in Control had occurred immediately prior to the occurrence of such event or condition) notwithstanding that it occurred prior to the Change in Control.

- (l) “Nonqualifying Termination” means the Executive’s separation from service (within the meaning of Section 1.409A-1(h) of the Regulations and Section 1(i) of this Agreement) (i) by the Company for Cause, (ii) by the Executive for any reason other than Good Reason, (iii) as a result of the Executive’s death, or (iv) as a result of the Executive’s Retirement.
- (m) “Projected Bonus Amount” means, with respect to any Year, the greater of (i) the Executive’s Target Bonus Amount for such Year; or (ii) to the extent calculable after at least one calendar quarter of the Year, the Bonus the Executive would have earned in the Year in which the Executive’s Date of Termination occurs had the Company’s financial performance through the end of the fiscal quarter immediately preceding the Date of Termination continued throughout said Year (the “Earned Bonus Amount”).
- (n) “Regulations” means regulations issued under Section 409A of the Code. Reference to any section of the Regulations shall be read to include any amendment or revision of such Regulation.
- (o) “Retirement” means the Executive’s mandatory retirement (not including any mandatory early retirement) in accordance with the Company’s retirement policy generally applicable to its salaried employees, as in effect immediately prior to the Change in Control, or in accordance with any retirement arrangement established with respect to the Executive with the Executive’s written consent.
- (p) “RONA Plan” means the Company’s Return on Net Assets Plan, or any successor thereto.
- (q) “Specified Employee” means a person designated from time to time as such by the Company pursuant to Section 409A(a)(2)(B)(i) of the Code and the Company’s policy for determining specified employees.
- (r) “Subsidiary” means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities of such corporation or other entity.
- (s) “Target Bonus Amount” means, with respect to any Year, the Executive’s target Bonus for such Year.

- (t) "Target Incentive Program" means the Company's Target Incentive Program, or any successor thereto.
- (u) "Termination Period" means the period of time beginning with a Change in Control and ending three (3) years following such Change in Control.
- (v) "Year" means the fiscal year of the Company.

2. Payments Upon Termination of Employment.

- (a) If during the Termination Period the employment of the Executive shall terminate, other than by reason of a Nonqualifying Termination, then, subject to Sections 2(g) and 2(h), the Company shall pay to the Executive (or the Executive's Beneficiary (as defined in Section 9(c)) or estate), within five (5) days following the Date of Termination, as compensation for services rendered to the Company:
 - (i) A lump-sum cash amount equal to the sum of: (A) the Executive's base salary from the Company and its Subsidiaries through the Date of Termination and any outstanding Bonus or long-term bonus awards for which payment is due and owing at such time, (B) any compensation previously deferred by the Executive other than pursuant to a tax-qualified plan (together with any interest and earnings thereon) (the "Deferred Amount"), (C) any accrued vacation pay, and (D) to the extent not provided under the Company's Bonus plans, a pro-rata portion of the Executive's Projected Bonus Amount for the Year in which the Executive's Date of Termination occurs, in each case to the extent not theretofore paid. Notwithstanding the foregoing, in the event of an Anticipatory Termination, in lieu of the payment referred to in Section 2(a)(i)(D), the Company shall pay to the Executive (or the Executive's Beneficiary (as defined in Section 9(c)) or estate), within two and one-half (2 1/2) months after the end of the Year in which the Executive's Date of Termination occurs, a pro-rata portion of the Bonus earned based on Company performance as certified by the Compensation and Human Resources Committee of the Board after the end of such Year; provided, however, that if a Change in Control occurs after such Anticipatory Termination and prior to such payment, payment of a pro-rata portion of the Executive's Projected Bonus Amount shall be paid, in accordance with Section 2(a)(i)(D), within five (5) days after such Change in Control.
 - (ii) A lump-sum cash amount equal to the product of: (A) the lesser of (1) three (3) and (2) the quotient resulting from dividing the number of full and partial months from the Executive's Date of Termination until the Executive would be subject to Retirement, by twelve (12) and (B) the sum of (1) the Executive's highest annual rate of base salary during the 12-month period immediately preceding the Date of Termination and (2) the highest of (x) the Executive's average Bonus (annualized for any partial Years of employment) earned during the 3-Year period immediately preceding the Year in which the Date of Termination occurs (or shorter annualized

period if the Executive had not been employed for the full three-Year period), (y) the Executive's Target Bonus Amount for the Year in which the Change in Control occurs and (z) the Executive's Target Bonus Amount for the Year in which the Date of Termination occurs; provided, that any amount paid pursuant to this Section 2(a)(ii) shall offset an equal amount of any severance relating to salary or bonus continuation to be received by the Executive upon termination of employment of the Executive under any severance plan, policy, or arrangement of the Company.

- (b) If during the Termination Period, the employment of the Executive shall terminate, other than by reason of a Nonqualifying Termination, for a period of three (3) years (or, if lesser, the period ending on the date on which the Executive would be subject to Retirement) commencing on the Date of Termination, the Company shall continue to keep in full force and effect (or otherwise provide) all policies of medical, accident, disability and life insurance with respect to the Executive and his dependents with the same level of coverage, upon the same terms and otherwise to the same extent (and on the same after-tax basis, with any payment required to keep the Executive in the same after-tax position made no later than the end of the calendar year in which the Executive remits the related taxes), as such policies shall have been in effect immediately prior to the Date of Termination (or, if more favorable to the Executive, immediately prior to the Change in Control), and the Company and the Executive shall share the costs of the continuation of such insurance coverage in the same proportion as such costs were shared immediately prior to the Date of Termination.
- (c) If during the Termination Period the employment of the Executive shall terminate, other than by reason of a Nonqualifying Termination, then the Executive shall be credited with three (3) years additional age and service credit for purposes of qualifying for any retiree medical benefits programs of the Company, although receipt of such retiree medical benefits shall not commence until the Executive is otherwise eligible under the terms of the retiree medical plan. If the Executive is terminated pursuant to a Nonqualifying Termination and would have been eligible to retire under the terms and conditions of the Company's retiree medical program as of immediately prior to the Executive's Date of Termination (or, if more favorable to the Executive, as of immediately prior to the Change in Control), the Executive's termination of employment shall be treated as a retirement under the Company's retiree medical program. The retiree medical benefits (and cost) to be provided to the Executive (and the Executive's eligible dependents) by the Company shall be no less favorable than the benefits (and cost) under the retiree medical program of the Company as of immediately prior to the Executive's Date of Termination (or, if more favorable to the Executive, as of immediately prior to the Change in Control), and shall be provided notwithstanding any amendment to, or termination of, the Company's retiree medical program.
- (d) If during the Termination Period the employment of the Executive shall terminate by reason of a Nonqualifying Termination or the Executive shall suffer a Disability, then, subject to Sections 2(g) and 2(h), the Company shall pay to the Executive within thirty (30) days following the Date of Termination or Disability, a cash amount equal to the sum of (i) the Executive's base salary from the Company and its Subsidiaries through the Date of Termination or Disability and any outstanding Bonus or long-term bonus awards for which

payment is due and owing at such time, (ii) any compensation previously deferred by the Executive other than pursuant to a tax-qualified plan (together with any interest and earnings thereon), (iii) any accrued vacation pay, and (iv) in the event of a Nonqualifying Termination other than for Cause or the Executive's Disability, to the extent not provided under the Company's Bonus plans, a pro-rata portion of the Executive's Earned Bonus Amount for the Year in which the Executive's Date of Termination or Disability occurs, in each case to the extent not theretofore paid.

- (e) If subsequent to a Change in Control and the end of the Termination Period, the employment of the Executive shall be terminated by the Company (other than by reason of a Nonqualifying Termination), then, subject to Section 2(h), the Company shall pay the Executive within five (5) days following his Date of Termination a lump sum cash payment equal to the sum of (i) the Executive's highest annual rate of base salary during the 12-month period immediately preceding the Date of Termination and (ii) the higher of (A) the Executive's average Bonus (annualized for any partial Years of employment) earned during the 3-Year period immediately preceding the Year in which the Date of Termination occurs and (B) the Executive's Target Bonus Amount for the Year in which the Date of Termination occurs; provided, that any amount paid pursuant to clauses (i) and (ii) of this Section 2(e) shall offset an equal amount of any severance relating to salary or bonus continuation to be received by the Executive upon termination of employment of the Executive under any severance plan, policy or arrangement of the Company.
- (f) If subsequent to a Change in Control and the end of the Termination Period, the employment of the Executive shall be terminated by the Company, the Company shall pay the Executive within five (5) days following his Date of Termination a lump sum cash payment equal to: (i) the Executive's base salary from the Company and its Subsidiaries through the Date of Termination and any outstanding Bonus or long-term bonus awards for which payment is due and owing at such time, (ii) any accrued vacation pay, and (iii) if the termination is other than for Cause, to the extent not provided under the Company's Bonus plans, a pro-rata portion of the Executive's Earned Bonus Amount for the Year in which the Executive's Date of Termination occurs, in each case to the extent not theretofore paid.
- (g) Notwithstanding any of the foregoing provisions of this Section 2, (i) the amounts described in Section 2(a)(i)(B) and Section 2(d)(ii) of this Agreement shall be paid as a lump sum only if (A) the Date of Termination occurs within two years following a Corporate Change 409A Event, or (B) to the extent that payment in a lump sum is otherwise permitted by Section 409A of the Code.
- (h) Notwithstanding any of the foregoing provisions of this Section 2, in the event that the Executive is a Specified Employee upon the Date of Termination, to the extent required in order to comply with Section 409A of the Code, amounts and benefits to be paid or provided under this Agreement following the Date of Termination and not on account of the Executive's Disability shall be paid or provided to the Executive on the first day of the seventh month following the Date of Termination.

3. Section 280G.

- (a) Notwithstanding any other provision of this Agreement or any other agreement or plan to the contrary, if any of the payments or benefits provided or to be provided by the Company or its affiliates to the Executive or for the Executive's benefit pursuant to the terms of this Agreement or otherwise ("Covered Payments") constitute parachute payments within the meaning of Section 280G of the Code and would, but for this Section 3, be subject to the excise tax imposed under Section 4999 of the Code or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "Excise Tax"), then prior to making the Covered Payments, a calculation shall be made comparing (i) the "Net Benefit" (as defined below) to the Executive of the Covered Payments after payment of the Excise Tax to (ii) the Net Benefit to the Executive if the Covered Payments are limited to the extent necessary to avoid being subject to the Excise Tax. Only if the amount calculated under (i) above is less than the amount under (ii) above will the Covered Payments be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax. "Net Benefit" shall mean the present value of the Covered Payments net of all federal, state, local, foreign income, employment and excise taxes.
- (b) Any such reduction of Covered Payments under Section 3(a) shall be made in accordance with Section 409A of the Code and the following:
- (iii) the Covered Payments which do not constitute nonqualified deferred compensation subject to Section 409A of the Code shall be reduced first; and
 - (iv) all other Covered Payments shall then be reduced as follows: (A) cash payments shall be reduced before non-cash payments, (B) cancellation of accelerated vesting of equity awards (based on the reverse order of the date of grant) before reduction of welfare benefits, and (C) payments to be made on a later payment date shall be reduced before payments to be made on an earlier payment date.
- (c) All determinations required to be made under this Section 3 shall be made by such professional consulting firm engaged by the Company from time to time as its independent consultant (the "Consulting Firm"). The Consulting Firm shall provide its calculations, together with detailed supporting documentation, both to the Company and the Executive (collectively, the "Determination"). In the event that the Consulting Firm is serving as a consultant for the individual, entity or group effecting the Change in Control, the Company shall prior to the Change in Control appoint a nationally recognized public accounting firm to make the determination required under this Agreement (which accounting firm shall then be referred to as the Consulting Firm under this Agreement). All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Consulting Firm shall be borne by the Company. The Determination by the Consulting Firm shall be binding upon the Company and the Executive (except as provided in Subsection (d) below).
- (d) If it is established pursuant to a final determination of a court or an Internal Revenue Service (the "IRS") proceeding which has been finally and conclusively resolved, that payments have been made to, or provided for the benefit of, the Executive by the Company that are in the aggregate more than the amount provided under this Section 3 (hereinafter referred

to as an "Overpayment"), then the Executive shall pay any such Overpayment to the Company together with interest at the applicable federal rate (as defined in Section 7372(f)(2)(A) of the Code) from the date of the Executive's receipt of the Overpayment until the date of such repayment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made under this Section 3. In the event that it is determined: (i) by the Consulting Firm, the Company (which shall include the position taken by the Company, or together with its consolidated group, on its federal income tax return) or the IRS; or (ii) pursuant to a determination by a court, that an Underpayment has occurred, the Company shall promptly pay an amount equal to such Underpayment to the Executive, and in no event later than sixty (60) days following the date on which the Underpayment is determined, together with interest on such amount at the applicable federal rate from the date such amount would have been paid to the Executive until the date of payment.

4. Withholding Taxes. The Company may withhold from all payments due to the Executive (or his beneficiary or estate) hereunder all taxes which, by applicable federal, state, local or other law, the Company is required to withhold therefrom.
5. Reimbursement of Expenses. If any contest or dispute shall arise under this Agreement involving termination of the Executive's employment with the Company or involving the failure or refusal of the Company to perform fully in accordance with the terms hereof, the Company shall reimburse the Executive, on a current basis, for all legal fees and expenses, if any, incurred by the Executive within 10 years after the Date of Termination in connection with such contest or dispute (regardless of the result thereof), together with interest in an amount equal to the prime rate of Key Bank from time to time in effect, but in no event higher than the maximum legal rate permissible under applicable law, such interest to accrue from the date the Company receives the Executive's statement for such fees and expenses through the date of payment thereof. The Company's reimbursement of the Executive's legal fees and expenses pursuant to this Section 5 shall be made on or before the last day of the calendar year following the calendar year in which such legal fees and expenses are incurred. The amount of legal fees and expenses eligible for reimbursement during any calendar year shall not affect the amount of legal fees and expenses eligible for reimbursement during any other calendar year, and the right to reimbursement shall not be subject to liquidation or exchange for another benefit.
6. Termination of Agreement. This Agreement shall be effective on the date hereof and shall continue until the first to occur of (i) the termination of the Executive's employment with the Company prior to a Change in Control (except as otherwise provided hereunder), (ii) a Nonqualifying Termination, (iii) the Executive's Disability, or (iv) the Executive's termination of employment following the Termination Period.
7. Scope of Agreement. Nothing in this Agreement shall be deemed to entitle the Executive to continued employment with the Company or its Subsidiaries, and if the Executive's employment with the Company shall terminate prior to a Change in Control, the Executive shall have no further rights under this Agreement (except as otherwise provided hereunder); provided, however, that

notwithstanding anything herein to the contrary, any termination of the Executive's employment following a Change in Control shall be subject to all of the benefit and payment provisions of this Agreement.

8. Obligations of the Executive. The Executive agrees that if a Change in Control shall occur, the Executive shall not voluntarily leave the employ of the Company without Good Reason during the 90-day period immediately following a Change in Control.

9. Successors' Binding Obligation.

- (a) This Agreement shall not be terminated by any Business Combination or transfer of assets. In the event of any Business Combination or transfer of assets, the provisions of this Agreement shall be binding upon the surviving or resulting corporation or any person or entity to which the assets of the Company are transferred.
- (b) The Company agrees that concurrently with any Business Combination or transfer of assets, it will cause any successor or transferee unconditionally to assume by written instrument delivered to the Executive (or his beneficiary or estate) all of the obligations of the Company hereunder. Failure of the Company to obtain such assumption prior to the effectiveness of any such Business Combination or transfer of assets that results in a Change in Control shall constitute Good Reason hereunder and shall entitle the Executive to compensation and other benefits from the Company in the same amount and on the same terms as the Executive would be entitled hereunder if the Executive's employment were terminated following a Change in Control other than by reason of a Nonqualifying Termination. For purposes of implementing the foregoing, the date on which any such Business Combination or transfer of assets becomes effective shall be deemed the date Good Reason occurs, and the Executive may terminate employment for Good Reason on or following such date.
- (c) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amounts would be payable to the Executive hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to such person or persons appointed in writing by the Executive to receive such amounts (the "Beneficiary" or "Beneficiaries") or, if no person is so appointed, to the Executive's estate.

10. Notice.

- (a) For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five (5) days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

If to the Company:

Parker-Hannifin Corporation
6035 Parkland Boulevard
Cleveland, Ohio 44124-4141
Attention: Secretary

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt. Alternatively, notice may be deemed to have been delivered when sent by facsimile or telex to a location provided by the other party hereto.

(b) A written notice of the Executive's Date of Termination by the Company or the Executive, as the case may be, to the other, shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated and (iii) specify the Date of Termination (which date shall not be less than fifteen (15) nor more than sixty (60) days after the giving of such notice). The failure by the Executive or the Company to set forth in such notice any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

11. Full Settlement; No Mitigation. The Company's obligation to make any payments provided for by this Agreement to the Executive and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment.

12. Employment with Members of Affiliated Group. Employment with the Company for purposes of this Agreement shall include employment with any member of the Affiliated Group.

13. Governing Law; Validity. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Ohio without regard to the principle of conflicts of laws. The invalidity or unenforceability of

any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which other provisions shall remain in full force and effect.

14. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

15. Miscellaneous. No provision of this Agreement may be modified or waived unless such modification or waiver is agreed to in writing and signed by the Executive and by a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by the Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right the Executive or the Company may have hereunder, including without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement. Except as otherwise specifically provided herein, the rights of, and benefits payable to, the Executive, his estate or his beneficiaries pursuant to this Agreement are in addition to any rights of, or benefits payable to, the Executive, his estate or his beneficiaries under any other employee benefit plan or compensation program of the Company.

16. Compliance with Section 409A of the Code. This Agreement will be administered in a manner consistent with all applicable requirements of the Act, Section 409A of the Code and the Regulations or other guidance thereunder and any provision in the Agreement that is inconsistent with Section 409A of the Code shall be void and without effect.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and the Executive has executed this Agreement as of the day and year first above written.

PARKER-HANNIFIN CORPORATION:

By: _____

EXECUTIVE:

Printed: _____

PARKER-HANNIFIN CORPORATION
CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (“Agreement”), dated as of the ____ day of _____, ____, is entered into by and between Parker-Hannifin Corporation (the “Company”) and _____ (the “Executive”).

WITNESSETH

WHEREAS, the Company considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Company and its stockholders; and

WHEREAS, the Company recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control (as defined in Section 1) may arise and that such possibility may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board (as defined in Section 1) has determined that it is in the best interests of the Company and its stockholders to secure the Executive’s continued services and to ensure the Executive’s continued and undivided dedication to his duties in the event of any threat or occurrence of a Change in Control (as defined in Section 1); and

WHEREAS, the Board has authorized the Company to enter into this Agreement.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, the Company and the Executive hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

- (a) “Affiliated Group” means the Company and all entities with which the Company would be considered a single employer under Sections 414(b) and 414(c) of the Code, provided that in applying Section 1563(a)(1), (2), and (3) of the Code, for purposes of determining a controlled group of corporations under Section 414(b) of the Code, the language “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Section 1563(a)(1), (2), and (3) of the Code, and in applying Section 1.414(c)-2 of the Treasury Regulations for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code, “at least 50 percent” is used instead of “at least 80 percent” each place it appears in that regulation. Such term shall be interpreted in a manner consistent with the definition of “service recipient” contained in Section 409A of the Code.
- (b) “Board” means the Board of Directors of the Company.

(c) “Bonus” means the annual bonuses payable pursuant to the RONA Plan and the Target Incentive Program, except to the extent determined by the Company to be extraordinary.

(d) “Cause” means:

- (i) a material breach by the Executive of the duties and responsibilities of the Executive (other than as a result of incapacity due to physical or mental illness) which is demonstrably willful and deliberate on the Executive’s part, which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company and which is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach; or
- (ii) the commission by the Executive of a felony involving moral turpitude. The determination of Cause shall be made by the Board. Cause shall not exist unless and until the Company has delivered to the Executive a copy of a resolution duly adopted by three-quarters (3/4) of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive’s counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Executive was guilty of the conduct set forth in this Section 1(d) and specifying the particulars thereof in detail. The Company must notify the Executive that it believes Cause has occurred within ninety (90) days of its knowledge of the event or condition constituting Cause or such event shall not constitute Cause under this Agreement. For purposes of clause (i) above, any act, or failure to act, by the Executive based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company.

(e) “Change in Control” means the occurrence of one of the following events:

- (i) any “person” (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the “Exchange Act”) and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of the Board (the “Company Voting Securities”); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following situations: (A) an acquisition by the Company or any Subsidiary; (B) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (C) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (D) a Non-Control Transaction (as defined in paragraph (iii)); (E) any acquisition by the Executive or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Executive (or any entity in which the Executive or a group of persons

including the Executive, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (F) the acquisition of Company Voting Securities from the Company, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (F) does not constitute a Change in Control under this paragraph (i);

- (ii) individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority thereof; provided, that any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Company's shareholders was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board who are then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (ii), considered as though such person were a member of the Incumbent Board; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be a member of the Incumbent Board;
- (iii) the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Company or any Subsidiary that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), unless (A) immediately following such Business Combination: (1) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (2) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (3) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Incumbent Board at

the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (a "Non-Control Transaction") or (B) the Business Combination is effected by means of the acquisition of Company Voting Securities from the Company, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Change in Control under this paragraph (iii); or

- (iv) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company and its Subsidiaries.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which, by reducing the number of Company Voting Securities outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control shall then occur.

Notwithstanding anything in this Agreement to the contrary, if the Executive's employment is terminated prior to a Change in Control, and the Executive reasonably demonstrates that such termination was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (a "Third Party") (such a termination of employment an "Anticipatory Termination"), then for all purposes of this Agreement except with respect to benefits under Sections 2(a)(i)(B) and 2(d)(ii) that constitute nonqualified deferred compensation subject to Section 409A of the Code, the date immediately prior to the date of such Anticipatory Termination shall be deemed to be the date of a Change in Control.

- (f) "Code" means the Internal Revenue Code of 1986, as amended, or any successor statute, and regulations or other guidance issued thereunder.
- (g) "Company" means Parker-Hannifin Corporation, an Ohio corporation.
- (h) "Corporate Change 409A Event" means the occurrence of one of the following events:
 - (i) A change in ownership of the Company, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total voting power of the stock of the Company. Notwithstanding the foregoing, if any one person or group is considered to own more than 50% of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the ownership of the Company or a change in the effective control of the Company

(within the meaning of Section 1(h)(ii) of this Agreement). Notwithstanding the foregoing, a Corporate Change 409A Event shall not be deemed to occur solely because any person acquires ownership of more than 50% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Corporate Change 409A Event would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Corporate Change 409A Event shall then occur.

- (ii) A change in effective control of the Company, which occurs on either of the following dates:
 - (A) The date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Company possessing 30% or more of the total voting power of the Company. Notwithstanding the foregoing, if any one person or group is considered to own 30% or more of total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the effective control of the Company or a change in ownership of the Company (within the meaning of Section 1(h)(i) of this Agreement). Notwithstanding the foregoing, a Corporate Change 409A Event shall not be deemed to occur solely because any person acquires ownership of more than 30% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Corporate Change 409A Event would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Corporate Change 409A Event shall then occur.
 - (B) The date that a majority of the Company's Board is replaced during any 12-month period by directors whose appointment or election was not endorsed by a majority of the members of the Board prior to the date of such appointment or election.
- (iii) a change in the ownership of a substantial portion of the Company's assets, which occurs on the date that any one person or more than one person acting as a group

(within the meaning of the regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets that have a total gross fair market value equal to or more than 65% of the total gross fair market value of all the assets of the Company immediately before such acquisition or acquisitions. The gross fair market value of assets shall be determined without regard to liabilities associated with such assets. Notwithstanding the foregoing, a transfer of assets shall not result in a change in ownership of a substantial portion of the Company's assets if such transfer is to (a) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (b) an entity 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (c) a person or group (within the meaning of the regulations under Section 409A of the Code) that owns, directly or indirectly, 50% or more of the total value or voting power of the stock of the Company, or (d) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly by a person or group described in Section 1(h)(iii)(c) of this Agreement.

Notwithstanding Sections 1(h)(i), 1(h)(ii)(a) and 1(h)(iii) above, the consummation of a Business Combination shall not be deemed a Corporate Change 409A Event if, immediately following such Business Combination: (a) more than 50% of the total voting power of the Surviving Corporation resulting from such Business Combination or, if applicable, the Parent Corporation of such Surviving Corporation, is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (b) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (c) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Company's Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

Notwithstanding the foregoing, an acquisition of stock of the Company described in Section 1(h)(i) or 1(h)(ii)(a) above shall not be deemed to be a Corporate Change 409A Event by virtue of any of the following situations: (a) an acquisition by the Company or any Subsidiary; (b) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (c) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; or (d) the acquisition of stock of the Company from the Company.

- (i) "Date of Termination" means the date of the Executive's separation from service with the Company, within the meaning of Section 1.409A-1(h) of the Regulations; provided, that in applying Section 1.409A-1(h)(ii) of the Regulations, a separation from service shall be

deemed to occur if the Company and the Executive reasonably anticipate that the level of bona fide services the Executive will perform for the Affiliated Group after a certain date (whether as an employee or as an independent contractor) will permanently decrease to less than 50% of the average level of bona fide services performed by the Executive for the Affiliated Group (whether as an employee or as an independent contractor) over the immediately preceding 36-month period (or the full period of services performed for the Affiliated Group if the Executive has been providing services to the Affiliated Group for less than 36 months). In the event of a disposition of assets by the Company to an unrelated person, the Company reserves the discretion to specify (in accordance with Section 1.409A-1(h)(4) of the Regulations) whether the Executive, if the Executive would otherwise experience a separation from service with the Company as part of the disposition of assets, will be considered to experience a separation of service for purposes of Section 1.409A-1(h) of the Regulations.

- (j) “Disability” means the condition whereby the Executive is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (ii) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under any accident and health plan covering employees of the Company. The Company, in its complete and sole discretion, shall determine the Executive’s Disability. The Company may require that the Executive submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Company to confirm Disability. On the basis of such medical evidence, the determination of the Company as to whether or not a condition of Disability exists or continues shall be conclusive.
- (k) “Good Reason” means, without the Executive’s express written consent, the occurrence of any of the following events after a Change in Control:
- (i) the assignment to the Executive of any duties (including a diminution of duties) inconsistent in any adverse respect with the Executive’s position(s), duties, responsibilities or status with the Company immediately prior to such Change in Control;
 - (ii) an adverse change in the Executive’s reporting responsibilities, titles or offices with the Company as in effect immediately prior to such Change in Control;
 - (iii) any removal or involuntary termination of the Executive from the Company otherwise than as expressly permitted by this Agreement or any failure to re-elect the Executive to any position with the Company held by the Executive immediately prior to such Change in Control;

- (iv) a reduction by the Company in the Executive's rate of annual base salary as in effect immediately prior to such Change in Control or as the same may be increased from time to time thereafter;
- (v) any requirement of the Company that the Executive (A) be based anywhere more than twenty-five (25) miles from the facility where the Executive is located at the time of the Change in Control or (B) travel on Company business to an extent substantially more burdensome than the travel obligations of the Executive immediately prior to such Change in Control;
- (vi) the failure of the Company to (A) continue in effect any employee benefit plan or compensation plan in which the Executive is participating immediately prior to such Change in Control, or the taking of any action by the Company which would adversely affect the Executive's participation in or reduce the Executive's benefits under any such plan (including the failure to provide the Executive with a level of discretionary incentive award grants consistent with the past practice of the Company in granting such awards to the Executive during the three-Year period immediately preceding the Change in Control), (B) provide the Executive and the Executive's dependents with welfare benefits (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and dismemberment and travel accident insurance plans and programs) in accordance with the most favorable plans, practices, programs and policies of the Company and the Affiliated Group in effect for the Executive immediately prior to such Change in Control, (C) provide fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Company and the Affiliated Group in effect for the Executive immediately prior to such Change in Control, or (D) provide the Executive with paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and the Affiliated Group as in effect for the Executive immediately prior to such Change in Control, unless in the case of any violation of (A), (B) or (C) above, the Executive is permitted to participate in other plans, programs or arrangements which provide the Executive (and, if applicable, the Executive's dependents) with no less favorable benefits at no greater cost to the Executive; or (vii) the failure of the Company to obtain the assumption agreement from any successor as contemplated in Section 10(b).

For purposes of this Agreement, any good faith determination of Good Reason made by the Executive shall be conclusive; provided, however, that an isolated, insubstantial and inadvertent action taken in good faith and which is remedied by the Company promptly after receipt of notice thereof given by an Executive shall not constitute Good Reason. The Executive's right to terminate employment for Good Reason shall not be affected by the Executive's incapacitation due to mental or physical illness and the Executive's continued employment shall not constitute consent to or a waiver of rights with respect to any event or condition constituting Good Reason. The Executive must provide notice of termination within ninety (90) days of his knowledge of an event or condition constituting Good Reason hereunder or such event shall not constitute Good Reason hereunder. A

transaction which results in the Company no longer being a publicly traded entity shall not in and of itself be treated as Good Reason unless and until one of the events or conditions set forth in Sections 1(k)(i) through (vii) occurs.

Any event or condition described in Sections 1(k)(i) through (vi) which occurs prior to a Change in Control, but was at the request of a Third Party, shall constitute Good Reason following a Change in Control for purposes of this Agreement (as if a Change in Control had occurred immediately prior to the occurrence of such event or condition) notwithstanding that it occurred prior to the Change in Control.

- (l) “Nonqualifying Termination” means the Executive’s separation from service (within the meaning of Section 1.409A-1(h) of the Regulations and Section 1(i) of this Agreement) (i) by the Company for Cause, (ii) by the Executive for any reason other than Good Reason, (iii) as a result of the Executive’s death, or (iv) as a result of the Executive’s Retirement.
- (m) “Projected Bonus Amount” means, with respect to any Year, the greater of (i) the Executive’s Target Bonus Amount for such Year; or (ii) to the extent calculable after at least one calendar quarter of the Year, the Bonus the Executive would have earned in the Year in which the Executive’s Date of Termination occurs had the Company’s financial performance through the end of the fiscal quarter immediately preceding the Date of Termination continued throughout said Year (the “Earned Bonus Amount”).
- (n) “Regulations” means regulations issued under Section 409A of the Code. Reference to any section of the Regulations shall be read to include any amendment or revision of such Regulation.
- (o) “Retirement” means the Executive’s mandatory retirement (not including any mandatory early retirement) in accordance with the Company’s retirement policy generally applicable to its salaried employees, as in effect immediately prior to the Change in Control, or in accordance with any retirement arrangement established with respect to the Executive with the Executive’s written consent.
- (p) “RONA Plan” means the Company’s Return on Net Assets Plan, or any successor thereto.
- (q) “Specified Employee” means a person designated from time to time as such by the Company pursuant to Section 409A(a)(2)(B)(i) of the Code and the Company’s policy for determining specified employees.
- (r) “Subsidiary” means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities of such corporation or other entity.
- (s) “Target Bonus Amount” means, with respect to any Year, the Executive’s target Bonus for such Year.

- (t) "Target Incentive Program" means the Company's Target Incentive Program, or any successor thereto.
- (u) "Termination Period" means the period of time beginning with a Change in Control and ending three (3) years following such Change in Control.
- (v) "Year" means the fiscal year of the Company.

2. Payments Upon Termination of Employment.

- (a) If during the Termination Period the employment of the Executive shall terminate, other than by reason of a Nonqualifying Termination, then, subject to Sections 2(g) and 2(h), the Company shall pay to the Executive (or the Executive's Beneficiary (as defined in Section 9(c)) or estate), within five (5) days following the Date of Termination, as compensation for services rendered to the Company:
 - (i) A lump-sum cash amount equal to the sum of: (A) the Executive's base salary from the Company and its Subsidiaries through the Date of Termination and any outstanding Bonus or long-term bonus awards for which payment is due and owing at such time, (B) any compensation previously deferred by the Executive other than pursuant to a tax-qualified plan (together with any interest and earnings thereon) (the "Deferred Amount"), (C) any accrued vacation pay, and (D) to the extent not provided under the Company's Bonus plans, a pro-rata portion of the Executive's Projected Bonus Amount for the Year in which the Executive's Date of Termination occurs, in each case to the extent not theretofore paid. Notwithstanding the foregoing, in the event of an Anticipatory Termination, in lieu of the payment referred to in Section 2(a)(i)(D), the Company shall pay to the Executive (or the Executive's Beneficiary (as defined in Section 9(c)) or estate), within two and one-half (2 1/2) months after the end of the Year in which the Executive's Date of Termination occurs, a pro-rata portion of the Bonus earned based on Company performance as certified by the Compensation and Human Resources Committee of the Board after the end of such Year; provided, however, that if a Change in Control occurs after such Anticipatory Termination and prior to such payment, payment of a pro-rata portion of the Executive's Projected Bonus Amount shall be paid, in accordance with Section 2(a)(i)(D), within five (5) days after such Change in Control.
 - (ii) A lump-sum cash amount equal to the product of: (A) the lesser of (1) two (2) and (2) the quotient resulting from dividing the number of full and partial months from the Executive's Date of Termination until the Executive would be subject to Retirement, by twelve (12) and (B) the sum of (1) the Executive's highest annual rate of base salary during the 12-month period immediately preceding the Date of Termination and (2) the highest of (x) the Executive's average Bonus (annualized for any partial Years of employment) earned during the 3-Year period immediately preceding the Year in which the Date of Termination occurs (or shorter annualized period if the Executive had not been employed for the full three-Year period), (y)

the Executive's Target Bonus Amount for the Year in which the Change in Control occurs and (z) the Executive's Target Bonus Amount for the Year in which the Date of Termination occurs; provided, that any amount paid pursuant to this Section 2(a)(ii) shall offset an equal amount of any severance relating to salary or bonus continuation to be received by the Executive upon termination of employment of the Executive under any severance plan, policy, or arrangement of the Company.

- (b) If during the Termination Period, the employment of the Executive shall terminate, other than by reason of a Nonqualifying Termination, for a period of two (2) years (or, if lesser, the period ending on the date on which the Executive would be subject to Retirement) commencing on the Date of Termination, the Company shall continue to keep in full force and effect (or otherwise provide) all policies of medical, accident, disability and life insurance with respect to the Executive and his dependents with the same level of coverage, upon the same terms and otherwise to the same extent (and on the same after-tax basis, with any payment required to keep the Executive in the same after-tax position made no later than the end of the calendar year in which the Executive remits the related taxes), as such policies shall have been in effect immediately prior to the Date of Termination (or, if more favorable to the Executive, immediately prior to the Change in Control), and the Company and the Executive shall share the costs of the continuation of such insurance coverage in the same proportion as such costs were shared immediately prior to the Date of Termination.
- (c) If during the Termination Period the employment of the Executive shall terminate, other than by reason of a Nonqualifying Termination, then the Executive shall be credited with three (3) years additional age and service credit for purposes of qualifying for any retiree medical benefits programs of the Company, although receipt of such retiree medical benefits shall not commence until the Executive is otherwise eligible under the terms of the retiree medical plan. If the Executive is terminated pursuant to a Nonqualifying Termination and would have been eligible to retire under the terms and conditions of the Company's retiree medical program as of immediately prior to the Executive's Date of Termination (or, if more favorable to the Executive, as of immediately prior to the Change in Control), the Executive's termination of employment shall be treated as a retirement under the Company's retiree medical program. The retiree medical benefits (and cost) to be provided to the Executive (and the Executive's eligible dependents) by the Company shall be no less favorable than the benefits (and cost) under the retiree medical program of the Company as of immediately prior to the Executive's Date of Termination (or, if more favorable to the Executive, as of immediately prior to the Change in Control), and shall be provided notwithstanding any amendment to, or termination of, the Company's retiree medical program.
- (d) If during the Termination Period the employment of the Executive shall terminate by reason of a Nonqualifying Termination or the Executive shall suffer a Disability, then, subject to Sections 2(g) and 2(h), the Company shall pay to the Executive within thirty (30) days following the Date of Termination or Disability, a cash amount equal to the sum of (i) the Executive's base salary from the Company and its Subsidiaries through the Date of Termination or Disability and any outstanding Bonus or long-term bonus awards for which payment is due and owing at such time, (ii) any compensation previously deferred by the

Executive other than pursuant to a tax-qualified plan (together with any interest and earnings thereon), (iii) any accrued vacation pay, and (iv) in the event of a Nonqualifying Termination other than for Cause or the Executive's Disability, to the extent not provided under the Company's Bonus plans, a pro-rata portion of the Executive's Earned Bonus Amount for the Year in which the Executive's Date of Termination or Disability occurs, in each case to the extent not theretofore paid.

- (e) If subsequent to a Change in Control and the end of the Termination Period, the employment of the Executive shall be terminated by the Company (other than by reason of a Nonqualifying Termination), then, subject to Section 2(h), the Company shall pay the Executive within five (5) days following his Date of Termination a lump sum cash payment equal to the sum of (i) the Executive's highest annual rate of base salary during the 12-month period immediately preceding the Date of Termination and (ii) the higher of (A) the Executive's average Bonus (annualized for any partial Years of employment) earned during the 3-Year period immediately preceding the Year in which the Date of Termination occurs and (B) the Executive's Target Bonus Amount for the Year in which the Date of Termination occurs; provided, that any amount paid pursuant to clauses (i) and (ii) of this Section 2(e) shall offset an equal amount of any severance relating to salary or bonus continuation to be received by the Executive upon termination of employment of the Executive under any severance plan, policy or arrangement of the Company.
- (f) If subsequent to a Change in Control and the end of the Termination Period, the employment of the Executive shall be terminated by the Company, the Company shall pay the Executive within five (5) days following his Date of Termination a lump sum cash payment equal to: (i) the Executive's base salary from the Company and its Subsidiaries through the Date of Termination and any outstanding Bonus or long-term bonus awards for which payment is due and owing at such time, (ii) any accrued vacation pay, and (iii) if the termination is other than for Cause, to the extent not provided under the Company's Bonus plans, a pro-rata portion of the Executive's Earned Bonus Amount for the Year in which the Executive's Date of Termination occurs, in each case to the extent not theretofore paid.
- (g) Notwithstanding any of the foregoing provisions of this Section 2, (i) the amounts described in Section 2(a)(i)(B) and Section 2(d)(ii) of this Agreement shall be paid as a lump sum only if (A) the Date of Termination occurs within two years following a Corporate Change 409A Event, or (B) to the extent that payment in a lump sum is otherwise permitted by Section 409A of the Code.
- (h) Notwithstanding any of the foregoing provisions of this Section 2, in the event that the Executive is a Specified Employee upon the Date of Termination, to the extent required in order to comply with Section 409A of the Code, amounts and benefits to be paid or provided under this Agreement following the Date of Termination and not on account of the Executive's Disability shall be paid or provided to the Executive on the first day of the seventh month following the Date of Termination.

3. Section 280G.

- (a) Notwithstanding any other provision of this Agreement or any other agreement or plan to the contrary, if any of the payments or benefits provided or to be provided by the Company or its affiliates to the Executive or for the Executive's benefit pursuant to the terms of this Agreement or otherwise ("Covered Payments") constitute parachute payments within the meaning of Section 280G of the Code and would, but for this Section 3, be subject to the excise tax imposed under Section 4999 of the Code or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "Excise Tax"), then prior to making the Covered Payments, a calculation shall be made comparing (i) the "Net Benefit" (as defined below) to the Executive of the Covered Payments after payment of the Excise Tax to (ii) the Net Benefit to the Executive if the Covered Payments are limited to the extent necessary to avoid being subject to the Excise Tax. Only if the amount calculated under (i) above is less than the amount under (ii) above will the Covered Payments be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax. "Net Benefit" shall mean the present value of the Covered Payments net of all federal, state, local, foreign income, employment and excise taxes.
- (b) Any such reduction of Covered Payments under Section 3(a) shall be made in accordance with Section 409A of the Code and the following:
- (iii) the Covered Payments which do not constitute nonqualified deferred compensation subject to Section 409A of the Code shall be reduced first; and
 - (iv) all other Covered Payments shall then be reduced as follows: (A) cash payments shall be reduced before non-cash payments, (B) cancellation of accelerated vesting of equity awards (based on the reverse order of the date of grant) before reduction of welfare benefits, and (C) payments to be made on a later payment date shall be reduced before payments to be made on an earlier payment date.
- (c) All determinations required to be made under this Section 3 shall be made by such professional consulting firm engaged by the Company from time to time as its independent consultant (the "Consulting Firm"). The Consulting Firm shall provide its calculations, together with detailed supporting documentation, both to the Company and the Executive (collectively, the "Determination"). In the event that the Consulting Firm is serving as a consultant for the individual, entity or group effecting the Change in Control, the Company shall prior to the Change in Control appoint a nationally recognized public accounting firm to make the determination required under this Agreement (which accounting firm shall then be referred to as the Consulting Firm under this Agreement). All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Consulting Firm shall be borne by the Company. The Determination by the Consulting Firm shall be binding upon the Company and the Executive (except as provided in Subsection (d) below).
- (d) If it is established pursuant to a final determination of a court or an Internal Revenue Service (the "IRS") proceeding which has been finally and conclusively resolved, that payments have been made to, or provided for the benefit of, the Executive by the Company that are in the aggregate more than the amount provided under this Section 3 (hereinafter referred

to as an "Overpayment"), then the Executive shall pay any such Overpayment to the Company together with interest at the applicable federal rate (as defined in Section 7372(f)(2)(A) of the Code) from the date of the Executive's receipt of the Overpayment until the date of such repayment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made under this Section 3. In the event that it is determined: (i) by the Consulting Firm, the Company (which shall include the position taken by the Company, or together with its consolidated group, on its federal income tax return) or the IRS; or (ii) pursuant to a determination by a court, that an Underpayment has occurred, the Company shall promptly pay an amount equal to such Underpayment to the Executive, and in no event later than sixty (60) days following the date on which the Underpayment is determined, together with interest on such amount at the applicable federal rate from the date such amount would have been paid to the Executive until the date of payment.

4. Withholding Taxes. The Company may withhold from all payments due to the Executive (or his beneficiary or estate) hereunder all taxes which, by applicable federal, state, local or other law, the Company is required to withhold therefrom.

5. Reimbursement of Expenses. If any contest or dispute shall arise under this Agreement involving termination of the Executive's employment with the Company or involving the failure or refusal of the Company to perform fully in accordance with the terms hereof, the Company shall reimburse the Executive, on a current basis, for all legal fees and expenses, if any, incurred by the Executive within 10 years after the Date of Termination in connection with such contest or dispute (regardless of the result thereof), together with interest in an amount equal to the prime rate of Key Bank from time to time in effect, but in no event higher than the maximum legal rate permissible under applicable law, such interest to accrue from the date the Company receives the Executive's statement for such fees and expenses through the date of payment thereof. The Company's reimbursement of the Executive's legal fees and expenses pursuant to this Section 5 shall be made on or before the last day of the calendar year following the calendar year in which such legal fees and expenses are incurred. The amount of legal fees and expenses eligible for reimbursement during any calendar year shall not affect the amount of legal fees and expenses eligible for reimbursement during any other calendar year, and the right to reimbursement shall not be subject to liquidation or exchange for another benefit.

6. Termination of Agreement. This Agreement shall be effective on the date hereof and shall continue until the first to occur of (i) the termination of the Executive's employment with the Company prior to a Change in Control (except as otherwise provided hereunder), (ii) a Nonqualifying Termination, (iii) the Executive's Disability, or (iv) the Executive's termination of employment following the Termination Period.

7. Scope of Agreement. Nothing in this Agreement shall be deemed to entitle the Executive to continued employment with the Company or its Subsidiaries, and if the Executive's employment with the Company shall terminate prior to a Change in Control, the Executive shall have no further rights under this Agreement (except as otherwise provided hereunder); provided, however, that

notwithstanding anything herein to the contrary, any termination of the Executive's employment following a Change in Control shall be subject to all of the benefit and payment provisions of this Agreement.

8. Obligations of the Executive. The Executive agrees that if a Change in Control shall occur, the Executive shall not voluntarily leave the employ of the Company without Good Reason during the 90-day period immediately following a Change in Control.

9. Successors' Binding Obligation.

- (a) This Agreement shall not be terminated by any Business Combination or transfer of assets. In the event of any Business Combination or transfer of assets, the provisions of this Agreement shall be binding upon the surviving or resulting corporation or any person or entity to which the assets of the Company are transferred.
- (b) The Company agrees that concurrently with any Business Combination or transfer of assets, it will cause any successor or transferee unconditionally to assume by written instrument delivered to the Executive (or his beneficiary or estate) all of the obligations of the Company hereunder. Failure of the Company to obtain such assumption prior to the effectiveness of any such Business Combination or transfer of assets that results in a Change in Control shall constitute Good Reason hereunder and shall entitle the Executive to compensation and other benefits from the Company in the same amount and on the same terms as the Executive would be entitled hereunder if the Executive's employment were terminated following a Change in Control other than by reason of a Nonqualifying Termination. For purposes of implementing the foregoing, the date on which any such Business Combination or transfer of assets becomes effective shall be deemed the date Good Reason occurs, and the Executive may terminate employment for Good Reason on or following such date.
- (c) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amounts would be payable to the Executive hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to such person or persons appointed in writing by the Executive to receive such amounts (the "Beneficiary" or "Beneficiaries") or, if no person is so appointed, to the Executive's estate.

10. Notice.

- (a) For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five (5) days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

If to the Company:

Parker-Hannifin Corporation
6035 Parkland Boulevard
Cleveland, Ohio 44124-4141
Attention: Secretary

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt. Alternatively, notice may be deemed to have been delivered when sent by facsimile or telex to a location provided by the other party hereto.

(b) A written notice of the Executive's Date of Termination by the Company or the Executive, as the case may be, to the other, shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated and (iii) specify the Date of Termination (which date shall not be less than fifteen (15) nor more than sixty (60) days after the giving of such notice). The failure by the Executive or the Company to set forth in such notice any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

11. Full Settlement; No Mitigation. The Company's obligation to make any payments provided for by this Agreement to the Executive and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment.

12. Employment with Members of Affiliated Group. Employment with the Company for purposes of this Agreement shall include employment with any member of the Affiliated Group.

13. Governing Law; Validity. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Ohio without regard to the principle of conflicts of laws. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which other provisions shall remain in full force and effect.

14. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

15. Miscellaneous. No provision of this Agreement may be modified or waived unless such modification or waiver is agreed to in writing and signed by the Executive and by a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by the Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right the Executive or the Company may have hereunder, including without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement. Except as otherwise specifically provided herein, the rights of, and benefits payable to, the Executive, his estate or his beneficiaries pursuant to this Agreement are in addition to any rights of, or benefits payable to, the Executive, his estate or his beneficiaries under any other employee benefit plan or compensation program of the Company.

16. Compliance with Section 409A of the Code. This Agreement will be administered in a manner consistent with all applicable requirements of the Act, Section 409A of the Code and the Regulations or other guidance thereunder and any provision in the Agreement that is inconsistent with Section 409A of the Code shall be void and without effect.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and the Executive has executed this Agreement as of the day and year first above written.

PARKER-HANNIFIN CORPORATION:

By: _____

EXECUTIVE:

Printed: _____

EXECUTIVE DISABILITY INSURANCE PLAN
PARKER HANNIFIN CORPORATION
EFFECTIVE April 15, 2007
Revised May 1, 2013

Parker Hannifin Corporation Executive Disability Insurance Plan provides an enhanced disability benefits for key executives in the form of two (2) coverages based on total year-end compensation. For those Executives promoted or hired on or after May 1, 2013 that do not have prior year-end total compensation with Parker, the benefit will be based on annualized salary for the first year.

1. What is the effective date of the plan?

The effective date of the disability package is April 15, 2007.

2. What is the disability benefit provided under the plan?

The Executive Disability program provides a maximum benefit of two-thirds (2/3) of annual compensation up to \$595,000. This is a significant increase in your potential benefit, from the prior cap of \$8,888 per month to \$33,000 per month.

The maximum total monthly disability benefit is achieved through the issuance of two (2) separate insurance policies. If your annual compensation is greater than \$269,987, you are eligible for both portions of this benefit:

- \$15,000 Group Long Term Disability (LTD)
- \$20,000 Individual Disability (IDI) policy - \$10,000 of basic monthly benefits and an additional \$10,000 monthly catastrophic benefit if you should be disabled from two (2) or more Activities of Daily Living (ADLs), have a cognitive impairment, or a total permanent disability based on your state of residence when the policy was issued.

3. How long is the coverage effective?

Coverage continues to the last day worked (termination or retirement). For example, if an employee works beyond age 65, coverage would continue through last day worked. Should you become disabled, benefits will continue to age 65 or longer based on the schedule in each contract. Executives who qualified for the individual policy coverage prior to May 1, 2013 have the option to convert the disability plan to a Long Term Care plan between the ages of 60 and 70. Effective May 1, 2013 this provision is no longer available.

4. How often is the benefit updated?

Coverage is reviewed and updated every January. New annual compensation is defined as your base salary plus RONA bonuses paid during the calendar year ending 12/31 of the year prior to your disability. Coverage will be increased based on the 12/31 total compensation provided by Parker Hannifin each January.

5. What are the eligibility requirements?

Eligible participants are those in full time employment in the position of General Manager, Vice President, or a position that is Grade 57 or higher.

6. When does an eligible employee enter the plan?

Effective May 1, 2013, new participants are added to the plan on the first of the month following their hire or promotion date.

7. Who is the insurance carrier for the plan?

Unum Life Insurance Company is the disability carrier for both portions of the benefit.

8. Is a medical questionnaire or examination necessary to participate in the plan?

The insurance coverage is guaranteed issue and not subject to medical exams or questionnaires.

9. How are premiums paid for the coverage?

Parker Hannifin pays all premiums for coverage to retirement or termination. Because the cost of your disability benefit is paid by Parker, it is considered additional compensation, and is taxable to you. You may elect to have this benefit taxed either at the time the premiums are paid on your behalf, or upon your receipt of disability benefits should that occur. When you are enrolled in the plan you will be given the choice to have premiums included in your W-2 earnings for a tax-free benefit, or to have Parker pay your premium and receive a taxable benefit at time of disability. There is a 2-3 year look-back period with IRS so we suggest you discuss your options with your tax advisor.

10. What is the cost of the coverage?

The group LTD coverage is calculated on covered payroll and each Executive receives an annual letter outlining the total benefit and cost. Group LTD is subject to claims experience and may change over time. The individual policies (IDI) are priced according to issue age, smoker status and state of residence.

11. Is the plan portable following termination or retirement?

The group Long Term Disability coverage of 66 2/3% to \$15,000 monthly benefit is not portable. Coverage ends at retirement or termination. The individual policies are portable at current premiums as long as you continue to work at least 30 hours per week.

12. Who owns the insurance policy?

The group LTD is a Parker provided benefit. The individual policy is owned by each executive who qualifies.

13. Will annual statements be provided to participants?

Each January after Parker has provided updated total compensation, Oswald Companies, our broker, prepares and e-mails individual letters to each executive. The statement outlines each executive's specific coverage and quarterly premiums, and their taxation election.

14. Who to contact with questions?

For administration and coverage issues, contact Oswald Companies - Maryann Hudec at 216-367-8830 or mhudec@oswaldcompanies.com

For eligibility questions, contact Parker Hannifin - Jan Albert at 216-896-3203 or jalbert@parker.com.

PARKER-HANNIFIN CORPORATION
AMENDED AND RESTATED
SAVINGS RESTORATION PLAN

Adopted: June 23, 2016

Effective: July 1, 2016

Parker-Hannifin Corporation, an Ohio corporation, (the "Company"), established this Savings Restoration Plan (the "Plan"), originally effective October 1, 1994, for the purpose of attracting high quality executives and promoting in its executives increased efficiency and an interest in the successful operation of the Company by restoring some of the deferral opportunities and employer-provided benefits that are lost under The Parker Retirement Savings Plan due to legislative limits.

The Plan has been amended and restated from time to time. The Plan underwent significant and comprehensive changes when it was amended during December 2005 to provide for certain transitional rules and was amended and restated as of July 21, 2008 and such other dates as specified herein to reflect the requirements of the American Jobs Creation Act ("the Act") with respect to Section 409A of the Code. Except as otherwise specifically provided in Sections 4.1(a), 6.2(a)(iii), 6.2(b)(ii) and 8.4 of this Plan, all benefits deferred and vested under the Plan prior to January 1, 2005 and any additional amounts that are not subject to Section 409A of the Code, including the portion of a Participant's Excess RIA Account that was vested under the terms of the Plan in effect on December 31, 2004 and earnings thereon, (the "Grandfathered Amounts") shall continue to be subject solely to the terms of the separate Plan as in effect on December 31, 2004. The Plan will be administered in a manner consistent with the Act and Section 409A of the Code and any Regulations or other guidance thereunder and any provision in the Plan that is inconsistent with Section 409A of the Code shall be void and without effect. Notwithstanding anything else in the Plan to the contrary, nothing herein shall be read to preclude the Plan from using any transition rules permitted under the Act, provided that no action will be permitted with respect to the Grandfathered Amounts that will subject such amounts to Section 409A of the Code.

The Plan is hereby amended and restated in its entirety as of July 1, 2016.

ARTICLE 1

DEFINITIONS

- 1.1. Account shall mean the notional account established for record-keeping purposes for a Participant pursuant to Article 5. The term Account shall include the Restoration Account and/or the Excess RIA Account, as applicable.
- 1.2. Adjusted Matching Percentage shall mean the sum of 100% of the first 3% of a Participant's Total Deferral Percentage, plus 50% of the next 2% of the Participant's Total Deferral Percentage. The maximum Adjusted Matching Percentage for any Plan Year shall be 4%.

- 1.3. Administrator shall mean the Parker Total Rewards Administration Committee of the Company or, if applicable, the administration subcommittee appointed by the Parker Total Rewards Administration Committee with respect to the Plan.
- 1.4. Affiliated Group shall mean the Company and all entities with which the Company would be considered a single employer under Sections 414(b) and 414(c) of the Code, provided that in applying Section 1563(a)(1), (2), and (3) of the Code for purposes of determining a controlled group of corporations under Section 414(b) of the Code, the language “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Section 1563(a)(1), (2), and (3) of the Code, and in applying Section 1.414(c)-2 of the Treasury Regulations for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code, “at least 50 percent” is used instead of “at least 80 percent” each place it appears in that regulation. Such term shall be interpreted in a manner consistent with the definition of “service recipient” contained in Section 409A of the Code.
- 1.5. Annual Deferral shall mean the amount of Compensation which the Participant elects to defer for a Plan Year pursuant to Articles 2 and 3.
- 1.6. Annualized Base Salary shall mean a Participant's annualized base salary, determined by the Administrator as of November 1 of the calendar year immediately preceding the Plan Year for which the Matching Limit is being determined.
- 1.7. Applicable Dollar Amount shall mean the “applicable dollar amount” determined under Section 402(g)(1)(B) of the Code for the Plan Year for which the Matching Limit is being determined.
- 1.8. Beneficiary shall mean the person or persons or entity designated as such in accordance with Article 14.
- 1.9. Change in Control means the occurrence of one of the following events:
 - (a) A change in ownership of the Company, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total voting power of the stock of the Company. Notwithstanding the foregoing, if any one person or group is considered to own more than 50% of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the ownership of the Company or a change in the effective control of the Company (within the meaning of Section 1.9(b) of this Plan). Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires ownership of more than 50% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would

occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Change in Control shall then occur.

(b) A change in effective control of the Company, which occurs on either of the following dates:

(i) The date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Company possessing 30% or more of the total voting power of the Company. Notwithstanding the foregoing, if any one person or group is considered to own 30% or more of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the effective control of the Company or a change in ownership of the Company (within the meaning of Section 1.9(a) of this Plan). Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires ownership of more than 30% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Change in Control shall then occur.

(ii) The date that a majority of the Company's board of directors is replaced during any 12-month period by directors whose appointment or election was not endorsed by a majority of the members of the board prior to the date of such appointment or election.

(c) a change in the ownership of a substantial portion of the Company's assets, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets that have a total gross fair market value equal to or more than 65% of the total gross fair market value of all the assets of the Company immediately before such acquisition or acquisitions. The gross fair market value of assets shall be determined without regard to liabilities associated with such assets. Notwithstanding the foregoing, a transfer of assets shall not result in a change in ownership of a substantial portion of the Company's assets if such transfer is to: (i) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (ii)

an entity 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (iii) a person or group (within the meaning of the Regulations under Section 409A of the Code) that owns, directly or indirectly, 50% or more of the total value or voting power of the stock of the Company, or (iv) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly by a person or group described in Section 1.9(c)(iii) of this Plan.

Notwithstanding Sections 1.9(a), 1.9(b)(i) and 1.9(c) above, the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Company or any Subsidiary that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), shall not be deemed a Change in Control if, immediately following such Business Combination: (a) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by securities of the Company eligible to vote for the election of the Board (the "Company Voting Securities") that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (b) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (c) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Company's Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

Notwithstanding the foregoing, an acquisition of stock of the Company described in Section 1.9(a) or 1.9(b)(i) above shall not be deemed to be a Change in Control by virtue of any of the following situations: (a) an acquisition by the Company or any Subsidiary; (b) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (c) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; or (d) the acquisition of stock of the Company from the Company.

- 1.10. Code shall mean the Internal Revenue Code of 1986, as amended, or any successor statute, and regulations or other guidance issued thereunder.
- 1.11. Committee shall mean the Administrator, the Investment Committee or the Compensation Committee, as applicable.

1.12. Compensation shall mean:

(a) For amounts that are due and payable before January 1, 2007, the sum of the Participant's base salary and regular bonuses (including profit-sharing, the Company's Return on Net Assets (RONA) Plan, and target incentive bonus, but excluding sales commissions, payments under any long term incentive plan, volume incentive plan, or other extraordinary bonus or incentive plan) for a Plan Year before reductions for deferrals under the Plan, or the Executive Deferral Plan, or the Savings Plan, or the Parker-Hannifin Corporation Cafeteria Plan, or the Group Insurance Plan for Hourly and Salaried Employees of Parker-Hannifin Corporation.

(b) For Plan Years beginning on and after January 1, 2007, Compensation shall mean a Participant's base salary before reductions for deferrals under the Plan, or the Executive Deferral Plan, or the Savings Plan, or the Parker-Hannifin Corporation Cafeteria Plan, or the Group Insurance Plan for Hourly and Salaried Employees of Parker-Hannifin Corporation. Compensation shall not include any amounts payable on account of Termination of Employment, whether paid periodically or in a lump sum.

1.13. Compensation Committee shall mean the Human Resources and Compensation Committee of the Board.

1.14. Crediting Rate shall mean: (a) the amount described in Section 1.14.1 to the extent the Account balance represents either Annual Deferrals under Article 3 or earnings previously credited on such deferrals under Section 5.2(d), or Excess RIA Contributions under Section 4.1(b) or earnings previously credited on such Excess RIA Contributions under Section 5.2(d); or (b) the amount described in Section 1.14.2 to the extent the Restoration Account balance represents either Matching Credits under Section 4.1(a) or interest previously credited on such Matching Credits under Section 5.2(d).

1.14.1 Crediting Rate for Annual Deferrals and Excess RIA Contributions shall mean any notional gains or losses equal to those generated as if the Restoration Account balance attributable to Annual Deferrals under Article 3 and the Excess RIA Account Balance attributable to Excess RIA Contributions under Section 4.1(b) had been invested in one or more of the investment portfolios designated as available by the Investment Committee, less separate account fees and less applicable administrative charges determined annually by the Administrator.

A Participant may elect to allocate his or her Restoration Account and Excess RIA Account among the available portfolios. The gains or losses shall be credited based upon the daily unit values for the portfolio(s) selected by the Participant. The rules and procedures for allocating the Restoration Account and Excess RIA Account balance among the portfolios shall be determined by the Administrator. The Participant's allocation is solely for the purpose of calculating the Crediting Rate. Notwithstanding the method of calculating the Crediting Rate, the Company shall be under no obligation to purchase any investments designated by the Participant.

1.14.2 Crediting Rate for Matching Credits shall mean any notional gains or losses equal to those generated as if the Restoration Account balance attributable to Matching Credits under Section 4.1(a) had been invested in the Common Stock of the Company, including reinvestment of dividends. The rules and procedures for determining the value of the Common Stock of the Company shall be determined by the Administrator. The rules and procedures for re-allocating the Restoration Account balance attributable to the Matching Credits among the other portfolios offered under the Plan shall be determined by the Administrator.

- 1.15. Disability shall mean the condition whereby a Participant is (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (b) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under any accident and health plan covering employees of the Company. The Administrator, in its complete and sole discretion, shall determine a Participant's Disability. The Administrator may require that the Participant submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Administrator to confirm Disability. On the basis of such medical evidence, the determination of the Administrator as to whether or not a condition of Disability exists or continues shall be conclusive.
- 1.16. Disability Benefit shall mean the benefit payable pursuant to Article 9.
- 1.17. Early Retirement Date shall mean age 55 with ten or more years of employment with the Company.
- 1.18. Eligible Executive shall mean a key employee of the Company or any of its subsidiaries who: (a) is designated by the Administrator as eligible to participate in the Plan; and (b) qualifies as a member of the "select group of management or highly compensated employees" under ERISA.
- 1.19. Eligible RIA Executive shall mean an employee of the Company or any of its subsidiaries who is entitled to receive an allocation to the Retirement Income Account portion of the Savings Plan, and (a) who receives compensation, as such term is used to determine contributions under the Savings Plan, in excess of the amount specified in Section 401(a)(17) of the Code, or (b) whose benefits payable from the Savings Plan are directly or indirectly limited pursuant to Section 415(c) of the Code.
- 1.20. ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended, or any successor statute, and regulations or other guidance issued thereunder.

- 1.21. Estimated Bonuses shall mean:
- (a) For each Plan Year beginning before January 1, 2007, the sum of a Participant's RONA and Target Incentive bonuses payable during the Plan Year for which the Matching Limit is being determined, estimated in good faith by the Administrator as of November 1 of the immediately preceding calendar year.
 - (b) For each Plan Year beginning on and after January 1, 2007, the sum of a Participant's RONA and Target Incentive bonuses payable in August of the Plan Year for which the Matching Limit is being determined, estimated in good faith by the Administrator as of November 1 of the immediately preceding calendar year.
- 1.22. Excess RIA Account shall mean the Account established pursuant to Section 5.1(b) of this Plan.
- 1.23. Excess RIA Contribution shall mean the difference between the amount actually contributed to a Participant's Retirement Income Account under the Savings Plan with respect to a Plan Year and the amount that would have been contributed for such Plan Year but for the application of the Statutory Limits, as adjusted for cost of living increases.
- 1.24. Executive Deferral Plan shall mean the Parker-Hannifin Corporation Amended and Restated Executive Deferral Plan as it currently exists and as it may subsequently be amended.
- 1.25. Investment Committee shall mean the Parker Total Rewards Investment Committee of the Company or, if applicable, the investment subcommittee appointed by the Parker Total Rewards Investment Committee with respect to the Plan.
- 1.26. Matching Credit shall mean the Company's credit to the Participant's Restoration Account under Section 4.1(a).
- 1.27. Matching Limit shall mean, for any Plan Year, the excess of: (a) the lesser of: (i) \$17,000 or (ii) the product of the Adjusted Matching Percentage times the sum of the Participant's Projected Gross Compensation, over (b) the product of 4% times the lesser of: (i) the Statutory Limit under Section 401(a)(17) of the Code on compensation that may be taken into account under the Savings Plan for the Plan Year, or (ii) the excess of a Participant's Projected Gross Compensation over the Participant's Projected SRP Deferral and Projected EDP Deferral.
- 1.28. Matching Percentage shall mean, for any Plan Year, the percentage determined by dividing a Participant's Matching Limit by the Participant's Projected SRP Deferral.
- 1.29. Normal Retirement Date shall mean the date on which a Participant attains age 65.
- 1.30. Participant shall mean an Eligible Executive who has elected to participate and has completed a Participation Agreement pursuant to Article 2 or an Eligible RIA Executive entitled to receive an Excess RIA Contribution.

- 1.31. Participation Agreement shall mean the Eligible Executive's or Eligible RIA Executive's written or electronic election to participate in the Plan and/or to select distribution options in accordance with Article 6.
- 1.32. Plan Year shall mean the calendar year.
- 1.33. Projected EDP Deferral shall mean the amount that would be deferred by a Participant under Section 3.1(a) of the Executive Deferral Plan for the Plan Year for which the Matching Limit is being determined, if the terms "Salary" and "Bonuses" used therein referred to the Participant's Annualized Base Salary and Estimated Bonuses, respectively.
- 1.34. Projected Gross Compensation shall mean the sum of a Participant's RONA and target incentive bonuses payable during the Plan Year for which the Matching Limit is being determined, estimated in good faith by the Administrator as of November 1 of the immediately preceding calendar year, plus the Participant's Annualized Base Salary.
- 1.35. Projected Savings Plan Deferral shall mean the lesser of (a) the Applicable Dollar Amount, or (b) 75% of the excess of a Participant's Projected Gross Compensation over the Participant's Projected SRP Deferral and Projected EDP Deferral.
- 1.36. Projected SRP Deferral shall mean:
- (a) For the Plan Year beginning January 1, 2005:
- (i) For a Participant who is not eligible to participate in the Executive Deferral Plan for such Plan Year, the lesser of: (A) \$25,000 or (B) the product of the sum of the Participant's Annualized Base Salary and Estimated Bonuses times the percentage of Compensation specified in the Participant's Annual Deferral under Section 3.1 for the Plan Year for which the Matching Limit is being determined.
- (ii) For a Participant who is eligible to participate in the Executive Deferral Plan for such Plan Year, the lesser of: (A) \$7,600 or (B) the product of the sum of the Participant's Annualized Base Salary and Estimated Bonuses times the percentage of Compensation specified in the Participant's Annual Deferral under Section 3.1 for the Plan Year for which the Matching Limit is being determined.
- (b) For the Plan Year beginning January 1, 2006, the lesser of: (i) \$25,000 or (ii) the product of the sum of the Participant's Annualized Base Salary and Estimated Bonuses times the percentage of Compensation specified in the Participant's Annual Deferral under Section 3.1 for the Plan Year for which the Matching Limit is being determined.
- (c) For each Plan Year beginning on and after January 1, 2007, the lesser of: (i) \$25,000 or (ii) the product of the Participant's Annualized Base Salary times the percentage of Compensation specified in the Participant's Annual Deferral under Section 3.1 for the Plan Year for which the Matching Limit is being determined.

- 1.37. Regulations shall mean regulations issued under Section 409A of the Code. Reference to any section of the Regulations shall be read to include any amendment or revision of such Regulation.
- 1.38. Restoration Account shall mean the Account established pursuant to Section 5.1(a).
- 1.39. Retirement shall mean a Separation from Service from the Affiliated Group that follows Normal or Early Retirement Date.
- 1.40. Retirement Benefit shall mean the benefit payable pursuant to Article 6.
- 1.41. Savings Plan shall mean the Parker Retirement Savings Plan, as it currently exists and as it may subsequently be amended.
- 1.42. Separation from Service shall have the meaning set out in Section 1.409A-1(h) of the Regulations; provided, that in applying Section 1.409A-1(h)(ii) of the Regulations, a separation from service shall be deemed to occur if the Company and the Participant reasonably anticipate that the level of bona fide services the Participant will perform for the Affiliated Group after a certain date (whether as an employee or as an independent contractor) will permanently decrease to less than 50% of the average level of bona fide services performed by the Participant for the Affiliated Group (whether as an employee or as an independent contractor) over the immediately preceding 36-month period (or the full period of services performed for the Affiliated Group if the Participant has been providing services to the Affiliated Group for less than 36 months). In the event of a disposition of assets by the Company to an unrelated person, the Administrator reserves the discretion to specify (in accordance with Section 1.409A-1(h)(4) of the Regulations) whether a Participant who would otherwise experience a Separation from Service with the Company as part of the disposition of assets will be considered to experience a separation from service for purposes of Section 1.409A-1(h) of the Regulations.
- 1.43. Specified Employee shall mean a person designated from time to time as such by the Administrator pursuant to Section 409A(a)(2)(B) (i) of the Code and the Company's policy for determining specified employees.
- 1.44. Spouse shall mean an individual of the same or opposite sex of a Participant to whom the Participant is married in, and under the laws of, the state of celebration of such marriage.
- 1.45. Statutory Limits shall mean any limit on compensation taken into account in calculating benefits under the Savings Plan under Section 401(a)(17) of the Code or that directly or indirectly affects the amount of benefits payable from the Savings Plan pursuant to Section 415(c) of the Code or any other applicable Section of the Code.
- 1.46. Subsidiary shall mean any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity.

- 1.47. Survivor Benefit shall mean the benefit payable pursuant to Article 8.
- 1.48. Termination Benefit shall mean the benefit payable pursuant to Article 7.
- 1.49. Termination of Employment shall mean Separation from Service from the Affiliated Group, other than Separation from Service due to Retirement, Disability or death.
- 1.50. Total Deferral Percentage shall mean the percentage determined by dividing the sum of a Participant's Projected SRP Deferral and Projected Savings Plan Deferral by the Participant's Projected Gross Compensation.
- 1.51. Unforeseeable Emergency shall mean a severe financial hardship arising from: (a) the illness or accident of the Participant, the Participant's Spouse, or the Participant's dependent (as defined in Section 152(a) of the Code), (b) loss of the Participant's property due to casualty, or (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The determination of when a Participant has incurred an Unforeseeable Emergency shall be made by the Administrator, in its sole discretion, pursuant to and subject to the conditions of Section 409A of the Code and Regulations thereunder.
- 1.52. Valuation Date shall mean each day on which the New York Stock Exchange is open, except that for purposes of determining the value of a distribution under Articles 6, 7, 8, 9 or 15, it shall mean the 24th day of each month (or the most recent business day preceding such date) immediately preceding the month in which a distribution is to be made.

ARTICLE 2 PARTICIPATION

2.1. Participant Deferral or Automatic Participation.

- (a) An Eligible Executive shall become a Participant in the Plan on the first day of the Plan Year coincident with or next following the date the individual becomes an Eligible Executive, provided such Eligible Executive has submitted to the Administrator a Participation Agreement prior to the beginning of the Plan Year and within the enrollment period designated by the Administrator. In the Participation Agreement, and subject to the restrictions in Article 3, the Eligible Executive shall designate the Annual Deferral for the covered Plan Year.
- (b) An Eligible RIA Executive shall become a Participant in this Plan automatically on January 1 of the Plan Year immediately following the first Plan Year that the Participant's right to an Excess RIA Contribution accrues. A Participant who is not an Eligible Executive for the first Plan Year that such Participant is an Eligible RIA Executive (or any earlier Plan Year) shall submit an initial Participation Agreement to the Administrator within thirty (30) days of becoming a Participant in this Plan. To the extent permitted under Section 409A of the Code, such a Participant's election of a distribution option in such an initial Participation Agreement submitted within thirty (30) days of becoming

a Participant in this Plan shall govern the form of payment of such Participant's Excess RIA Account, except as otherwise provided in Section 6.4.

(c) An individual may be both an Eligible Executive and an Eligible RIA Executive.

2.2. Continuation of Participation. An individual who has become a Participant in this Plan pursuant to Section 2.1 shall continue as a Participant in the Plan even though such individual ceases to be an Eligible Executive and/or an Eligible RIA Executive; provided that any such Participant shall not be eligible to: (a) make an Annual Deferral for a Plan Year unless the Participant is an Eligible Executive for such Plan Year, or (b) receive an allocation of an Excess RIA Contribution for a Plan Year if the Participant is not an Eligible RIA Participant for such Plan Year.

ARTICLE 3 EXECUTIVE DEFERRALS

3.1. Deferral Election. A Participant may elect on the Participation Agreement to make an Annual Deferral to defer a specified percentage of Compensation relating to services performed during a Plan Year. Except as may be otherwise permitted under Section 409A of the Code, an election to make Annual Deferrals with respect to Compensation relating to services performed during a Plan Year must be made prior to the beginning of such Plan Year. An election to make Annual Deferrals for a Plan Year shall be irrevocable, except as otherwise permitted by the Regulations, including Section 1.409A-3(j)(4)(viii) of the Regulations, where cancellation of a deferral election is required by Section 401(k) of the Code upon the Participant's taking a hardship withdrawal from the Savings Plan.

3.2. Amount of Annual Deferral. The Annual Deferral shall be determined as follows:

(a) For the Plan Year beginning January 1, 2005:

(i) For a Participant who is not eligible to participate in the Executive Deferral Plan, any whole percentage between 1 and 15% of Compensation (maximum Annual Deferral of \$25,000).

(ii) For a Participant who is eligible to participate in the Executive Deferral Plan, any whole percentage between 1 and 5% of Compensation (maximum Annual Deferral of \$7,600).

(b) For the Plan Year beginning January 1, 2006, any whole percentage between 1 and 15% of Compensation (maximum Annual Deferral of \$25,000).

(c) For any Plan Year beginning January 1, 2007 or later, any whole percentage between 1 and 20% of Compensation (maximum Annual Deferral of \$25,000).

3.3. Vesting. The Participant's right to his or her Annual Deferrals and gains or losses thereon, shall be 100% vested at all times.

ARTICLE 4 COMPANY CREDITS

4.1. Amount.

- (a) Matching Credit. The Company's Matching Credit in each Plan Year shall equal the product of the Participant's Annual Deferral for such Plan Year times the Matching Percentage for the Plan Year; provided, however, that in no event shall the Matching Credit credited to a Participant's Account in any Plan Year exceed the Matching Limit for such Plan Year. The Matching Percentage and Matching Limit for a Participant for any Plan Year shall be determined in good faith by the Administrator as of December 31 of the immediately preceding calendar year.
- (b) Excess RIA Contributions. Effective April 1, 2004, in the Plan Year following any Plan Year in which an Eligible RIA Participant has an Excess RIA Contribution with respect to the Savings Plan, the Eligible RIA Participant shall receive an allocation of an amount equal to such Excess RIA Contribution.

4.2. Vesting.

- (a) The Participant's right to receive Matching Credits and gains or losses thereon credited to the Participant's Restoration Account shall be one hundred percent (100%) vested.
- (b) From April 1, 2004 to December 31, 2006, the Participant's right to his or her Excess RIA Account and gains or losses thereon shall be 100% vested after the Participant has 5 years of Service, as such term is defined in the Savings Plan, or upon attainment of Normal Retirement Age as that term is defined in the Savings Plan.
- (c) Effective January 1, 2007, the Participant's right to his or her Excess RIA Account and gains or losses thereon shall be 100% vested after the Participant has 3 years of Service, as such term is defined in the Savings Plan, or upon attainment of Normal Retirement Age as that term is defined in the Savings Plan.

ARTICLE 5 ACCOUNTS

5.1. Accounts. Solely for record keeping purposes, the Company shall maintain an Account for each Participant, which Account shall consist of one or more sub-accounts, as follows:

- (a) A Restoration Account to which shall be credited all Annual Deferrals made by a Participant and Matching Credits, as well as all gains or losses with respect thereto.
- (b) An Excess RIA Account to which shall be credited the amount of the Participant's Excess RIA Contributions, as well as all gains and losses with respect thereto.
- (c) The Account for a Participant listed on Appendix A shall have sub-accounts for pre-2016 and post-2015 amounts credited to the Participant's Account if, prior to January 1, 2016, such Participant elects a time and form of payment for such post-2015 amounts other than monthly installments over fifteen (15) years without an annual lump sum payment.

5.2. The Timing of Credits.

- (a) Annual Deferrals made under Article 3 shall be credited to the Restoration Account on the same day the deferrals would otherwise have been paid to the Participant but for the deferral election;
- (b) Matching Credits under Article 4 shall be credited to the Restoration Account as of the day the corresponding Annual Deferrals are credited to the Restoration Account;
- (c) Excess RIA Contributions shall be credited to the Participant's Excess RIA Account as of February 1 (or the next business day thereafter) of the year in which the Participant's Excess RIA Contribution with respect to a Plan Year is determined; and
- (d) Gains or losses shall be credited to the Participant's Account as of the close of business on each Valuation Date, based on the Crediting Rate in effect for the day under Section 1.14.

5.3. Terminations. Following a Participant's Termination of Employment, Retirement or death, gains or losses shall continue to be credited to the Participant's Account through the final Valuation Date.

5.4. Statement of Accounts. The Administrator shall provide periodically to each Participant a statement setting forth the balance of the Account maintained for such Participant.

ARTICLE 6 RETIREMENT BENEFITS

6.1. Amount. Upon Retirement, the Company shall pay to the Participant the value of his or her vested Account at the time and in the manner determined pursuant to the rules set forth in this Article 6.

6.2. Form of Retirement Benefits.

(a) Except as otherwise provided pursuant to an election under Section 6.4(c), for Participants whose initial participation date under the Plan is prior to January 1, 2017, the Retirement Benefit shall be paid monthly over a period of fifteen (15) years; provided, however, that the Participant may elect in accordance with the terms of Section 6.4 to have payment made in one of the following options:

(i) a single lump sum payment in cash;

(ii) monthly installments over 5, 10 or 15 years;
or

(iii) an annual lump sum amount equal to a specified whole number percentage (1-8%) of the account balance as of the Valuation Date preceding each such annual payment, plus monthly installments of the remaining balance of the Account over 5, 10 or 15 years. Annual lump sum payments pursuant to this Section 6.2(a)(iii), with respect to all Retirement Benefits under this Plan, including

Grandfathered Amounts, shall be paid as follows: (A) the first lump sum payment shall be made on the first day of the second month after the Participant's Retirement, and (B) the remaining lump sum payments shall be made on January 1 of each succeeding year in the applicable 5, 10 or 15 year period.

(b) Except as otherwise provided pursuant to an election under Section 6.4(c), for Participants whose initial participation date under the Plan is on or after January 1, 2017, the Retirement Benefit shall be paid in a single lump sum; provided, however, that the Participant may elect in accordance with the terms of Section 6.4 to have payment made in one of the following options:

(i) monthly installments over 5, 10 or 15 years;

or

(ii) an annual lump sum amount equal to a specified whole number percentage (1-8%) of the account balance as of the Valuation Date preceding each such annual payment, plus monthly installments of the remaining balance of the Account over 5, 10 or 15 years. Annual lump sum payments pursuant to this Section 6.2(b)(ii), with respect to all Retirement Benefits under this Plan, including Grandfathered Amounts, shall be paid as follows: (A) the first lump sum payment shall be made on the first day of the second month after the Participant's Retirement, and (B) the remaining lump sum payments shall be made on January 1 of each succeeding year in the applicable 5, 10 or 15 year period.

6.3. Time of Payment. Except as otherwise provided pursuant to an election under Section 6.4(c), payment of a Participant's Account shall be made or shall begin as of the first day of the second month after the Participant's Retirement or on the first day of the month following the first, second, third, fourth or fifth anniversary of the Participant's Retirement, as elected by the Participant in accordance with the terms of Section 6.4. Notwithstanding the foregoing, payment to any Specified Employee will be made or will commence on the first day of the seventh month following the Participant's Retirement and shall include any payments that would have been made between the Participant's Retirement and the actual date of commencement of payment if the Participant had not been a Specified Employee.

6.4. Elections.

(a) Initial Election.

(i) Except as provided in Section 6.4(a)(ii), a Participant shall elect the time and form of payment of his or her Account payable on Retirement on his or her initial Participation Agreement in accordance with such rules as the Administrator shall reasonably apply.

(ii) (A) A Participant listed on Appendix A to the Plan may elect a time and form of payment for post-2015 amounts credited to the Participant's Account payable on Retirement without regard to his or her prior election (or deemed election) for pre-2016 amounts credited to the Participant's Account. Any such election must be made prior to January 1, 2016, shall be irrevocable as of December 31, 2015, and shall apply to all

post-2015 amounts credited to the Participants' Accounts (except as otherwise provided in Section 6.4(b) and is in addition to any further deferral elections under Section 6.4(b)). If any such Participant fails to make such an election, his or her Retirement Benefit shall be paid in the default form of payment pursuant to Section 6.2(a) or Section 6.2(b), as applicable.

(B) In the event an Eligible RIA Executive, who becomes a Participant in the Plan on or after January 1, 2016, is not provided with at least a thirty (30) day period to submit an initial Participation Agreement following the date that he or she becomes a Participant in the Plan and the default payment provisions under Section 6.2(a) or Section 6.2(b) of the Plan become effective with respect to the Participant, the Participant may elect a time and form of payment for amounts credited to the Participant's Account after his or her initial Plan Year of participation in the Plan ("Initial Year of Participation") payable on Retirement without regard to his or her deemed election. Any such election must be made prior to the first day of the Plan Year following the Initial Year of Participation, shall be irrevocable as of the date of the election (except as otherwise provided in Section 6.4(b)), shall apply to all amounts credited to the Participant's Account after the Initial Year of Participation and is in addition to any further deferral elections under Section 6.4(b). If any such Participant fails to make such an election, his or her Retirement Benefit shall be paid in the default form of payment pursuant to Section 6.2(a) or Section 6.2(b), as applicable.

(b)One-Time Change by Participant. To the extent permitted by Section 409A of the Code, a Participant may make a one-time election to delay payment or change the form of payment at any time up to 12 months before the first scheduled payment; provided, however, that: (i) any such election shall not be effective for at least 12 months following the date made; (ii) to the extent required by Section 409A of the Code, as a result of any such change, payment or commencement of payment shall be delayed for 5 years from the date the first payment was scheduled to have been paid (taking into account any delay in payment or commencement of payment under Section 6.3 on account of a Participant's status as a Specified Employee); (iii) any such change made by a Participant listed on Appendix A to the Plan shall apply to both pre-2016 and post-2015 amounts credited to the Participant's Account to the extent permitted by Section 409A of the Code; and (iv) any such change made by a Participant who makes an election pursuant to Section 6.4(a)(ii)(B) shall apply to all amounts credited to the Participant's Account, to the extent permitted by Section 409A of the Code.

(c)Transitional Rule. Notwithstanding any other elections made hereunder and only to the extent permitted by the Company and transitional rules issued under Section 409A of the Code, through such date as specified by the Company pursuant to transitional guidance issued under Section 409A of the Code, a Participant may make one or more elections as to time and form of payment of his or her Account under this Plan, provided that: (i) any such election(s) made during 2006 shall be available only for amounts that are payable after the 2006 calendar year and cannot accelerate any payment into the 2006 calendar year, (ii) any such election(s) made during 2007 shall be available only

for amounts that are payable after the 2007 calendar year and cannot accelerate any payment into the 2007 calendar year, and (iii) any such election(s) made during 2008 shall be available only for amounts that are payable after the 2008 calendar year and cannot accelerate any payment into the 2008 calendar year. Any such election(s) must be made by the date specified by the Company consistent with guidance pursuant to Section 409A of the Code.

6.5. Small Benefit Exception.

- (a) Benefits Payable Prior to January 1, 2008. Notwithstanding the foregoing, with respect to a Participant's Retirement Benefit under the Plan that would otherwise be paid in installments (or as a combination of lump sums and installments) prior to January 1, 2008, if the balance of the Participant's Account under the Plan as of the date payment would otherwise commence is less than or equal to ten thousand dollars (\$10,000), the Company shall pay such benefit in a single lump sum; provided, however, that payment of a Retirement Benefit to any Specified Employee pursuant to this Section 6.5(a) will be made on the first day of the seventh month following the Participant's Termination of Employment.
- (b) Benefits Payable After December 31, 2007. Notwithstanding the foregoing, effective December 31, 2007 with respect to a Participant's Retirement Benefit under the Plan that would otherwise be paid in installments (or as a combination of lump sums and installments) after December 31, 2007, if the aggregate balances of the Participant's accounts under the Plan, the Executive Deferral Plan and any other nonqualified deferred compensation arrangement that is aggregated with any portion of the Plan or the Executive Deferral Plan under Section 1.409A-1(c) of the Regulations as of the date payment would otherwise commence is less than or equal to the applicable dollar amount in effect on such date under Section 402(g)(1)(B) of the Code, the Company shall pay the Retirement Benefit under the Plan in a single lump sum; provided, however, that payment of a Retirement Benefit to any Specified Employee pursuant to this Section 6.5(b) will be made on the first day of the seventh month following the Participant's Termination of Employment.

ARTICLE 7 TERMINATION BENEFITS

- 7.1. Amount and Time of Payment. As of the first day of the second month after Termination of Employment, the Company shall pay to the Participant a Termination Benefit equal to the value of the vested Account as of the Valuation Date. Notwithstanding the foregoing, payment of a Termination Benefit to any Specified Employee pursuant to this Article 7 will be made on the first day of the seventh month following the Participant's Termination of Employment.
- 7.2. Form of Termination Benefits. The Company shall pay the Termination Benefits in a single lump sum.

ARTICLE 8 SURVIVOR BENEFITS

- 8.1. Amount. If the Participant dies (whether before or after Retirement or other Termination of Employment) with any balance remaining in his or her Account, the Company shall pay to the Participant's Beneficiary a Survivor Benefit equal to the vested balance of the Account on the date of death.
- 8.2. Form of Survivor Benefits. The Company shall pay the vested balance of the Participant's Account in a single lump sum payment in cash; provided, however, that the Participant may elect in accordance with the terms of Section 6.4 to have payment made in one of the following options:
- (a) a single lump sum payment in cash;
or
 - (b) monthly installments over 5, 10 or 15 years.
- 8.3. Time of Payment. Payment of Survivor Benefits shall be made or shall begin as of the first day of the second month following the date of death, and the provisions of Sections 6.3 and 6.4 regarding payment to a Specified Employee and the 5-year delay of payments following certain elections shall be disregarded for purposes of the payment of the Survivor Benefit pursuant to this Article 8.
- 8.4. Survivor Benefits Paid From Grandfathered Amounts. To the extent that the Company pays to a Participant's Beneficiary a Survivor Benefit consisting of Grandfathered Amounts, the time and form of payment of such Grandfathered Amounts shall be governed by the Participant's election as in effect on December 31, 2006 and the terms of the Plan as in effect on December 31, 2004; provided, however, that after December 31, 2006 a Participant may make a one-time election to have all Grandfathered Amounts paid in a lump sum as of the first day of the second month after the Participant's death (regardless of whether the Participant dies before or after the date that payment of Grandfathered Amounts would otherwise commence under the Plan). In accordance with the terms of the Plan as in effect on December 31, 2004, any election to change the form of payment of Survivor Benefits from Grandfathered Amounts must be filed at least thirteen (13) months prior to the date that payment of Survivor Benefits would otherwise commence or be made, unless the Participant's Beneficiary agrees to take a ten percent (10%) reduction in the value of the Grandfathered Amounts.
- 8.5. Small _____ Benefit Payments.
- (a) Benefits Payable Prior to January 1, 2008. Notwithstanding the foregoing, with respect to a Survivor Benefit under the Plan that would otherwise be paid in installments prior to January 1, 2008, if the balance of the Participant's Account under the Plan as of the date that payment of the Survivor Benefit would otherwise commence is less than or equal to ten thousand dollars (\$10,000), the Company shall pay such benefit in a single lump sum.

(b) Benefits Payable After December 31, 2007. Notwithstanding the foregoing, effective December 31, 2007 with respect to a Survivor Benefit under the Plan that would otherwise be paid in installments after December 31, 2007, if the aggregate balances of the Participant's accounts under the Plan, the Executive Deferral Plan and any other nonqualified deferred compensation arrangement that is aggregated with any portion of the Plan or the Executive Deferral Plan under Section 1.409A-1(c) of the Regulations as of the date that payment of the Survivor Benefit would otherwise commence is less than or equal to the applicable dollar amount in effect on such date under Section 402(g)(1)(B) of the Code, the Company shall pay the Survivor Benefit under the Plan in a single lump sum.

ARTICLE 9 DISABILITY BENEFITS

If a Participant suffers a Disability, the Company shall pay the Retirement Benefit described in Article 6 to the Participant as if the date of the Participant's Disability were the Participant's Normal Retirement Date; provided, however, that the provisions of Sections 6.3, 6.4 and 6.5 regarding payment to a Specified Employee and the 5-year delay of payments following certain elections shall be disregarded for purposes of the payment of the Disability Benefit pursuant to this Article 9.

ARTICLE 10 CHANGE IN CONTROL

If a Change in Control occurs, the Participant shall receive a lump sum payment of the balance of the vested Account thirty (30) days after the Change in Control. Such balance shall be determined as of the date of the Change in Control, without regard to gains or losses attributable to the Account thereafter.

ARTICLE 11 WITHDRAWALS

Upon a finding by the Administrator that the Participant has suffered an Unforeseeable Emergency, the Administrator may permit the Participant to cease any on-going deferrals for the Plan Year. Furthermore, the Participant may elect to receive a distribution from his or her Account equal to the amount reasonably necessary to alleviate such Unforeseeable Emergency, including the amount reasonably determined to be sufficient to satisfy any applicable income taxes and penalties anticipated to result from the distribution. In any case, no distribution may be made to a Participant pursuant to this Article 11 to the extent that the Unforeseeable Emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of such assets would not cause severe financial hardship), or by cessation of deferrals under the Plan, the Executive Deferral Plan and any other nonqualified deferred compensation arrangement that is aggregated with any portion of the Plan or the Executive Deferral Plan under Section 1.409A-1(c) of the Regulations. If a distribution is made to a Participant on account of Unforeseeable Emergency, the Participant may not make further Annual Deferrals under the Plan until one entire Plan Year following the Plan Year in which a distribution based on Unforeseeable Emergency was made has elapsed, or such longer period as may be required by the Code. If, after December 31, 2007, a distribution is made from Grandfathered Amounts due to a "Financial Hardship" (as defined in the separate Plan applicable to Grandfathered

Amounts), no cessation of deferrals shall be required with respect to Non-Grandfathered Amounts pursuant to this Article 11. Distributions to a Participant in the event of an Unforeseeable Emergency pursuant to this Article 11 shall be made as follows: (a) first, from Grandfathered Amounts under the Plan, to the extent thereof; (b) second, from other amounts under the Plan, to the extent thereof; (c) third, from Grandfathered Amounts under the Executive Deferral Plan, to the extent thereof; and (d) fourth, from other amounts under the Executive Deferral Plan, to the extent thereof.

ARTICLE 12 CONDITIONS RELATED TO BENEFITS

- 12.1. Non-assignability. The benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, at any time or in any manner whatsoever. These benefits shall be exempt from the claims of creditors of any Participant or other claimants and from all orders, decrees, levies, garnishment or executions against any Participant to the fullest extent allowed by law.
- 12.2. No Right to Company Assets. The benefits paid under the Plan shall be paid from the general funds of the Company, and the Participants and any Beneficiaries shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations under this Plan.
- 12.3. Protective Provisions. Each Participant shall cooperate with the Company by furnishing any and all information requested by the Administrator, in order to facilitate the payment of benefits under this Plan, taking such physical examinations as the Administrator may deem necessary and taking such other actions as may be requested by the Administrator. If a Participant refuses to cooperate, the Company shall have no further obligation to the Participant under the Plan. If a Participant makes any material misstatement of information or nondisclosure of medical history, then no benefits shall be payable to the Participant or the Participant's Beneficiary or estate under the Plan beyond the sum of the Participant's Annual Deferrals.
- 12.4. Withholding. Each Participant and Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employee tax requirements applicable to the payment of benefits under the Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

ARTICLE 13 ADMINISTRATION OF PLAN

The Administrator shall administer the Plan and shall have discretionary authority to interpret, construe and apply its provisions in accordance with its terms, provided that such authority shall be exercised consistent with the requirements of Section 409A of the Code. The Administrator shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrator shall be final and binding. The individuals serving on a Committee shall, except as prohibited by law, be indemnified and held harmless by the Company from any and all liabilities, costs, and expenses (including legal fees), to the extent not covered by liability insurance arising out of any action taken by any member

of the Committee with respect to the Plan, unless such liability arises from the individual's own gross negligence or willful misconduct.

ARTICLE 14 BENEFICIARY DESIGNATION

The Participant shall have the right, at any time, to designate any person or persons as Beneficiary (both primary and contingent) to whom payment under the Plan shall be made in the event of the Participant's death. The Beneficiary designation shall be effective when it is submitted in writing to the Administrator during the Participant's lifetime on a form prescribed by the Administrator.

The submission of a new Beneficiary designation shall cancel all prior Beneficiary designations. Any finalized divorce or marriage of a Participant subsequent to the date of a Beneficiary designation shall revoke such designation, unless in the case of divorce the previous Spouse was not designated as Beneficiary and unless in the case of marriage the Participant's new Spouse has previously been designated as Beneficiary. The Spouse of a married Participant shall consent to any designation of a Beneficiary other than the Spouse, and the Spouse's consent shall be witnessed by a notary public.

If a Participant fails to designate a Beneficiary as provided above, or if the Beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new designation, or if every person designated as Beneficiary predeceases the Participant or dies prior to complete distribution of the Participant's benefits, then the Administrator shall direct the distribution of such benefits to the estate of the last to die of the Participant and the Beneficiaries.

ARTICLE 15 AMENDMENT AND TERMINATION OF PLAN

15.1. Amendment of Plan.

- (a) The Company may at any time amend the Plan in whole or in part, provided, however, that such amendment: (i) shall not decrease the balance of the Participant's Account at the time of such amendment; and (ii) shall not retroactively decrease the applicable Crediting Rate of the Plan prior to the time of such amendment.
- (b) In addition, no amendment shall permit an acceleration of time of payment of a Participant's benefit under the Plan, other than: (i) as necessary to comply with a certificate of divestiture, as defined in Section 1043(b)(2) of the Code; (ii) in accordance with Sections 6.5 and 8.5 with respect to small cashouts; (iii) as necessary to pay Federal Insurance Contribution ("FICA") taxes and any resulting federal, state, local or foreign income taxes attributable to amounts deferred under the Plan, subject to the limitations of Section 1.409A-3(j)(4)(vi) of the Regulations; (iv) in the event the arrangement fails to meet the requirements of Section 409A of the Code with respect to one or more Participants, and then only in such amount as is included in income of such Participant(s) as a result of such failure; (v) due to a termination of the Plan pursuant to Section 15.2 that meets the requirements of Section 1.409A-3(j)(4)(ix) of the Regulations; or (vi) as otherwise may be permitted under Section 409A of the Code.

(c)The Company may amend the Crediting Rate of the Plan prospectively, in which case the Company shall notify the Participants of such amendment in writing within thirty (30) days after such amendment.

- 15.2. Termination of Plan. The Company may terminate the Plan only as permitted by Section 1.409A-3(j)(4)(ix) of the Regulations (Plan Terminations and Liquidations), or as otherwise may be permitted by future Regulations or other guidance under Section 409A of the Code. Notwithstanding the foregoing, the Company may at any time determine to cease all future deferrals and contributions to the Plan. In such event, Participants' Accounts shall continue to be held and administered in accordance with the terms of this Plan; provided, however that the Company shall determine, in its sole discretion, whether to continue to credit Participants' Accounts with earnings at the otherwise applicable Crediting Rates or instead to credit Participants' Accounts, as of January 1 of the year that all future deferrals and contributions to the Plan are ceased, with a reasonable rate of interest, not less than the prime rate as published in the Wall Street Journal, in either case continuing until distribution of Participants' Accounts in accordance with the terms of the Plan.
- 15.3. Company Action. Except as provided in Section 15.4, the Company's power to amend or terminate the Plan shall be exercisable by the Company's Board of Directors or by the committee or individual authorized by the Company's Board of Directors to exercise such powers.
- 15.4. Distribution on Income Inclusion Under Section 409A. In the event the Administrator determines that amounts deferred under the Plan fail to meet the requirements of Section 409A of the Code and must be recognized as income for federal income tax purposes, distribution of the amount required to be included in income shall be made to affected Participants to the extent permitted by Section 409A of the Code.

ARTICLE 16 MISCELLANEOUS

- 16.1. Successors of the Company. The rights and obligations of the Company under the Plan shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company.
- 16.2. ERISA Plan. The Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for “a select group of management or highly compensated employees” within the meaning of Sections 201, 301 and 401 of ERISA and therefore to be exempt from Parts 2, 3 and 4 of Title I of ERISA.
- 16.3. Trust. The Company shall be responsible for the payment of all benefits under the Plan. The Company may establish one or more grantor trusts for the purpose of providing for payment of benefits under the Plan. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Company's creditors. Benefits paid to the Participant from any such trust shall be considered paid by the Company for purposes of meeting the obligations of the Company under the Plan.

- 16.4. Employment Not Guaranteed. Nothing contained in the Plan nor any action taken under this Plan shall be construed as a contract of employment or as giving any Participant any right to continued employment with the Company.
- 16.5. Gender, Singular and Plural. All pronouns and variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.
- 16.6. Captions. The captions of the articles and sections of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 16.7. Validity. If any provision of the Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of the Plan.
- 16.8. Waiver of Breach. The waiver by the Company of any breach of any provision of the Plan by a Participant shall not operate or be construed as a waiver of any subsequent breach by such Participant.
- 16.9. Applicable Law. The Plan shall be governed and construed in accordance with the laws of the State of Ohio except where the laws of the State of Ohio are preempted by ERISA or the Code.
- 16.10. Notice. Any notice or filing required or permitted to be given to the Company or the Administrator under the Plan shall be sufficient if in writing and hand-delivered, or sent by first class mail, facsimile, or electronic mail to the principal office of the Company, directed to the attention of the Administrator. Such notice shall be deemed given as of the date of delivery, or, if delivery is made by mail, as of the date shown on the postmark.

ARTICLE 17 CLAIMS AND REVIEW PROCEDURES

- 17.1. Claims Procedure. The Administrator shall notify a Participant in writing, within ninety (90) days after his or her written application for benefits, of his or her eligibility or noneligibility for benefits under the Plan. If the Administrator determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth: (a) the specific reasons for such denial; (b) a specific reference to the provisions of the Plan on which the denial is based; (c) a description of any additional information or material necessary for the claimant to perfect his or her claim, and a description of why it is needed; and (d) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Participant wishes to have the claim reviewed. If the Administrator determines that there are special circumstances requiring additional time to make a decision, the Administrator shall notify the Participant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional ninety-day period.

- 17.2. Review Procedure. If a Participant is determined by the Administrator not to be eligible for benefits, or if the Participant believes that he or she is entitled to greater or different benefits, the Participant shall have the opportunity to have such claim reviewed by the Administrator by filing a petition for review with the Administrator within sixty (60) days after receipt of the notice issued by the Administrator. Said petition shall state the specific reasons which the Participant believes entitle him or her to benefits or to greater or different benefits. Within sixty (60) days after receipt by the Administrator of the petition, the Administrator shall afford the Participant (and counsel, if any) an opportunity to present his or her position to the Administrator in writing, and the Participant (or counsel) shall have the right to review the pertinent documents. The Administrator shall notify the Participant of its decision in writing within the sixty-day period, stating specifically the basis of its decision, written in a manner calculated to be understood by the Participant and the specific provisions of the Plan on which the decision is based. If the sixty-day period is not sufficient, the decision may be deferred for up to another sixty-day period at the election of the Administrator, but notice of this deferral shall be given to the Participant. In the event of the death of the Participant, the same procedures shall apply to the Participant's beneficiaries.
- 17.3. Payment. Any benefits paid in accordance with the procedures provided in this Article 17 shall be made consistent with the rules of Section 409A of the Code.

EXECUTED at Cleveland, Ohio this 23rd day of June, 2016.

PARKER-HANNIFIN CORPORATION

By:/s/ Jon P. Marten

Title: Executive Vice President – Finance and Administration

By: /s/Mark J. Hart

Title: Executive Vice President – HR and External Affairs

Appendix A

M. Steven Barber

Achilleas A. Dorotheou

Barry S. Draskovich

Frank A. Dubey

Thomas L. Dudley

Jeffrey E. From

Richard A. Izor

Vernon Moreland

David M. Overholt

Jennifer A. Parmentier

Kevin L. Ruffer

Kenneth R. Theiss

Vance P. Zanardelli

PARKER-HANNIFIN CORPORATION
AMENDED AND RESTATED
PENSION RESTORATION PLAN

Adopted: June 23, 2016

Effective: July 1, 2016

Parker-Hannifin Corporation, an Ohio corporation (the "Company"), established this Pension Restoration Plan (the "Plan"), originally effective January 1, 1995, for the purpose of attracting high quality executives and promoting in its executives increased efficiency and an interest in the successful operation of the Company by restoring benefits that are lost due to legislative limits on the Company's qualified retirement plan(s). The Plan has been amended and restated from time to time, and underwent significant and comprehensive changes when it was amended and restated as of July 21, 2008 and such other dates as specified herein to reflect the requirements of the American Jobs Creation Act ("the Act"). The Plan will be administered in a manner consistent with the Act and Section 409A of the Code and any Regulations or other guidance thereunder and any provision in the Plan that is inconsistent with Section 409A of the Code shall be void and without effect. Notwithstanding anything else in the Plan to the contrary, nothing herein shall be read to preclude the Plan from using any transition rules permitted under the Act.

The Plan is hereby amended and restated in its entirety as of July 1, 2016 to expand the available forms of payment a Participant may initially elect, in the case of retirement benefits payable upon a Termination of Employment occurring on or after the Participant's Early Retirement Date, to include actuarially equivalent forms of annuity offered under the Qualified Plan.

ARTICLE 1 DEFINITIONS

- 1.1. Actuarial Value shall mean the actuarial present value of the benefits calculated by an actuary selected by the Administrator and using the actuarial assumptions employed under the Qualified Plan.
- 1.2. Administrator shall mean the Parker Total Rewards Administration Committee of the Company or, if applicable, the administration subcommittee appointed by the Parker Total Rewards Administration Committee with respect to the Plan.
- 1.3. Affiliated Group shall mean the Company and all entities with which the Company would be considered a single employer under Sections 414(b) and 414(c) of the Code, provided that in applying Sections 1563(a)(1), (2), and (3) of the Code for purposes of determining a controlled group of corporations under Section 414(b) of the Code, the language "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Sections 1563(a)(1), (2), and (3) of the Code, and in applying Section 1.414(c)-2 of the Treasury Regulations for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code, "at least 50 percent" is used instead of "at least 80 percent" each place it appears in that regulation. Such

term shall be interpreted in a manner consistent with the definition of "service recipient" contained in Section 409A of the Code.

1.4. Beneficiary shall mean the person or persons or entity designated as such in accordance with Article 10 of the Plan.

1.5. Change in Control shall mean the occurrence of one of the following events:

(a) A change in ownership of the Company, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total voting power of the stock of the Company. Notwithstanding the foregoing, if any one person or group is considered to own more than 50% of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the ownership of the Company or a change in the effective control of the Company (within the meaning of Section 1.5(b) of this Plan). Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires ownership of more than 50% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Change in Control shall then occur.

(b) A change in effective control of the Company, which occurs on either of the following dates:

(i) The date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Company possessing 30% or more of the total voting power of the Company. Notwithstanding the foregoing, if any one person or group is considered to own 30% or more of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the effective control of the Company or a change in ownership of the Company (within the meaning of Section 1.5(a) of this Plan). Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires ownership of more than 30% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by

reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Change in Control shall then occur.

(ii) The date that a majority of the Company's board of directors is replaced during any 12-month period by directors whose appointment or election was not endorsed by a majority of the members of the board prior to the date of such appointment or election.

(c) A change in the ownership of a substantial portion of the Company's assets, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets that have a total gross fair market value equal to or more than 65% of the total gross fair market value of all the assets of the Company immediately before such acquisition or acquisitions. The gross fair market value of assets shall be determined without regard to liabilities associated with such assets. Notwithstanding the foregoing, a transfer of assets shall not result in a change in ownership of a substantial portion of the Company's assets if such transfer is to (i) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (iii) a person or group (within the meaning of the Regulations under Section 409A of the Code) that owns, directly or indirectly, 50% or more of the total value or voting power of the stock of the Company; or (iv) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly by a person or group described in Section 1.5(c)(iii) of this Plan.

Notwithstanding Sections 1.5(a), 1.5(b)(i) and 1.5(c) above, the consummation of a merger, consolidation, share exchange or similar form of corporate reorganization of the Company or any Subsidiary that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise (a "Business Combination"), shall not be deemed a Change in Control if, immediately following such Business Combination: (a) more than 50% of the total voting power of the corporation resulting from such Business Combination (the "Surviving Corporation") or, if applicable, the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by securities of the Company eligible to vote for the election of the Board (the "Company Voting Securities") that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same

proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (b) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (c) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Company's Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

Notwithstanding the foregoing, an acquisition of stock of the Company described in Section 1.5(a) or 1.5(b)(i) above shall not be deemed to be a Change in Control by virtue of any of the following situations: (a) an acquisition by the Company or any Subsidiary; (b) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (c) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; or (d) the acquisition of stock of the Company from the Company.

1.6.Code shall mean the Internal Revenue Code of 1986, as amended, or any successor statute, and regulations or other guidance issued thereunder.

1.7.Committee shall mean the Administrator, the Investment Committee or the Compensation Committee, as applicable.

1.8.Compensation Committee shall mean the Human Resources and Compensation Committee of the Company's Board of Directors.

1.9.Disability shall mean the condition whereby a Participant is:

- (a)unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or
- (b)by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under any accident and health plan covering employees of the Company. The Administrator, in its complete and sole discretion, shall determine a Participant's Disability. The Administrator may require that the Participant submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Administrator to confirm Disability. On the basis of such medical evidence, the determination of the Administrator as to whether or not a condition of Disability exists or continues shall be conclusive.

- 1.10. Early Retirement Date shall mean the "Early Retirement Date" as defined in the Qualified Plan.
- 1.11. EDP shall mean the Parker-Hannifin Corporation Amended and Restated Executive Deferral Plan as it currently exists and as it may subsequently be amended.
- 1.12. Eligible Executive shall mean an employee of the Company or any of its subsidiaries who:
- (a) is designated by the Administrator as eligible to participate in the Plan; and
 - (b) qualifies as a member of the "select group of management or highly compensated employees" under ERISA.
- 1.13. ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended, or any successor statute, and regulations or other guidance issued thereunder.
- 1.14. Investment Committee shall mean the Parker Total Rewards Investment Committee of the Company or, if applicable, the investment subcommittee appointed by the Parker Total Rewards Investment Committee with respect to the Plan.
- 1.15. Normal Retirement Date shall mean the "Normal Retirement Date" as defined in the Qualified Plan.
- 1.16. Participant shall mean an Eligible Executive who has become a participant hereunder pursuant to Article 2.
- 1.17. Qualified Plan shall mean the Parker-Hannifin Consolidated Pension Plan as it currently exists and as it may subsequently be amended, or any other qualified defined benefit plan maintained by the Company and in which an Eligible Executive participates.
- 1.18. Regulations shall mean regulations issued under Section 409A of the Code. Reference to any section of the Regulations shall be read to include any amendment or revision of such Regulation.
- 1.19. Separation from Service shall have the meaning set out in Section 1.409A-1(h) of the Regulations; provided, that in applying Section 1.409A-1(h)(ii) of the Regulations, a separation from service shall be deemed to occur if the Company and the Participant reasonably anticipate that the level of bona fide services the Participant will perform for the Affiliated Group after a certain date (whether as an employee or as an independent contractor) will permanently decrease to less than 50% of the average level of bona fide services performed by the Participant for the Affiliated Group (whether as an employee or as an independent contractor) over the immediately preceding 36-month period (or the full period of services performed for the Affiliated Group if the Participant has been providing services to the Affiliated Group for less than 36 months). In the event of a disposition of assets by the Company to an unrelated person, the Administrator reserves the discretion to specify

(in accordance with Section 1.409A-1(h)(4) of the Regulations) whether a Participant, who would otherwise experience a Separation from Service with the Affiliated Group as part of the disposition of assets, will be considered to experience a separation from service for purposes of Section 1.409A-1(h) of the Regulations.

1.20. SERP shall mean the Parker-Hannifin Corporation Amended and Restated Supplemental Executive Retirement Benefits Program as it currently exists and as it may subsequently be amended.

1.21. SERP Participant shall mean a Participant in the Plan who also is a participant in the SERP.

1.22. SERP Participation Date shall mean the date that a Participant in the Plan becomes a SERP Participant.

1.23. SERP Vesting Date shall mean the date that a SERP Participant becomes vested in a benefit under the SERP.

1.24. Specified Employee shall mean a person designated from time to time as such by the Administrator pursuant to Section 409A(a)(2)(B)(i) of the Code and the Company's policy for determining specified employees.

1.25. SRP shall mean the Parker-Hannifin Corporation Amended and Restated Savings Restoration Plan as it currently exists and as it may subsequently be amended.

1.26. Statutory Limit shall mean any limit on compensation taken into account in calculating benefits under the Qualified Plan under Section 401(a)(17) of the Code, any limit on benefits or contributions to the Qualified Plan under Section 415 of the Code, or any other limit that directly or indirectly affects the amount of benefits payable from the Qualified Plan.

1.27. Subsidiary shall mean any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity.

1.28. Surviving Spouse shall mean the person who is the Participant's spouse at the time of the Participant's death and who has been such spouse for at least one year immediately prior to the date of the Participant's death.

1.29. Termination of Employment shall mean Separation from Service with the Affiliated Group for any reason whatsoever, whether voluntary or involuntary, other than as a result of the Participant's Disability or death.

ARTICLE 2 PARTICIPATION

An Eligible Executive shall become a Participant in the Plan as of the earlier of:

- (a) the date the Eligible Executive's retirement benefits under the Qualified Plan first become limited by any Statutory Limit;
- (b) the date the Eligible Executive first elects to defer compensation under the SRP or EDP;
- (c) the date of a Change in Control of the Company;
or
- (d) the date designated by the Administrator in a written agreement.

ARTICLE 3

RESTORATION BENEFITS

3.1. Amount.

- (a) For Eligible Executives who are Participants in this Plan as of December 31, 2008, upon Termination of Employment on or after Normal or Early Retirement Date, or after the Participant has a nonforfeitable right to a benefit under the Qualified Plan, the Participant shall be entitled to a retirement benefit payable in the form provided in Section 3.3 and at the time provided in Section 3.4.
- (b) For Eligible Executives who become Participants in this Plan after December 31, 2008, upon Termination of Employment on or after Normal or Early Retirement Date, or after the Participant has a nonforfeitable right to a benefit under the Qualified Plan, the Participant shall be entitled to a retirement benefit as provided in Section 3.3, provided that the Participant has satisfied the vesting requirement of Section 3.2.
- (c) The retirement benefit of a Participant under Section 3.1(a) or 3.1(b) of the Plan shall equal (i) the benefit that would be payable to the Participant under the Qualified Plan calculated as if (A) no Statutory Limit applies to such benefit; (B) the Participant had not elected to defer any compensation under the SRP or the EDP; (C) Compensation for purposes of calculating the benefit under the Qualified Plan includes incentive payments or bonuses (other than long term incentive payments or other irregular or extraordinary incentive or bonus payments) paid after the month in which the Participant has a Termination of Employment; and (D) Compensation and Years of Participation for purposes of calculating the benefit under the Qualified Plan include any additional amounts as agreed to by the Company, less (ii) the benefit that is actually payable under the Qualified Plan, plus (iii) any additional benefit that the Company agrees to provide to a Participant under this Plan by a written agreement with specific reference to this Plan. Notwithstanding the foregoing and solely for purposes of calculating the amount of a Participant's retirement benefit under the Plan, on and after any SERP Participant's SERP Vesting Date that occurs after December 31, 2007, the retirement benefit of such SERP Participant under Section 3.1(a) or Section 3.1(b) of the Plan shall equal the greater of: (y) the retirement benefit determined under this Section 3.1(c) (in the form of payment in effect on the

SERP Vesting Date) as if such SERP Participant's Termination of Employment had occurred on the SERP Participation Date, and (z) the retirement benefit determined under this Section 3.1(c) (in the form of payment in effect on the SERP Vesting Date) as if such SERP Participant's Termination of Employment had occurred on the SERP Vesting Date. On and after the SERP Vesting Date, a SERP Participant shall accrue no further retirement benefit under the Plan.

3.2. Vesting Requirement. An Eligible Executive who becomes a Participant after December 31, 2008 shall satisfy the vesting requirement of this Section 3.2 if such Participant remains employed by the Affiliated Group until the date which is 13 months after the date upon which either:

- (a) the Participant's retirement benefits under the Qualified Plan first became limited by a Statutory Limit;
or
- (b) the Participant first elects to defer compensation under the SRP and/or EDP.

Notwithstanding the foregoing, a Participant shall be deemed to satisfy the vesting requirement of this Section 3.2 upon the Participant's death or Disability or the date of a Change in Control.

3.3. Form of Retirement Benefits.

- (a) Termination of Employment Before Early Retirement Date. Upon Termination of Employment before his Early Retirement Date, a Participant's retirement benefit shall be paid in the form of a single lump sum payment.
- (b) Termination of Employment On or After Early Retirement Date. Absent an election under Sections 3.3(b)(i) through 3.3(b)(v), or as otherwise provided pursuant to Section 3.3(b)(vi), upon Termination of Employment on or after his Early Retirement Date, a Participant's retirement benefit shall be paid in the default form of a single life annuity.
 - (i) Initial Payment Elections by Participants. To the extent permitted by Section 409A of the Code and Section 1.409A-2(a)(5) of the Regulations, within 30 days following the date an Eligible Executive becomes a Participant, the Participant may elect for retirement benefits under this Plan to be paid in the form of (A) a single lump sum payment equal to the Actuarial Value of the Participant's retirement benefits under this Plan, (B) a single life annuity, or (C) annuity offered under the Qualified Plan that is the actuarial equivalent of the single life annuity in Section 3.3(b)(i)(B). In the event that the vesting requirement of Section 3.2 is accelerated for any Participant on account of death, Disability or a Change of Control, any election made by such Participant under this Section 3.3(b)(ii) will be disregarded.

- (ii)Changes Between Actuarially Equivalent Forms of Annuity. A Participant may elect at any time prior to Termination of Employment to convert his retirement benefit from a single life annuity or any of the actuarially equivalent forms of annuity offered under the Qualified Plan to a single life annuity or any of the forms of annuity offered under the Qualified Plan that is the actuarial equivalent of the single life annuity in Section 3.3(b)(i)(B).
- (iii)Changes by SERP Participants. To the extent required by Section 409A of the Code, if any SERP Participant elects under the SERP to receive payment of his SERP benefit in a form different from that previously in effect for such Participant's retirement benefit under this Plan, the Company shall change the form of payment of such SERP Participant's retirement benefit under this Plan to the form of payment elected by such SERP Participant under the SERP. Any change in the form of payment of a Participant's retirement benefit pursuant to this Section 3.3(b)(iii) shall cause the payment of such Participant's retirement benefit under this Plan to be delayed for five years from the date payment would otherwise commence or be made (taking into account any delay in payment or commencement of payment under Section 3.4 on account of a Participant's status as a Specified Employee).
- (iv)Transitional Rule. Notwithstanding any other elections made hereunder and only to the extent permitted by the Company and transitional rules issued under Section 409A of the Code, through such date as specified by the Company pursuant to transitional guidance issued under Section 409A of the Code, a Participant may make one or more elections as to time and form of payment of his retirement benefit under this Plan, provided that (a) any such election(s) made during 2006 shall be available only for amounts that are payable after the 2006 calendar year and cannot accelerate any payment into the 2006 calendar year, (b) any such election(s) made during 2007 shall be available only for amounts that are payable after the 2007 calendar year and cannot accelerate any payment into the 2007 calendar year, and (c) any such election(s) made during 2008 shall be available only for amounts that are payable after the 2008 calendar year and cannot accelerate any payment into the 2008 calendar year. Any such election(s) must be made by the date specified by the Company consistent with guidance pursuant to Section 409A of the Code.
- (v)One-Time Change by Participants. In addition to any election permitted by Sections 3.3(b)(i) through (iv), to the extent permitted by Section 409A of the Code, a Participant may make a one-time election to change the form of payment at any time up to 12 months before the first scheduled payment; provided, however, that (a) any such election shall not be effective for at least 12 months following the date made; and (b) to the extent required by Section 409A of the Code, as a result of any such change, payment or commencement of payment shall be delayed for 5 years from the date the first payment was scheduled to have been paid (taking into account any delay in payment or commencement of

payment under Section 3.4 of the Plan on account of a Participant's status as a Specified Employee).

(vi) Small Benefit Exception.

(i) Benefits Payable Prior to January 1, 2008. Notwithstanding the foregoing provisions of this Section 3.3(b), with respect to a Participant's retirement benefit under the Plan that would otherwise be paid as an annuity prior to January 1, 2008, if the Actuarial Value of the benefit payable to the Participant under the Plan as of the date payment is scheduled to commence is less than fifteen thousand dollars (\$15,000), the Company shall pay such benefit in a single lump sum; provided, however, that payment of a retirement benefit to any Specified Employee pursuant to this Section 3.3(b)(vi)(A) will be made on the first day of the seventh month following the Participant's Termination of Employment.

(ii) Benefits Payable After December 31, 2007. Notwithstanding the foregoing provisions of this Section 3.3(b), effective December 31, 2007 with respect to a Participant's benefit under the Plan that would otherwise be paid as an annuity after December 31, 2007, if the aggregate of the Actuarial Value of all remaining benefits payable to the Participant under the Plan and the present value of all other remaining benefits under the SERP and any other nonqualified deferred compensation arrangement that is aggregated with the Plan and the SERP under Section 1.409A-1(c) of the Regulations as of the date payment is scheduled to commence is not greater than the applicable dollar amount in effect on such date under Section 402(g)(1)(B) of the Code, the Company shall pay the retirement benefit under the Plan in a single lump sum; provided, however, that payment of a retirement benefit to any Specified Employee pursuant to this Section 3.3(b)(vi)(B) will be made on the first day of the seventh month following the Participant's Termination of Employment.

3.4. Time of Payment of Retirement Benefits. Payment of a Participant's retirement benefit shall commence or shall be made as of the first of the month following the Participant's Termination of Employment; provided, however, that payment of retirement benefits to any Specified Employee will commence or be made on the first day of the seventh month following the Participant's Termination of Employment based on the Participant's age and actuarial assumptions in effect on the first day of the month following the Participant's Termination of Employment and in the case of payments paid in any form of annuity shall include any payments that would have been made between the Participant's Termination of Employment and the actual date of commencement of payment if the Participant had not been a Specified Employee. Notwithstanding the foregoing, to the extent required by Section 3.3(b)(iii) or Section 3.3(b)(v), payment of a Participant's retirement benefit shall commence

or be made on the date that is five years from the date payment would otherwise commence or be made under this Section 3.4.

3.5. Special Rule Applicable to Specified Employees. If a Specified Employee dies after Termination of Employment but prior to commencement of benefits, the Specified Employee's Beneficiary shall receive a payment as of the first of the month following the Specified Employee's date of death equal to the aggregate of the monthly payments that would have been made to the Specified Employee in accordance with Section 3.4 but substituting the Specified Employee's date of death for the actual date of commencement of payment; provided however that if the Specified Employee's retirement benefit is payable in the form of a lump sum, such amount shall be calculated as of the Specified Employee's Termination of Employment and paid on the first of the month following the Specified Employee's date of death. Any additional amounts payable to the Specified Employee's Beneficiary shall be determined in accordance with the form of payment applicable to the Specified Employee as of the Specified Employee's Termination of Employment.

3.6. Benefits in Foreign Currency. To the extent that a Participant's retirement benefit under this Plan is calculated with reference to a benefit denominated in a currency other than U.S. Dollars and payable over the Participant's life expectancy, then for purposes of determining the retirement benefit payable under this Plan, such benefit shall be converted to the U.S. Dollar equivalent based on the Foreign Exchange Rate. For purposes of this Plan, the Foreign Exchange Rate means the fixed exchange rate derived from the two-point average of the Bid/Asked spread of the market implied forward exchange rates as calculated by Bloomberg's FRD function, or its successor function on the same or comparable financial information system, determined on a weighted average basis for the period beginning at the date of Separation from Service of the Participant and ending on a date estimated to be the Participant's date of death based upon the applicable mortality table prescribed under Section 417(e) of the Code for qualified plans.

ARTICLE 4 DISABILITY BENEFITS

4.1. Eligibility. If a Participant suffers a Disability prior to Termination of Employment, the Participant shall be eligible for a benefit under this Article 4.

4.2. Amount.

(a) Disability Before January 27, 2012. If a Participant suffers a Disability before January 27, 2012, the amount of the benefit payable to the Participant under this Article 4 shall be equal to the Retirement Benefit described in Article 3, determined as if the Participant's Termination of Employment occurred on the date of the Participant's Disability.

(b) Disability on or After January 27, 2012.

- (i) Disability After Age 55. If a Participant suffers a Disability on or after January 27, 2012 and after the Participant's attainment of age 55, the amount of the benefit payable to the Participant under this Article 4 shall be equal to the Actuarial Value of the Retirement Benefit described in Article 3, determined as if the Participant was not a Specified Employee and had retired on the date of his or her Disability.
- (ii) Disability Before Age 55. If a Participant suffers a Disability on or after January 27, 2012 and prior to the Participant's attainment of age 55, then the amount of the benefit payable to the Participant under this Article 4 shall be determined by (i) calculating the Actuarial Value of the Retirement Benefit described in Article 3 (using the actuarial assumptions and the Participant's Compensation determined as of the date of the Participant's Disability) that the Participant would be eligible to receive as of the first of the month following attainment of age 55 if the Participant had not become Disabled and had continued to be employed by the Company (with credit for Years of Participation) until retirement on the date that the Participant would attain age 55 (assuming, for this purpose, that the Participant would not be a Specified Employee on such date); and (ii) discounting the amount determined under the preceding clause (i) from the first of the month following the date the Participant would attain age 55 to the first of the month following the Participant's Disability, using the actuarial assumptions in effect on the date of the Participant's Disability.

4.3. Form of Disability Benefits.

- (a) Disability Before January 27, 2012. If a Participant suffers a Disability before January 27, 2012, the Participant's disability benefit pursuant to this Article 4 shall be paid in the form of a single life annuity; provided, however, that if the aggregate of the Actuarial Value of all remaining benefits payable to the Participant under the Plan and the present value of all other remaining benefits under the SERP and any other nonqualified deferred compensation arrangement that is aggregated with the Plan and the SERP under Section 1.409A-1(c) of the Regulations as of the date payment is scheduled to commence is not greater than the applicable dollar amount in effect on such date under Section 402(g)(1)(B) of the Code, the Company shall pay the disability benefit under this Section 4.2(a) in a single lump sum.
- (b) Disability on or After January 27, 2012. If a Participant suffers a Disability on or after January 27, 2012, the Participant's disability benefit pursuant to this Article 4 shall be paid in the form of a single lump sum payment.

4.4. Time of Payment of Disability Benefits. Payment of a Participant's disability benefit shall be made (or commence, as applicable) as of the first of the month following the Participant's Disability, and the provisions of Article 3 regarding payment to a Specified Employee and the 5-year delay of payments following certain elections shall be disregarded for purposes of the payment of benefits pursuant to this Article 4.

ARTICLE 5 SURVIVOR BENEFITS

- 5.1.Amount. If a Participant dies prior to Termination of Employment and a benefit is payable to the Participant's Surviving Spouse under the Qualified Plan, the Participant's Surviving Spouse shall be eligible for a survivor benefit under this Article 5. The survivor benefit payable to a Participant's Surviving Spouse under this Article 5 shall equal the Actuarial Value of the excess of the total monthly survivor benefit that would be payable under the Qualified Plan calculated as if no Statutory Limit applies to such benefit and the Participant had not elected to defer any compensation under the SRP or the EDP, over the total monthly survivor benefit that is actually payable under the Qualified Plan. For this purpose, Actuarial Value shall be determined based on the age of the Surviving Spouse.
- 5.2.Form of Survivor Benefits. The survivor benefit payable under this Article 5 shall be paid to the Participant's Surviving Spouse in the form of a single lump sum payment.
- 5.3.Time of Payment of Survivor Benefits. Payment of the survivor benefit shall be made as of the first of the month following the date of the Participant's death, and the provisions of Article 3 regarding payment to a Specified Employee and the 5-year delay of payments following certain elections shall be disregarded for purposes of the payment of survivor benefits pursuant to this Article 5.

ARTICLE 6 CONDITIONS RELATED TO BENEFITS

- 6.1.Non-assignability. The benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, at any time or any manner whatsoever. These benefits shall be exempt from the claims of creditors of any Participant or other claimants and from all orders, decrees, levies, garnishment or executions against any Participant to the fullest extent allowed by law.
- 6.2.No Right to Company Assets. The benefits paid under the Plan shall be paid from the general funds of the Company, and the Participant and any Beneficiary shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations hereunder.
- 6.3.Protective Provisions. The Participant shall cooperate with the Company by furnishing any and all information requested by the Administrator, in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Administrator may deem necessary and taking such other actions as may be requested by the Administrator. If the Participant refuses to cooperate, the Company shall have no further obligation to the Participant under the Plan. In the event of a Participant's suicide during the first two (2) years of participation in the Plan, or if the Participant makes any material misstatement of information or nondisclosure of medical history, then no benefits shall be payable to the Participant or the Participant's Beneficiary under the Plan.

6.4. Withholding. The Participant or the Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employee tax requirements applicable to the payment of benefits under the Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

ARTICLE 7 ADMINISTRATION OF PLAN

The Administrator shall administer the Plan and shall have discretionary authority to interpret, construe and apply its provisions in accordance with its terms, provided that such authority shall be exercised consistent with the requirements of Section 409A of the Code. The Administrator shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrator shall be final and binding. The individuals serving on a Committee shall, except as prohibited by law, be indemnified and held harmless by the Company from any and all liabilities, costs, and expenses (including legal fees), to the extent not covered by liability insurance arising out of any action taken by any member of the Committee with respect to the Plan, unless such liability arises from the individual's own gross negligence or willful misconduct.

ARTICLE 8 CHANGE IN CONTROL

In the event there is a Change in Control, each Participant or Beneficiary shall receive the Actuarial Value of his benefit earned hereunder to the date of the Change in Control. Such benefit shall be paid in a single lump sum payment thirty (30) days after the Change in Control.

ARTICLE 9 AMENDMENT AND TERMINATION OF PLAN

9.1. Amendment of Plan.

- (a) The Company may at any time amend the Plan in whole or in part, provided, however, that such amendment shall not decrease the value of benefits accrued under the Plan prior to the time of such amendment.
- (b) In addition, no amendment shall permit an acceleration of time of payment of a Participant's benefit under the Plan, other than:
 - (i) as necessary to comply with a certificate of divestiture, as defined in Section 1043(b)(2) of the Code;
 - (ii) in accordance with Section 3.2(e) with respect to small cashouts;
 - (iii) as necessary to pay Federal Insurance Contribution ("FICA") taxes and any resulting federal, state, local or foreign income taxes attributable to amounts deferred under the Plan, subject to the limitations of Section 1.409A-3(j)(4)(vi) of the Regulations;

- (iv) in the event the arrangement fails to meet the requirements of Section 409A of the Code with respect to one or more Participants, and then only in such amount as is included in income of such Participant(s) as a result of such failure;
- (v) due to a termination of the Plan pursuant to Section 9.2 of the Plan that meets the requirements of Section 1.409A-3(j)(4)(ix) of the Regulations; or
- (vi) as otherwise may be permitted under Section 409A of the Code.

9.2. Termination of Plan. The Company may terminate the Plan only as permitted by Section 1.409A-3(j)(4)(ix) of the Regulations (Plan Terminations and Liquidations), or as otherwise may be permitted by future Regulations or other guidance under Section 409A of the Code.

9.3. Company Action. Except as provided in Section 9.4, the Company's power to amend or terminate the Plan shall be exercisable by the Company's Board of Directors or by the committee or individual authorized by the Company's Board of Directors to exercise such powers.

9.4. Distribution on Income Inclusion Under Section 409A. In the event the Administrator determines that benefits under the Plan fail to meet the requirements of Section 409A of the Code and must be recognized as income for federal income tax purposes, distribution of the amount required to be included in income shall be made to affected Participants to the extent permitted by Section 409A of the Code.

ARTICLE 10 BENEFICIARY DESIGNATION

The Participant shall have the right, at any time, to designate any person or persons as Beneficiary (both primary and contingent) to whom payment of benefits under Articles 3, 4 or 8 shall be made in the event of the Participant's death. The Beneficiary designation shall be effective when it is submitted in writing to the Administrator during the Participant's lifetime on a form prescribed by the Administrator.

The submission of a new Beneficiary designation shall cancel all prior Beneficiary designations. Any finalized divorce or marriage of a Participant subsequent to the date of a Beneficiary designation shall revoke such designation, unless in the case of divorce the previous spouse was not designated as Beneficiary and unless in the case of marriage the Participant's new spouse has previously been designated as Beneficiary. The spouse of a married Participant shall consent to any designation of a Beneficiary other than the spouse, and the spouse's consent shall be witnessed by a notary public.

If a Participant fails to designate a Beneficiary as provided above, or if the Beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new designation, or if every person designated as Beneficiary predeceases the Participant or dies prior to complete

distribution of the Participant's benefits, then the Administrator shall direct the distribution of such benefits to the estate of the last to die of the Participant and the Beneficiaries.

ARTICLE 11 MISCELLANEOUS

- 11.1.Successors of the Company. The rights and obligations of the Company under the Plan shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company.
- 11.2.ERISA Plan. The Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for "a select group of management or highly compensated employees" within the meaning of Sections 201, 301 and 401 of ERISA and therefore to be exempt from Parts 2, 3 and 4 of Title I of ERISA.
- 11.3.Trust. The Company shall be responsible for the payment of all benefits under the Plan. The Company may establish one or more grantor trusts for the purposes of providing for payment of benefits under the Plan. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Company's creditors. Benefits paid to the Participant from any such trust shall be considered paid by the Company for purposes of meeting the obligations of the Company under the Plan.
- 11.4.Employment Not Guaranteed. Nothing contained in the Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any Participant any right to continued employment with the Company.
- 11.5.Gender, Singular and Plural. All pronouns and variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.
- 11.6.Captions. The captions of the articles and paragraphs of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 11.7.Validity. If any provision of the Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of the Plan.
- 11.8.Waiver of Breach. The waiver by the Company of any breach of any provision of the Plan by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.
- 11.9.Applicable Law. The Plan shall be governed and construed in accordance with the laws of the State of Ohio except where the laws of the State of Ohio are preempted by ERISA.
- 11.10.Notice. Any notice or filing required or permitted to be given to the Company under the Plan shall be sufficient if in writing and hand-delivered, or sent by first class mail to the principal office of the Company, directed to the attention of the Administrator. Such notice

shall be deemed given as of the date of delivery, or, if delivery is made by mail, as of the date shown on the postmark.

ARTICLE 12 CLAIMS AND REVIEW PROCEDURES

12.1. Claims Procedure. The Administrator shall notify a Participant in writing, within ninety (90) days after his or her written application for benefits, of his or her eligibility or noneligibility for benefits under the Plan. If the Administrator determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth:

- (a) the specific reasons for such denial;
- (b) a specific reference to the provisions of the Plan on which the denial is based;
- (c) a description of any additional information or material necessary for the claimant to perfect his or her claim, and a description of why it is needed; and
- (d) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Participant wishes to have the claim reviewed. If the Administrator determines that there are special circumstances requiring additional time to make a decision, the Administrator shall notify the Participant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional ninety-day period.

12.2. Review Procedure. If a Participant is determined by the Administrator not to be eligible for benefits, or if the Participant believes that he or she is entitled to greater or different benefits, the Participant shall have the opportunity to have such claim reviewed by the Administrator by filing a petition for review with the Administrator within sixty (60) days after receipt of the notice issued by the Administrator. Said petition shall state the specific reasons which the Participant believes entitle him or her to benefits or to greater or different benefits. Within sixty (60) days after receipt by the Administrator of the petition, the Administrator shall afford the Participant (and counsel, if any) an opportunity to present his or her position to the Administrator in writing, and the Participant (or counsel) shall have the right to review the pertinent documents. The Administrator shall notify the Participant of its decision in writing within the sixty-day period, stating specifically the basis of its decision, written in a manner calculated to be understood by the Participant and the specific provisions of the Plan on which the decision is based. If the sixty-day period is not sufficient, the decision may be deferred for up to another sixty-day period at the election of the Administrator, but notice of this deferral shall be given to the Participant. In the event of the death of the Participant, the same procedures shall apply to the Participant's Beneficiary.

[signature page follows]

EXECUTED at Cleveland, Ohio this 23rd day of June, 2016.

PARKER-HANNIFIN CORPORATION

By: /s/ Jon P. Marten

Title: Executive Vice President – Finance and Administration

By: /s/Mark J. Hart

Title: Executive Vice President – HR and External Affairs

PARKER-HANNIFIN CORPORATION
AMENDED AND RESTATED
EXECUTIVE DEFERRAL PLAN

Adopted: June 23, 2016
Effective: September 2, 2015

Parker-Hannifin Corporation, an Ohio corporation, (the “Company”), established this Executive Deferral Plan (the “Plan”), originally effective October 1, 1994, for the purpose of attracting high quality executives and promoting in its executives increased efficiency and an interest in the successful operation of the Company by offering a deferral opportunity to accumulate capital on favorable economic terms.

The Plan has been amended and restated from time to time. The Plan underwent significant and comprehensive changes when it was amended during December 2005 to provide for certain transitional rules and was amended and restated as of July 21, 2008 and such other dates as specified herein to reflect the requirements of the American Jobs Creation Act (“the Act”) with respect to the terms and conditions applicable to amounts that are deferred and vested under the Plan after December 31, 2004 and subject to Section 409A of the Code. Except as otherwise specifically provided in Sections 6.2(c) and 8.4, all benefits deferred under the Plan prior to January 1, 2005 and any additional amounts that are not subject to Section 409A of the Code, (the “Grandfathered Amounts”) shall continue to be subject solely to the terms of the separate Plan as in effect on December 31, 2004. The Plan will be administered in a manner consistent with the Act and Section 409A of the Code and any Regulations or other guidance thereunder and any provision in the Plan that is inconsistent with Section 409A of the Code shall be void and without effect. Notwithstanding anything else in the Plan to the contrary, nothing herein shall be read to preclude the Plan from using any transition rules permitted under the Act, provided that no action will be permitted with respect to the Grandfathered Amounts that will subject such amounts to Section 409A of the Code.

The Plan is hereby amended and restated in its entirety as of September 2, 2015, to make the following changes to the Plan with respect to Eligible Employees who become Participants in the Plan on or after September 2, 2015: (i) replace the tax gross-up payment related to the excise tax imposed by Section 4999 of the Code with a “best-net” provision providing for the Participant’s payments and benefits in connection with a Change in Control to be reduced to the maximum amount that does not trigger the excise tax under Section 4999 of the Code if the net after-tax benefit of such reduction exceeds the net after-tax benefit if such reduction is not made, and (ii) eliminate the adjustment payment that would have been added to a Participant’s distribution under Section 10.1 of the Plan to offset the Participant’s inability to defer until the Participant’s “Normal Retirement Date” (as defined in Section 1) or later the payment of taxes on the amounts deferred hereunder and the earnings and interest that would have otherwise accrued between the date of the “Change in Control” (as defined in Section 1) and the Participant’s Normal Retirement Date or such later date on which the Participant elected to commence receipt of his or her “Account” (as herein defined).

ARTICLE 1

DEFINITIONS

- 1.1 Account shall mean the sum of the Annual Deferral Account, all LTI Deferral Accounts (vested and unvested), and all Discretionary Company Credit Accounts, if any.
- 1.2 Administrator shall mean the Parker Total Rewards Administration Committee of the Company or, if applicable, the administration subcommittee appointed by the Parker Total Rewards Administration Committee with respect to the Plan.
- 1.3 Affiliated Group shall mean the Company and all entities with which the Company would be considered a single employer under Sections 414(b) and 414(c) of the Code, provided that in applying Section 1563(a)(1), (2), and (3) of the Code for purposes of determining a controlled group of corporations under Section 414(b) of the Code, the language “at least 50 percent” is used instead of “at least 80 percent” each place it appears in Section 1563(a)(1), (2), and (3) of the Code, and in applying Section 1.414(c)-2 of the Treasury Regulations for purposes of determining trades or businesses (whether or not incorporated) that are under common control for purposes of Section 414(c) of the Code, “at least 50 percent” is used instead of “at least 80 percent” each place it appears in that regulation. Such term shall be interpreted in a manner consistent with the definition of “service recipient” contained in Section 409A of the Code.
- 1.4 Annual Deferral shall mean the amount of Compensation which the Participant elects to defer for a Plan Year pursuant to Articles 2 and 3.
- 1.5 Annual Deferral Account shall mean the notional account established with respect to a Participant’s Annual Deferrals for recordkeeping purposes pursuant to Article 5.
- 1.6 Beneficiary shall mean the person or persons or entity designated as such in accordance with Article 14.
- 1.7 Board shall mean the Board of Directors of the Company.
- 1.8 Bonuses shall mean:
- (a) For amounts that are due and payable before January 1, 2007, amounts payable in cash to the Participant by the Company, in the form of annual and other regular periodic bonuses, before reductions for deferrals under this Plan, the Savings Plan or the Savings Restoration Plan. “Annual and other regular periodic bonuses” shall include amounts payable under the Company’s Return on Net Assets (RONA) Plan and the Target Incentive Program, but shall exclude any payments under any long-term incentive program, any volume incentive or similar bonus program, and any other extraordinary bonus or incentive program.

- (b) For Plan Years beginning on and after January 1, 2007, amounts payable to the Participant by the Company in August of each such Plan Year under the Company's RONA Plan (except to the extent determined by the Compensation Committee to be extraordinary) and Target Incentive Program.

1.9 Business Combination shall mean a merger, consolidation, share exchange or similar form of corporate reorganization of the Company or any Subsidiary that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in connection with the transaction or otherwise.

1.10 Change in Control shall mean the occurrence of one of the following events:

- (a) A change in ownership of the Company, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total voting power of the stock of the Company. Notwithstanding the foregoing, if any one person or group is considered to own more than 50% of the total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the ownership of the Company or a change in the effective control of the Company (within the meaning of Section 1.10(b) of this Plan). Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires ownership of more than 50% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Change in Control shall then occur.
- (b) A change in effective control of the Company, which occurs on either of the following dates:
 - (i) The date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) ownership of stock of the Company possessing 30% or more of the total voting power of the Company. Notwithstanding the foregoing, if any one person or group is considered to own 30% or more of total voting power of the stock of the Company, the acquisition of additional stock by the same person or group is not considered to cause a change in the effective control of the Company or a change in ownership of the Company (within the meaning

of Section 1.10(a) of this Plan). Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires ownership of more than 30% of the total voting power of the stock of the Company as a result of the acquisition by the Company of stock of the Company which, by reducing the number of shares outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Change in Control would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional stock of the Company that increases the percentage of outstanding shares of stock of the Company owned by such person, a Change in Control shall then occur.

- (ii) The date that a majority of the Company's board of directors is replaced during any 12-month period by directors whose appointment or election was not endorsed by a majority of the members of the board prior to the date of such appointment or election.
- (c) A change in the ownership of a substantial portion of the Company's assets, which occurs on the date that any one person or more than one person acting as a group (within the meaning of the Regulations under Section 409A of the Code) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets that have a total gross fair market value equal to or more than 65% of the total gross fair market value of all the assets of the Company immediately before such acquisition or acquisitions. The gross fair market value of assets shall be determined without regard to liabilities associated with such assets. Notwithstanding the foregoing, a transfer of assets shall not result in a change in ownership of a substantial portion of the Company's assets if such transfer is to (A) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock, (B) an entity 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (C) a person or group (within the meaning of the Regulations under Section 409A of the Code) that owns, directly or indirectly, 50% or more of the total value or voting power of the stock of the Company, or (D) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly by a person or group described in Section 1.10(c)(iii) of this Plan.

Notwithstanding Sections 1.10(a), 1.10(b)(i) and 1.10(c) above, the consummation of a Business Combination shall not be deemed a Change in Control if, immediately following such Business Combination: (a) more than 50% of the total voting power of the Surviving Corporation resulting from such Business Combination or, if applicable, the Parent Corporation of such Surviving Corporation, is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such

voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (b) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (c) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Company's Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

Notwithstanding the foregoing, an acquisition of stock of the Company described in Section 1.10(a) or 1.10(b)(i) above shall not be deemed to be a Change in Control by virtue of any of the following situations: (a) an acquisition by the Company or any Subsidiary; (b) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (c) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; or (d) the acquisition of stock of the Company from the Company.

- 1.11 Code shall mean the Internal Revenue Code of 1986, as amended, or any successor statute, and regulations or other guidance issued thereunder.
- 1.12 Committee shall mean the Administrator, the Investment Committee or the Compensation Committee, as applicable.
- 1.13 Company Voting Securities shall mean securities of the Company eligible to vote for the election of the Board.
- 1.14 Compensation shall mean the sum of the Participant's Salary and anticipated Bonuses for a Plan Year before reductions for deferrals under this Plan, the Savings Plan, the Savings Restoration Plan, the Parker-Hannifin Corporation Cafeteria Plan, or the Group Insurance Plan for Hourly and Salaried Employees of Parker-Hannifin Corporation. Compensation shall not include any amounts payable on account of Termination of Employment, whether paid periodically or in a lump sum.
- 1.15 Compensation Committee shall mean the Human Resources and Compensation Committee of the Board.
- 1.16 Corporate Change Vesting Event shall mean any of the following events have occurred:
- (a) any "person" (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding Company Voting Securities; provided, however, that

the event described in this paragraph shall not be deemed to be a Corporate Change Vesting Event by virtue of any of the following situations: (i) an acquisition by the Company or any Subsidiary; (ii) an acquisition by any employee benefit plan sponsored or maintained by the Company or any Subsidiary; (iii) an acquisition by any underwriter temporarily holding securities pursuant to an offering of such securities; (iv) a Non-Control Transaction (as defined in paragraph (c)); (v) as pertains to a Participant, any acquisition by the Participant or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Participant (or any entity in which the Participant or a group of persons including the Participant, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (vi) the acquisition of Company Voting Securities from the Company, if a majority of the Board approves a resolution providing expressly that the acquisition pursuant to this clause (vi) does not constitute a Corporate Change Vesting Event under this paragraph (a);

- (b) individuals who, at the beginning of any period of twenty-four (24) consecutive months, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority thereof; provided, that any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Company's shareholders was approved by a vote of at least two-thirds of the directors comprising the Incumbent Board who are then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this paragraph (b), considered as though such person were a member of the Incumbent Board; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be a member of the Incumbent Board;
- (c) the consummation of a Business Combination, unless: (i) immediately following such Business Combination: (A) more than 50% of the total voting power of the Surviving Corporation resulting from such Business Combination or, if applicable, the Parent Corporation of such Surviving Corporation, is represented by Company Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no person (other than any employee benefit plan sponsored or maintained by the Surviving Corporation or the Parent Corporation) is or becomes the beneficial owner, directly or indirectly, of 20% or more of the total voting power of the outstanding voting securities

eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), and (C) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation), following the Business Combination, were members of the Incumbent Board at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (a "Non-Control Transaction") or (ii) the Business Combination is effected by means of the acquisition of Company Voting Securities from the Company, and a majority of the Board approves a resolution providing expressly that such Business Combination does not constitute a Corporate Change Vesting Event under this paragraph (c); or

- (d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the sale or other disposition of all or substantially all of the assets of the Company and its Subsidiaries.

Notwithstanding the foregoing, a Corporate Change Vesting Event shall not be deemed to occur solely because any person acquires beneficial ownership of more than 20% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which, by reducing the number of Company Voting Securities outstanding, increases the percentage of shares beneficially owned by such person; provided, that if a Corporate Change Vesting Event would occur as a result of such an acquisition by the Company (if not for the operation of this sentence), and after the Company's acquisition such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Corporate Change Vesting Event shall then occur.

Notwithstanding anything in this Plan to the contrary, if the Participant's employment is terminated prior to a Corporate Change Vesting Event, and the Participant reasonably demonstrates that such termination was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Corporate Change Vesting Event, then for all purposes of this Plan, the date immediately prior to the date of such termination of employment shall be deemed to be the date of a Corporate Change Vesting Event for such Participant.

- 1.17 Crediting Rate shall mean any notional gains or losses equal to those generated as if the Participant's Account balance had been invested in one or more of the investment portfolios designated as available by the Investment Committee, less separate account fees and less applicable administrative charges determined annually by the Administrator.

A Participant (or after death, his or her Beneficiary) may elect to allocate his or her Account among the available portfolios. The gains or losses shall be credited based upon the daily unit values for the portfolio(s) selected by the Participant. The rules and procedures for allocating the Account balance among the portfolios shall be determined by the Administrator. The Participant's allocation is solely for the purpose of calculating the Crediting Rate.

Notwithstanding the method of calculating the Crediting Rate, the Company shall be under no obligation to purchase any investments designated by the Participant.

- 1.18 Disability shall mean the condition whereby a Participant is (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (b) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under any accident and health plan covering employees of the Company. The Administrator, in its complete and sole discretion, shall determine a Participant's Disability. The Administrator may require that the Participant submit to an examination on an annual basis, at the expense of the Company, by a competent physician or medical clinic selected by the Administrator to confirm Disability. On the basis of such medical evidence, the determination of the Administrator as to whether or not a condition of Disability exists or continues shall be conclusive.
- 1.19 Discretionary Company Credit shall mean the amount, if any, which the Company credits to a Participant's Account in accordance with Article 4.
- 1.20 Discretionary Company Credit Account shall mean the one or more notional accounts established with respect to a Participant's Discretionary Company Credits, if any, for recordkeeping purposes pursuant to Article 5.
- 1.21 Early Retirement Date shall mean age 55 with ten or more years of employment with the Company; provided, however, that any Early Retirement prior to age 60 must be with the consent of the Compensation Committee.
- 1.22 Eligible Executive shall mean a key employee of the Company or any of its Subsidiaries who: (a) is designated by the Administrator as eligible to participate in the Plan; and (b) qualifies as a member of the "select group of management or highly compensated employees" under ERISA.
- 1.23 ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended, or any successor statute, and regulations or other guidance issued thereunder.
- 1.24 Investment Committee shall mean the Parker Total Rewards Investment Committee of the Company or, if applicable, the investment subcommittee appointed by the Parker Total Rewards Investment Committee with respect to the Plan.
- 1.25 LTI Deferral shall mean the amount of any LTI Payment which the Participant elects to defer with respect to a Plan Year pursuant to Articles 2 and 3.
- 1.26 LTI Deferral Account shall mean the one or more notional accounts established with respect to a Participant's LTI Deferrals for recordkeeping purposes pursuant to Article 5.

- 1.27 LTI Payment shall mean the amount that would otherwise be payable to an Eligible Executive for a Plan Year under any long-term incentive program of the Company.
- 1.28 Normal Retirement Date shall mean the date on which a Participant attains age 65.
- 1.29 Parent Corporation shall mean the ultimate parent corporation which directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of a Surviving Corporation.
- 1.30 Participant shall mean an Eligible Executive who has elected to participate and has completed a Participation Agreement pursuant to Article 2.
- 1.31 Participation Agreement shall mean the Participant's written election to participate in the Plan.
- 1.32 Performance Period shall have the meaning provided by the applicable long-term incentive program of the Company.
- 1.33 Plan Year shall mean the calendar year.
- 1.34 Retirement shall mean a termination of employment following Normal or Early Retirement Date.
- 1.35 Salary shall mean the Participant's annual basic rate of pay from the Company (excluding Bonuses, commissions and other non-regular forms of compensation) before reductions for deferrals under this Plan, the Savings Plan, the Savings Restoration Plan, the Parker-Hannifin Corporation Cafeteria Plan, or the Group Insurance Plan for Hourly and Salaried Employees of Parker-Hannifin Corporation.
- 1.36 Savings Plan shall mean The Parker Retirement Savings Plan as it currently exists and as it may subsequently be amended.
- 1.37 Savings Restoration Plan shall mean the Parker-Hannifin Corporation Amended and Restated Savings Restoration Plan as it currently exists and as it may subsequently be amended.
- 1.38 Separation from Service shall have the meaning set out in Section 1.409A-1(h) of the Regulations; provided, that in applying Section 1.409A-1(h)(ii) of the Regulations, a separation from service shall be deemed to occur if the Company and the Participant reasonably anticipate that the level of bona fide services the Participant will perform for the Affiliated Group after a certain date (whether as an employee or as an independent contractor) will permanently decrease to less than 50% of the average level of bona fide services performed by the Participant for the Affiliated Group (whether as an employee or as an independent contractor) over the immediately preceding 36-month period (or the full period of services performed for the Affiliated Group if the Participant has been providing services to the Affiliated Group for less than 36 months). In the event of a disposition of assets by the Company to an unrelated person, the Administrator reserves

the discretion to specify (in accordance with Section 1.409A-1(h)(4) of the Regulations) whether a Participant who would otherwise experience a Separation from Service with the Company as part of the disposition of assets will be considered to experience a separation from service for purposes of Section 1.409A-1(h) of the Regulations.

- 1.39 Specified Employee shall mean a person designated from time to time as such by the Administrator pursuant to Section 409A(a)(2)(B) (i) of the Code and the Company's policy for determining specified employees.
- 1.40 Subsidiary shall mean any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity.
- 1.41 Surviving Corporation shall mean the corporation resulting from a Business Combination.
- 1.42 Termination of Employment shall mean Separation from Service from the Affiliated Group, other than Separation from Service due to Retirement, Disability or death.
- 1.43 Unforeseeable Emergency shall mean a severe financial hardship arising from (a) the illness or accident of the Participant, the Participant's spouse, or the Participant's dependent (as defined in Section 152(a) of the Code), (b) loss of the Participant's property due to casualty, or (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The determination of when a Participant has incurred an Unforeseeable Emergency shall be made by the Administrator in its sole discretion, pursuant to and subject to the conditions of Section 409A of the Code and Regulations thereunder.
- 1.44 Valuation Date shall mean each day on which the New York Stock Exchange is open, except that for purposes of determining the value of a distribution under Article 6, 7, 8, 9 or 15, it shall mean the 24th day of each month (or the most recent business day preceding such date) immediately preceding the month in which a distribution is to be made.

ARTICLE 2

PARTICIPATION

- 2.1 Participation Agreement/Deferrals.
- (a) An Eligible Executive shall become a Participant in the Plan on the first day of the Plan Year following appointment as an Eligible Executive and submission to the Administrator of an Annual Participation Agreement. To be effective, the Eligible Executive must submit the Annual Participation Agreement to the Administrator prior to the beginning of the Plan Year and during the enrollment period designated by the Administrator. In the Annual Participation Agreement,

and subject to the restrictions in Article 3, the Eligible Executive shall designate the Annual Deferral for the covered Plan Year.

- (b) With respect to those Participants who are eligible for an LTI Payment pursuant to a long-term incentive award from the Company for a performance cycle beginning before July 1, 2008, the Administrator shall provide for an enrollment period and LTI Participation Agreements each year under which the Participant may designate any LTI Deferrals for a specified Plan Year. To be effective, the Participant must submit the LTI Participation Agreement during the enrollment period designated by the Administrator pursuant to Section 6.4(c) of this Plan. Except as otherwise determined by the Administrator, no LTI Deferrals shall be allowed with respect to any long-term incentive award period beginning on or after July 1, 2008.

2.2 Continuation of Participation. An Eligible Executive who has become a Participant in the Plan shall continue as a Participant in the Plan even though such executive ceases to be an Eligible Executive. However, a Participant shall not be eligible to elect a new Annual Deferral or LTI Deferral unless the Participant is an Eligible Executive for the Plan Year for which the election is made.

ARTICLE 3

EXECUTIVE DEFERRALS

3.1 Deferral Commitment.

- (a) A Participant may elect in the Annual Participation Agreement to defer an amount equal to a specified dollar amount of Salary to be earned by such Participant during the next Plan Year and a percentage (up to a maximum specified dollar amount) of Bonuses to be earned by such Participant during the Company's fiscal year beginning during the next Plan Year.
- (b) A Participant may elect in the LTI Participation Agreement to defer an amount equal to a specified dollar amount or a percentage of the LTI Payment that may be payable to the Participant in the next Plan Year pursuant to a long-term incentive award from the Company for a performance cycle beginning before July 1, 2008.
- (c) Annual Deferrals and LTI Deferrals under this Plan shall be irrevocable.

3.2 Minimum Annual Election.

- (a) A Participant's elected Annual Deferral for a Plan Year must equal at least five thousand dollars (\$5,000), from either Salary or Bonuses or a combination of Salary and Bonuses.

- (b) The elected LTI Deferral for a Plan Year must equal at least five thousand dollars (\$5,000).
- (c) Where a Participant elects to defer a specified percentage of Salary, Bonuses, and/or LTI Payment, the determination of whether the Annual Deferral or LTI Deferral is at least five thousand dollars (\$5,000) shall be made by multiplying the applicable elected percentages of Salary, Bonuses, and/or LTI Payment to be deferred by the Participant's anticipated Salary, Bonuses, and/or LTI Payment in the Plan Year immediately preceding the Plan Year for which the Deferral is being made. The Administrator may, in its sole discretion, permit Participants to elect to defer amounts in the form of a percentage based on anticipated future Salary, Bonuses, and/or LTI Payments.

3.3 Maximum Deferral Commitment.

- (a) Maximum Annual Deferral.
 - (i) Effective January 1, 2005, the Annual Deferral for any Plan Year may not exceed 90% of Salary plus 90% of Bonuses; provided, that the Annual Deferral may not reduce the Participant's income to an amount below the old age, survivor, and disability insurance wage base under Social Security.
 - (ii) Effective January 1, 2007, the Annual Deferral for any Plan Year may not exceed 80% of Salary plus 80% of Bonuses; provided, that the Annual Deferral may not reduce the Participant's income to an amount below the old age, survivor, and disability insurance wage base under Social Security.
- (b) Maximum LTI Deferral. The maximum LTI Deferral for a Plan Year is 100% of the LTI Payment.

3.4 Vesting. Subject to Section 12.3:

- (a) The Participant's right to the value of his or her Annual Deferral Account, as adjusted for gains and losses, shall be 100% vested at all times.
- (b) The Participant's right to the value of each LTI Deferral Account, as adjusted for gains and losses, shall be 100% vested as of the third June 30 following the time the LTI Deferral Account is established; provided, however, that the Participant shall be fully vested in all LTI Deferrals as of the time: (i) the Participant is vested in his or her benefit under the Parker-Hannifin Corporation Amended and Restated Supplemental Executive Retirement Benefits Program; (ii) the Participant retires prior to age 60 with permission of the Compensation Committee; (iii) the Participant retires due to Disability; (iv) the Participant dies; (v) there is a Corporate Change Vesting Event; or (vi) the Plan terminates.

- (c) Unless otherwise provided by the Compensation Committee in the notice of award, the Participant's right to the value of each Discretionary Company Credit Account, if any, as adjusted for gains and losses, shall be 100% vested at all times.

ARTICLE 4

DISCRETIONARY COMPANY CREDITS

At any time during a Plan Year, the Company may, in its sole discretion, make a Discretionary Company Credit to any Participant's Account. Except as otherwise provided by the Compensation Committee in the notice of award, the time and form of payment of the portion of a Participant's Account attributable to any such Discretionary Company Credit will be governed by the provisions of the Plan.

ARTICLE 5

ACCOUNTS

- 5.1 Accounts. Solely for recordkeeping purposes, the Company shall maintain for each Participant one Annual Deferral Account for all Annual Deferrals, a separate LTI Deferral Account with respect to each LTI Deferral made by the Participant, and a separate Discretionary Company Credit Account with respect to each Discretionary Company Credit, if any, made by the Company with respect to the Participant.
- 5.2 Timing of Credits—Pre-Termination. Each Plan Year, the Company shall credit to the Annual Deferral Account a Participant's Annual Deferrals as of the time the deferrals would otherwise have been paid to the Participant but for the Annual Deferral election, the Company shall credit to a separate LTI Deferral Account a Participant's LTI Deferral as of the time the deferrals would otherwise have been paid to the Participant but for the LTI Deferral election, and the Company shall credit to a separate Discretionary Company Credit Account a Participant's Discretionary Company Credit, if any, as of the time stated in the notice of award with respect to any such Discretionary Company Credit. Gains or losses shall be credited to the Participant's Account as of the close of business on each Valuation Date, based on the Crediting Rate(s) in effect for the day under Section 1.17.
- 5.3 Terminations. Following a Participant's Termination of Employment, Retirement or death, gains or losses shall continue to be credited to the Participant's Account through the final Valuation Date.
- 5.4 Statement of Accounts. The Administrator shall provide periodically to each Participant a statement setting forth the balance of the Annual Deferral Account and each LTI Deferral Account maintained for such Participant.

ARTICLE 6

RETIREMENT BENEFITS

- 6.1 Amount. Upon Retirement, the Company shall pay to the Participant the value of his or her Account at the time and in the manner selected by the Participant pursuant to the rules set forth in this Article 6.
- 6.2 Form of Retirement Benefits. The Retirement Benefit shall be paid monthly over a period of fifteen (15) years; provided, however, that the Participant may elect in accordance with the terms of Section 6.4 to have payment made in one of the following options:
- (a) a single lump sum payment in cash;
 - (b) monthly installments over 5, 10 or 15 years;
or
 - (c) an annual lump sum amount equal to a specified whole number percentage (1-8%) of the account balance as of the Valuation Date preceding each such annual payment, plus monthly installments of the remaining balance of the Account over 5, 10 or 15 years. Annual lump sum payments pursuant to this Section 6.2(c), with respect to all Retirement Benefits under this Plan, including Grandfathered Amounts, shall be paid as follows: (i) the first lump sum payment shall be made on the first day of the second month after the Participant's Retirement, and (ii) the remaining lump sum payments shall be made on January 1 of each succeeding year in the applicable 5, 10 or 15 year period.

Notwithstanding any other provision of this Article 6, except to the extent otherwise provided by the Compensation Committee in the notice of award with respect to a Discretionary Company Credit, the portion of a Participant's Account attributable to a Discretionary Company Credit that is payable upon retirement, if any, shall be paid in a single lump sum payment in cash.

- 6.3 Time of Payment. Payment of a Participant's Account shall be made or shall begin as of the first day of the second month after the Participant's Retirement or on the first day of the month following the first, second, third, fourth or fifth anniversary of the Participant's Retirement, as elected by the Participant in accordance with the terms of Section 6.4. Notwithstanding the foregoing, payment to any Specified Employee will commence on the first day of the seventh month following the Participant's Retirement and shall include any payments that would have been made between the Participant's Retirement and the actual date of commencement of payment if the Participant had not been a Specified Employee.
- 6.4 Elections.

- (a) Initial Election. A Participant shall elect the time and form of payment of his or her Account payable on Retirement on his or her initial Participation Agreement, in accordance with such rules as the Administrator shall reasonably apply.
- (b) One-Time Change by Participant. To the extent permitted by Section 409A of the Code, a Participant may make a one-time election to delay payment or change the form of payment at any time up to 12 months before the first scheduled payment; provided, however, that (i) any such election shall not be effective for at least 12 months following the date made; and (ii) to the extent required by Section 409A of the Code, as a result of any such change, payment or commencement of payment shall be delayed for 5 years from the date the first payment was scheduled to have been paid (taking into account any delay in payment or commencement of payment under Section 6.3 on account of a Participant's status as a Specified Employee).
- (c) Transitional Rule. Notwithstanding any other elections made hereunder and only to the extent permitted by the Company and transitional rules issued under Section 409A of the Code, through such date as specified by the Company pursuant to transitional guidance issued under Section 409A of the Code, a Participant may make one or more elections as to time and form of payment of his or her Account under this Plan, provided that: (i) any such election(s) made during 2006 shall be available only for amounts that are payable after the 2006 calendar year and cannot accelerate any payment into the 2006 calendar year, (ii) any such election(s) made during 2007 shall be available only for amounts that are payable after the 2007 calendar year and cannot accelerate any payment into the 2007 calendar year; and (iii) any such election(s) made during 2008 shall be available only for amounts that are payable after the 2008 calendar year and cannot accelerate any payment into the 2008 calendar year. Any such election(s) must be made by the date specified by the Company consistent with guidance pursuant to Section 409A of the Code.

6.5 Small Benefit Exception.

- (d) Benefits Payable Prior to January 1, 2008. Notwithstanding the foregoing, with respect to a Participant's Retirement Benefit under the Plan that would otherwise be paid in installments (or as a combination of lump sums and installments) prior to January 1, 2008, if the balance of the Participant's Account under the Plan as of the date payment would otherwise commence is less than or equal to ten thousand dollars (\$10,000), the Company shall pay such benefit in a single lump sum; provided, however, that payment of a Retirement Benefit to any Specified Employee pursuant to this Section 6.5(a) will be made on the first day of the seventh month following the Participant's Termination of Employment.
- (e) Benefits Payable After December 31, 2007. Notwithstanding the foregoing, effective December 31, 2007 with respect to a Participant's Retirement Benefit under the Plan that would otherwise be paid in installments (or as a combination

of lump sums and installments) after December 31, 2007, if the aggregate balances of the Participant's accounts under the Plan, the Savings Restoration Plan and any other nonqualified deferred compensation arrangement that is aggregated with any portion of the Plan or the Savings Restoration Plan under Section 1.409A-1(c) of the Regulations as of the date payment would otherwise commence is less than or equal to the applicable dollar amount in effect on such date under Section 402(g)(1)(B) of the Code, the Company shall pay the Retirement Benefit under the Plan in a single lump sum; provided, however, that payment of a Retirement Benefit to any Specified Employee pursuant to this Section 6.5(b) will be made on the first day of the seventh month following the Participant's Termination of Employment.

ARTICLE 7

TERMINATION BENEFITS

- 7.1 Amount and Time of Payment. As of the first day of the second month after Termination of Employment, the Company shall pay to the Participant a termination benefit equal to the vested balance as of the Valuation Date of the Participant's Account. Notwithstanding the foregoing, payment of a Termination Benefit to any Specified Employee pursuant to this Article 7 will be made on the first day of the seventh month following the Participant's Termination of Employment.
- 7.2 Form of Termination Benefits. The Company shall pay the termination benefits in a single lump sum.

ARTICLE 8

SURVIVOR BENEFITS

- 8.1 Amount. If the Participant dies (whether before or after Retirement or other Termination of Employment) with any balance remaining in his or her Account, the Company shall pay to the Participant's Beneficiary a Survivor Benefit equal to the vested balance of the Account on the date of death.
- 8.2 Form of Survivor Benefits. The Company shall pay the vested balance of the Participant's Account in a single lump sum payment in cash; provided, however, that the Participant may elect in accordance with the terms of Section 6.4 to have payment made in one of the following options:
- (d) a single lump sum payment in cash;
or
 - (e) monthly installments over 5, 10 or 15 years.
- 8.3 Time of Payment. Payment of Survivor Benefits shall be made or shall begin as of the first day of the second month following the date of death, and the provisions of

Sections 6.3 and 6.4 regarding payment to a Specified Employee and the 5-year delay of payments following certain elections shall be disregarded for purposes of the payment of the Survivor Benefit pursuant to this Article 8.

8.4 Survivor Benefits Paid From Grandfathered Amounts. To the extent that the Company pays to a Participant's Beneficiary a Survivor Benefit consisting of Grandfathered Amounts, the time and form of payment of such Grandfathered Amounts shall be governed by the Participant's election as in effect on December 31, 2006 and the terms of the Plan as in effect on December 31, 2004; provided, however, that after December 31, 2006 a Participant may make a one-time election to have all Grandfathered Amounts paid in a lump sum as of the first of the second month after the Participant's death (regardless of whether the Participant dies before or after the date that payment of Grandfathered Amounts would otherwise commence under the Plan). In accordance with the terms of the Plan as in effect on December 31, 2004, any election to change the form of payment of Survivor Benefits from Grandfathered Amounts must be filed at least thirteen (13) months prior to the date that payment of the Survivor Benefits would otherwise commence or be made, unless the Participant's Beneficiary agrees to take a ten percent (10%) reduction in the value of the Grandfathered Amounts.

8.5 Small Benefit Payments.

- (a) Benefits Payable Prior to January 1, 2008. Notwithstanding the foregoing, with respect to a Survivor Benefit under the Plan that would otherwise be paid in installments prior to January 1, 2008, if the vested balance of the Participant's Account under the Plan as of the date payment would otherwise commence is less than or equal to ten thousand dollars (\$10,000), the Company shall pay such benefit in a single lump sum.
- (b) Benefits Payable After December 31, 2007. Notwithstanding the foregoing, effective December 31, 2007 with respect to a Survivor Benefit under the Plan that would otherwise be paid in installments after December 31, 2007, if the aggregate vested balances of the Participant's accounts under the Plan, the Savings Restoration Plan and any other nonqualified deferred compensation arrangement that is aggregated with any portion of the Plan or the Savings Restoration Plan under Section 1.409A-1(c) of the Regulations as of the date payment would otherwise commence is less than or equal to the applicable dollar amount in effect on such date under Section 402(g)(1)(B) of the Code, the Company shall pay the Survivor Benefit under the Plan in a single lump sum.

ARTICLE 9

DISABILITY

If a Participant suffers a Disability, the Company shall pay the vested balance of the Participant's Account as of the Valuation Date to the Participant in accordance with Article 6 as if the date of the Participant's Termination of Employment for Disability were the Participant's

Normal Retirement Date; provided, however, that the provisions of Sections 6.3, 6.4 and 6.5 regarding payment to a Specified Employee and the 5-year delay of payments following certain elections shall be disregarded for purposes of the payment of benefits pursuant to this Article 9.

ARTICLE 10

CHANGE IN CONTROL

10.1 Distribution. If a Change in Control occurs, the Participant (or after the Participant's death the Participant's Beneficiary) shall receive a lump sum payment of the balance of the Participant's Account within thirty (30) days after the Change of Control. In the case of an individual who is a Participant in the Plan on September 1, 2015, if either: (a) such a distribution is made on a Change in Control; or (b) the Participant's employment is terminated prior to a Change in Control and the Participant reasonably demonstrates that such termination was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (such a termination of employment an "Anticipatory Termination") and the Participant receives a lump sum payment of the Participant's Account in connection with such Anticipatory Termination, the Participant shall receive an additional adjustment payment within thirty (30) days after the Change in Control calculated in accordance with the formula set forth in Exhibit A hereto. The adjustment payment described in this Section 10.1 shall not be made with respect to an individual who becomes a Participant in the Plan on or after September 2, 2015.

10.2 Section 280G.

- (a) In addition to any other amounts payable under this Plan, in the event it shall be determined that any payment, distribution or acceleration of vesting of any benefit under this Plan with respect to an individual who is a Participant in the Plan on September 1, 2015 would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by such Participant with respect to such excise tax, then the Participant shall be entitled to receive an additional "gross-up payment" calculated as set forth in the change in control severance agreement in effect between the Company and the Participant as of the date of the Change in Control; provided, however, that if the Participant does not have a change in control severance agreement, the payment under this Section shall be determined in accordance with the calculation set forth in the most recent change in control severance agreement entered into by the Company and any executive of the Company; provided, further, that there shall be no duplication of such additional payment under this Plan and any change in control severance agreement. Any "gross-up payment" pursuant to this Section 10.2(a) shall be made no later than December 31 of the calendar year next following the calendar year in which the Section 4999 excise tax is remitted. No "gross-up payment" shall be made pursuant to this Section 10.2(a) to any individual who becomes a Participant in the Plan on or after September 2, 2015.

- (b) (i) Notwithstanding any other provision of the Plan or any other agreement or plan to the contrary, if any of the payments or benefits provided or to be provided by the Company or its affiliates to an individual who becomes a Participant in the Plan on or after September 2, 2015, or for such Participant's benefit pursuant to the terms of the Plan or otherwise ("Covered Payments") constitute parachute payments within the meaning of Section 280G of the Code and would, but for this Section 10.2(b), be subject to the excise tax imposed under Section 4999 of the Code or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "Excise Tax"), then prior to making the Covered Payments, a calculation shall be made comparing (A) the "Net Benefit" (as defined below) to the Participant of the Covered Payments after payment of the Excise Tax to (B) the Net Benefit to the Participant if the Covered Payments are limited to the extent necessary to avoid being subject to the Excise Tax. Only if the amount calculated under (A) above is less than the amount under (B) above will the Covered Payments be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax. "Net Benefit" shall mean the present value of the Covered Payments net of all federal, state, local, foreign income, employment and excise taxes.
- (ii) Any such reduction of Covered Payments under Section 10.2(b)(i) shall be made in accordance with Section 409A of the Code and the following:
- (A) the Covered Payments which do not constitute nonqualified deferred compensation subject to Section 409A of the Code shall be reduced first; and
- (B) all other Covered Payments shall then be reduced as follows: (1) cash payments shall be reduced before non-cash payments, (2) cancellation of accelerated vesting of equity awards (based on the reverse order of the date of grant) before reduction of welfare benefits, and (3) payments to be made on a later payment date shall be reduced before payments to be made on an earlier payment date.
- (iii) All determinations required to be made under this Section 10.2(b) shall be made by such professional consulting firm engaged by the Company from time to time as its independent consultant (the "Consulting Firm"). The Consulting Firm shall provide its calculations, together with detailed supporting documentation, both to the Company and the Participant (collectively, the "Determination"). In the event that the Consulting Firm is serving as a consultant for the individual, entity or group effecting the Change in Control, the Company shall prior to the Change in Control appoint a nationally recognized public accounting firm to make the determination required under this Agreement (which accounting firm shall

then be referred to as the Consulting Firm under this Agreement). All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Consulting Firm shall be borne by the Company. The Determination by the Consulting Firm shall be binding upon the Company and the Participant (except as provided in paragraph (iv) below).

- (iv) If it is established pursuant to a final determination of a court or an Internal Revenue Service (the “IRS”) proceeding which has been finally and conclusively resolved, that payments have been made to, or provided for the benefit of, the Participant by the Company that are in the aggregate more than the amount provided under this Section 10.2(b) (hereinafter referred to as an “Overpayment”), then the Participant shall pay any such Overpayment to the Company together with interest at the applicable federal rate (as defined in Section 7372(f)(2)(A) of the Code) from the date of the Participant’s receipt of the Overpayment until the date of such repayment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that payments which will not have been made by the Company should have been made (an “Underpayment”), consistent with the calculations required to be made under this Section 10.2(b). In the event that it is determined: (i) by the Consulting Firm, the Company (which shall include the position taken by the Company, or together with its consolidated group, on its federal income tax return) or the IRS; or (ii) pursuant to a determination by a court, that an Underpayment has occurred, the Company shall promptly pay an amount equal to such Underpayment to the Participant, and in no event later than sixty (60) days following the date on which the Underpayment is determined, together with interest on such amount at the applicable federal rate from the date such amount would have been paid to the Participant until the date of payment.
- (v) The provisions of this Section 10.2(b) shall not apply to any individual who is a Participant in the Plan on September 1, 2015.

ARTICLE 11

WITHDRAWALS UPON AN UNFORESEEABLE EMERGENCY

Upon a finding by the Administrator that the Participant has suffered an Unforeseeable Emergency, the Administrator may permit the Participant to cease any on-going deferrals for the Plan Year. Furthermore, the Participant may elect to receive a distribution from the vested balance of his or her Account equal to the amount reasonably necessary to alleviate such Unforeseeable Emergency, including the amount reasonably determined to be sufficient to satisfy any applicable income taxes and penalties anticipated to result from the distribution. In any case, no distribution may be made to a Participant pursuant to this Article 11 to the extent that the Unforeseeable Emergency is or may be relieved through reimbursement or compensation from

insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of such assets would not cause severe financial hardship), or by cessation of deferrals under the Plan, the Savings Restoration Plan and any other nonqualified deferred compensation arrangement that is aggregated with any portion of the Plan or the Savings Restoration Plan under Section 1.409A-1(c) of the Regulations. If a distribution is made to a Participant on account of Unforeseeable Emergency, the Participant may not make further Annual Deferrals or LTI Deferrals (to the extent LTI Deferrals would otherwise be allowed pursuant to Section 2.1(b) of the Plan) under the Plan until one entire Plan Year following the Plan Year in which a distribution based on Unforeseeable Emergency was made has elapsed, or such longer period as may be required by the Code. If, after December 31, 2007, a distribution is made from Grandfathered Amounts due to a "Financial Hardship" (as defined in the separate Plan applicable to Grandfathered Amounts), no cessation of deferrals shall be required with respect to Non-Grandfathered Amounts pursuant to this Article 11. Distributions to a Participant in the event of an Unforeseeable Emergency pursuant to this Article 11 shall be made as follows: (a) first, from Grandfathered Amounts under the Savings Restoration Plan, to the extent thereof; (b) second, from other amounts under the Savings Restoration Plan, to the extent thereof; (c) third, from Grandfathered Amounts under the Plan, to the extent thereof; and (d) fourth, from other amounts under the Plan, to the extent thereof.

ARTICLE 12

CONDITIONS RELATED TO BENEFITS

- 12.1 Non-assignability. The benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by or to any person or entity, at any time or in any manner whatsoever. These benefits shall be exempt from the claims of creditors of any Participant or other claimants and from all orders, decrees, levies, garnishment or executions against any Participant to the fullest extent allowed by law.
- 12.2 No Right to Company Assets. The benefits paid under the Plan shall be paid from the general funds of the Company, and the Participants and any Beneficiaries shall be no more than unsecured general creditors of the Company with no special or prior right to any assets of the Company for payment of any obligations under this Plan.
- 12.3 Protective Provisions. The Participant shall cooperate with the Company by furnishing any and all information requested by the Administrator, in order to facilitate the payment of benefits under this Plan, taking such physical examinations as the Administrator may deem necessary and taking such other actions as may be requested by the Administrator. If the Participant refuses to cooperate, the Company shall have no further obligation to the Participant under the Plan. If the Participant makes any material misstatement of information or nondisclosure of medical history, then no benefits shall be payable to the Participant or the Participant's Beneficiary or estate under the Plan beyond the sum of the Participant's Annual Deferrals, LTI Deferrals, and Discretionary Company Credits, if any.
- 12.4 Withholding. The Participant or the Beneficiary shall make appropriate arrangements with the Company for satisfaction of any federal, state or local income tax withholding

requirements and Social Security or other employee tax requirements applicable to the payment of benefits under the Plan. If no other arrangements are made, the Company may provide, at its discretion, for such withholding and tax payments as may be required.

ARTICLE 13

ADMINISTRATION OF PLAN

The Administrator shall administer the Plan and shall have discretionary authority to interpret, construe and apply its provisions in accordance with its terms, provided that such authority shall be exercised consistent with the requirements of Section 409A of the Code. The Administrator shall further establish, adopt or revise such rules and regulations as it may deem necessary or advisable for the administration of the Plan. All decisions of the Administrator shall be final and binding. The individuals serving on a Committee shall, except as prohibited by law, be indemnified and held harmless by the Company from any and all liabilities, costs, and expenses (including legal fees), to the extent not covered by liability insurance arising out of any action taken by any member of the Committee with respect to the Plan, unless such liability arises from the individual's own gross negligence or willful misconduct.

ARTICLE 14

BENEFICIARY DESIGNATION

The Participant shall have the right, at any time, to designate any person or persons as Beneficiary (both primary and contingent) to whom payment under the Plan shall be made in the event of the Participant's death. The Beneficiary designation shall be effective when it is submitted in writing to the Administrator during the Participant's lifetime on a form prescribed by the Administrator.

The submission of a new Beneficiary designation shall cancel all prior Beneficiary designations. Any finalized divorce or marriage of a Participant subsequent to the date of a Beneficiary designation shall revoke such designation, unless in the case of divorce the previous spouse was not designated as Beneficiary and unless in the case of marriage the Participant's new spouse has previously been designated as Beneficiary. The spouse of a married Participant shall consent to any designation of a Beneficiary other than the spouse, and the spouse's consent shall be witnessed by a notary public.

If a Participant fails to designate a Beneficiary as provided above, or if the Beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new designation, or if every person designated as Beneficiary predeceases the Participant or dies prior to complete distribution of the Participant's benefits, then the Administrator shall direct the distribution of such benefits to the estate of the last to die of the Participant and the Beneficiaries.

ARTICLE 15

AMENDMENT AND TERMINATION OF PLAN

15.1 Amendment of Plan.

- (a) The Company may at any time amend the Plan in whole or in part, provided, however, that such amendment: (i) shall not decrease the balance of the Participant's Account at the time of such amendment; and (ii) shall not retroactively decrease the applicable Crediting Rate of the Plan prior to the time of such amendment. The Company may amend the Crediting Rate or Fixed Crediting Rate of the Plan prospectively, in which case, the Company shall notify the Participants of such amendment in writing within thirty (30) days after such amendment.
- (b) Notwithstanding the foregoing, no amendment shall permit an acceleration of time of payment of a Participant's benefit under the Plan, other than: (i) as necessary to comply with a certificate of divestiture, as defined in Section 1043(b)(2) of the Code; (ii) in accordance with Sections 6.5 and 8.5 of the Plan with respect to small cashouts; (iii) as necessary to pay Federal Insurance Contribution ("FICA") taxes and any resulting federal, state, local or foreign income taxes attributable to amounts deferred under the Plan, subject to the limitations of Section 1.409A-3(j)(4)(vi) of the Regulations; (iv) in the event the arrangement fails to meet the requirements of Section 409A of the Code with respect to one or more Participants, and then only in such amount as is included in income of such Participant(s) as a result of such failure; (v) due to a termination of the Plan pursuant to Section 15.2 of the Plan that meets the requirements of Section 1.409A-3(j)(4)(ix) of the Regulations; or (f) as otherwise may be permitted under Section 409A of the Code.

15.2 Termination of Plan. The Company may terminate the Plan only as permitted by Section 1.409A-3(j)(4)(ix) of the Regulations (Plan Terminations and Liquidations), or as otherwise may be permitted by future Regulations or other guidance under Section 409A of the Code. Notwithstanding the foregoing, the Company may at any time determine to cease all future deferrals and contributions to the Plan. In such event, Participants' Accounts shall continue to be held and administered in accordance with the terms of this Plan; provided, however that the Company shall determine, in its sole discretion, whether to continue to credit Participants' Accounts with earnings at the otherwise applicable Crediting Rates or instead to credit Participants' Accounts, as of January 1 of the year that all future deferrals and contributions to the Plan are ceased, with a reasonable rate of interest, not less than the prime rate as published in the Wall Street Journal, in either case continuing until distribution of Participants' Accounts in accordance with the terms of the Plan.

15.3 Company Action. Except as provided in Section 15.4, the Company's power to amend or terminate the Plan shall be exercisable by the Company's Board of Directors or by the committee or individual authorized by the Company's Board of Directors to exercise such powers.

- 15.4 Distribution on Income Inclusion Under Section 409A. In the event the Administrator determines that amounts deferred under the Plan fail to meet the requirements of Section 409A of the Code and must be recognized as income for federal income tax purposes, distribution of the amount required to be included in income shall be made to affected Participants to the extent permitted by Section 409A of the Code.

ARTICLE 16

MISCELLANEOUS

- 16.1 Successors of the Company. The rights and obligations of the Company under the Plan shall inure to the benefit of, and shall be binding upon, the successors and assigns of the Company.
- 16.2 ERISA Plan. The Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for “a select group of management or highly compensated employees” within the meaning of Sections 201, 301 and 401 of ERISA and therefore to be exempt from Parts 2, 3 and 4 of Title I of ERISA.
- 16.3 Trust. The Company shall be responsible for the payment of all benefits under the Plan. The Company may establish one or more grantor trusts for the purpose of providing for payment of benefits under the Plan. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Company’s creditors. Benefits paid to the Participant from any such trust shall be considered paid by the Company for purposes of meeting the obligations of the Company under the Plan.
- 16.4 Employment Not Guaranteed. Nothing contained in the Plan nor any action taken under this Plan shall be construed as a contract of employment or as giving any Participant any right to continued employment with the Company.
- 16.5 Gender, Singular and Plural. All pronouns and variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.
- 16.6 Captions. The captions of the articles and sections of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 16.7 Validity. If any provision of the Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of the Plan.
- 16.8 Waiver of Breach. The waiver by the Company of any breach of any provision of the Plan by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

- 16.9 Applicable Law. The Plan shall be governed and construed in accordance with the laws of the State of Ohio except where the laws of the State of Ohio are preempted by ERISA.
- 16.10 Notice. Any notice or filing required or permitted to be given to the Company or the Administrator under the Plan shall be sufficient if in writing and hand-delivered, or sent by first class mail, facsimile or electronic mail to the principal office of the Company, directed to the attention of the Administrator. Such notice shall be deemed given as of the date of delivery, or, if delivery is made by mail, as of the date shown on the postmark.

ARTICLE 17

CLAIMS AND REVIEW PROCEDURES

- 17.1 Claims Procedure. The Administrator shall notify a Participant in writing, within ninety (90) days after his or her written application for benefits, of his or her eligibility or noneligibility for benefits under the Plan. If the Administrator determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth: (a) the specific reasons for such denial; (b) a specific reference to the provisions of the Plan on which the denial is based; (c) a description of any additional information or material necessary for the claimant to perfect his or her claim, and a description of why it is needed; and (d) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the Participant wishes to have the claim reviewed. If the Administrator determines that there are special circumstances requiring additional time to make a decision, the Administrator shall notify the Participant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional ninety-day period.
- 17.2 Review Procedure. If a Participant is determined by the Administrator not to be eligible for benefits, or if the Participant believes that he or she is entitled to greater or different benefits, the Participant shall have the opportunity to have such claim reviewed by the Administrator by filing a petition for review with the Administrator within sixty (60) days after receipt of the notice issued by the Administrator. Said petition shall state the specific reasons which the Participant believes entitle him or her to benefits or to greater or different benefits. Within sixty (60) days after receipt by the Administrator of the petition, the Administrator shall afford the Participant (and counsel, if any) an opportunity to present his or her position to the Administrator in writing, and the Participant (or counsel) shall have the right to review the pertinent documents. The Administrator shall notify the Participant of its decision in writing within the sixty-day period, stating specifically the basis of its decision, written in a manner calculated to be understood by the Participant and the specific provisions of the Plan on which the decision is based. If the sixty-day period is not sufficient, the decision may be deferred for up to another sixty-day period at the election of the Administrator, but notice of this deferral shall be given to the Participant. In the event of the death of the Participant, the same procedures shall apply to the Participant's beneficiaries.

[signature page follows]

EXECUTED at Cleveland, Ohio this 23rd day of June, 2016.

PARKER-HANNIFIN CORPORATION

By:/s/ Jon P. Marten

Title: Executive Vice President – Finance and Administration

By: /s/Mark J. Hart

Title: Executive Vice President – HR and External Affairs

EXHIBIT A

The purpose of the adjustment payment to be added to the distribution made pursuant to Section 10.1 (the “Make Whole Amount”) is to offset the Participant’s inability to defer until the Participant’s Normal Retirement Date or later the payment of taxes on the amounts deferred and the earnings and interest that would have otherwise accrued between the date of the Change in Control and Participant’s Normal Retirement Date or such later date on which the Participant elected to commence receipt of his or her Account (the “Commencement Date”, provided that with regard to any Participant whose Termination of Employment occurs prior to the date of the Change in Control, the “Commencement Date” shall mean the date of the next scheduled payment, if any, of the Participant’s Account balance following the date of the Change in Control) under the Plan.

The Make Whole Amount shall be calculated as follows:

1. The Participant’s Account balance under the Plan as of the date of the Change in Control (or as of the Anticipatory Termination date, if larger) (the “EDP Amount”) will be projected forward to the Commencement Date at an assumed tax-deferred annual earnings rate equal to the Moody’s Seasoned Baa Corporate Bond Yield Average for the last twelve full calendar months prior to the Change in Control (the “Moody’s Rate”) (such projected amount shall be known as the “Projected Balance”). The Projected Balance will then be converted into annual installment benefit payments based upon the Participant’s elected form of retirement payments under the Plan, assuming continued tax-deferred earnings on the undistributed balance at the Moody’s Rate (the “Projected Annual Payouts”). The Projected Annual Payouts will then be reduced for assumed income taxes at the highest applicable federal, state and local marginal rates of taxation in effect in the Participant’s taxing jurisdiction(s) for the calendar year in which the Make Whole Amount is paid (the “Tax Rate”). The after-tax Projected Annual Payouts will be known as the “After-Tax Projected Benefits”.
2. The term “Made Whole Amount”, as used herein, shall mean the EDP Amount plus the Make Whole Amount. The Make Whole Amount is the amount which, when added to the EDP Amount, will yield After-Tax Annuity Benefits (as hereinafter defined) equal to the After-Tax Projected Benefits, based on the following assumptions:
 - (a) The Made Whole Amount will be taxed at the Tax Rate upon receipt by the Participant.
 - (b) The after-tax Made Whole Amount will be deemed to be invested, by the Participant in a tax-deferred annuity that is structured to make payments beginning on the Commencement Date in the same form as elected by the Participant under the Plan (the “Annuity”).

- (c) The Annuity will accrue interest at the Moody's Rate, less 80 basis points (i.e., 0.80%).
- (d) Annual Annuity payments will be taxed at the Tax Rate (after taking into account the annuity exclusion ratio), yielding "After-Tax Annuity Benefits".

**Exhibit 12 to Annual Report
on Form 10-K
for Fiscal Year Ended June 30, 2016
By Parker-Hannifin Corporation
Computation of Ratio of Earnings to Fixed Charges
(In thousands, except ratios)**

| | Fiscal Year Ended June 30, | | | | |
|--|----------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| <u>EARNINGS</u> | | | | | |
| Income from continuing operations before income taxes and noncontrolling interests | \$ 1,114,728 | \$ 1,432,240 | \$ 1,556,720 | \$ 1,311,001 | \$ 1,576,698 |
| Adjustments: | | | | | |
| Interest on indebtedness, exclusive of interest capitalized | 133,004 | 115,077 | 79,845 | 88,668 | 89,888 |
| Amortization of deferred loan costs | 3,513 | 3,329 | 2,721 | 2,884 | 2,902 |
| Portion of rents representative of interest factor | 39,668 | 41,886 | 43,983 | 44,493 | 41,515 |
| (Income) loss of equity investees | (25,648) | (23,204) | (11,141) | (247) | 1,237 |
| Distributed income of equity investees | 36,616 | 31,723 | 1,661 | — | — |
| Amortization of previously capitalized interest | 152 | 179 | 190 | 193 | 196 |
| Income as adjusted | <u>\$ 1,302,033</u> | <u>\$ 1,601,230</u> | <u>\$ 1,673,979</u> | <u>\$ 1,446,992</u> | <u>\$ 1,712,436</u> |
| <u>FIXED CHARGES</u> | | | | | |
| Interest on indebtedness, exclusive of interest capitalized | \$ 133,004 | \$ 115,077 | \$ 79,845 | \$ 88,668 | \$ 89,888 |
| Amortization of deferred loan costs | 3,513 | 3,329 | 2,721 | 2,884 | 2,902 |
| Portion of rents representative of interest factor | 39,668 | 41,886 | 43,983 | 44,493 | 41,515 |
| Fixed charges | <u>\$ 176,185</u> | <u>\$ 160,292</u> | <u>\$ 126,549</u> | <u>\$ 136,045</u> | <u>\$ 134,305</u> |
| <u>RATIO OF EARNINGS TO FIXED CHARGES</u> | 7.39x | 9.99x | 13.23x | 10.64x | 12.75x |

**Exhibit 21 to Annual Report
on Form 10-K
for Fiscal Year Ended June 30, 2016
by Parker-Hannifin Corporation**

Listed below are the significant subsidiaries of the Company and their jurisdictions of organization. All other subsidiaries, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary. All of the following subsidiaries are either directly or indirectly wholly-owned by the Company.

| Name of Subsidiary | State/Country of Incorporation |
|---|---------------------------------------|
| UNITED STATES | |
| Winco Enterprises Inc. | California |
| Parker Hannifin ACD Europe LLC | Delaware |
| Parker Hannifin CFA LLC | Delaware |
| Parker-Hannifin International Corp. | Delaware |
| Parker Intangibles LLC | Delaware |
| Parker Italy (PH Espana Holding) LLC | Delaware |
| Parker Italy Holding LLC | Delaware |
| Parker Olaer Holdings LLC | Delaware |
| Parker Royalty Partnership | Ohio |
| INTERNATIONAL | |
| Parker Hannifin (Australia) Pty. Limited | Australia |
| Parker Hannifin Australia Assets Pty Limited | Australia |
| Parker Hannifin Australia Holding Pty Limited | Australia |
| Parker Hannifin Manufacturing Holding Belgium SPRL | Belgium |
| Parker Hannifin (Bermuda) Ltd. | Bermuda |
| Parker Hannifin Partner I GP | Bermuda |
| Parker Hannifin Partner II GP | Bermuda |
| Parker Hannifin Indústria e Comércio Ltda. | Brazil |
| Parker Canada Holding Co. | Canada |
| Parker Hannifin Canada | Canada |
| Parker Ontario Holding Inc. | Canada |
| Parker Hannifin Fluid Power Systems & Components (Shanghai) Co., Ltd. | China |
| Parker Hannifin Hydraulics (Tianjin) Co., Ltd | China |
| Parker Hannifin Motion & Control (Shanghai) Co. Ltd. | China |
| Parker Hannifin Motion & Control (Wuxi) Company Ltd | China |
| Parker Hannifin Industrial s.r.o. | Czech Republic |
| Parker Hannifin Manufacturing Holding Czech Republic s.r.o. | Czech Republic |
| Parker Hannifin Manufacturing Holding Denmark ApS | Denmark |
| Parker Hannifin Manufacturing Finland Oy | Finland |
| Parker Hannifin France Finance SAS | France |
| Parker Hannifin France Holding SAS | France |
| Parker Hannifin France SAS | France |
| Parker Hannifin Manufacturing France SAS | France |
| Parker Hannifin GmbH | Germany |
| Parker Hannifin Holding GmbH | Germany |
| Parker Hannifin Manufacturing Germany GmbH & Co. KG | Germany |

| Name of Subsidiary | State/Country of Incorporation |
|--|---------------------------------------|
| Warner Lewis GmbH | Germany |
| Parker Hannifin (Gibraltar) Holding Limited | Gibraltar |
| Parker Hannifin (Gibraltar) Properties Limited | Gibraltar |
| Parker Hannifin Hong Kong, Ltd. | Hong Kong |
| Parker International Capital Management Hungary Limited Liability Company | Hungary |
| Parker Hannifin India Private Ltd. | India |
| Parker Hannifin Manufacturing (Ireland) Limited | Ireland |
| Parker Hannifin Italy srl | Italy |
| Parker Hannifin Manufacturing Holding Italy srl | Italy |
| Parker Hannifin Manufacturing srl | Italy |
| Parker Hannifin Japan Holdings GK | Japan |
| Parker Hannifin Japan Ltd. | Japan |
| Taiyo, Ltd. | Japan |
| Parker Hannifin Connectors Ltd. | Korea |
| Parker Korea Ltd. | Korea |
| Parker Hannifin (Luxembourg) S.a.r.l. | Luxembourg |
| Parker Hannifin Bermuda Luxembourg S.C.S. | Luxembourg |
| Parker Hannifin Europe S.a.r.l. | Luxembourg |
| Parker Hannifin Global Capital Management S.a.r.l | Luxembourg |
| Parker Hannifin Holding EMEA S.a.r.l. | Luxembourg |
| Parker Hannifin Lux FinCo S.a.r.l. | Luxembourg |
| Parker Hannifin Luxembourg Acquisitions S.a.r.l. | Luxembourg |
| Parker Hannifin Luxembourg Finance S.à r.l. | Luxembourg |
| Parker Hannifin Luxembourg Investments 1 S.a.r.l. | Luxembourg |
| Parker Hannifin Partnership S.C.S. | Luxembourg |
| Parker Hannifin de Mexico, S.A. de C.V. | Mexico |
| Parker Industrial, S. de R.L. de C.V. | Mexico |
| Parker Hannifin B.V. | Netherlands |
| Parker Hannifin Manufacturing Netherlands (Process Filtration) B.V. | Netherlands |
| Parker Hannifin Netherlands Holdings 2 B.V. | Netherlands |
| Parker Hannifin Netherlands Holdings B.V. | Netherlands |
| Parker Hannifin VAS Netherlands B.V. | Netherlands |
| Twin Filter B.V. | Netherlands |
| Parker Hannifin (Norway) Holdings AS | Norway |
| Parker Hannifin Singapore Private Limited | Singapore |
| Rayco Technologies Pte. Ltd. | Singapore |
| Parker Hannifin Cartera Industrial S.L. | Spain |
| Parker Hannifin España S.L. | Spain |
| Parker Hannifin Industries and Assets Holding S.L. | Spain |
| Parker Hannifin Aktiebolag | Sweden |
| Parker Hannifin Manufacturing Sweden AB | Sweden |
| Parker Hannifin Cartera Industrial S.L., Bilboa (Espagne), succursale de Carouge | Switzerland |
| Parker Hannifin Manufacturing Switzerland SA | Switzerland |
| Parker Hannifin Taiwan Co., Ltd. | Taiwan |
| Alenco (Holdings) Limited | United Kingdom |

| Name of Subsidiary | State/Country of Incorporation |
|--|---------------------------------------|
| Commercial Intertech Holdings Limited | United Kingdom |
| Domnick Hunter Fabrication Limited | United Kingdom |
| Domnick Hunter Group Limited | United Kingdom |
| Domnick Hunter Limited | United Kingdom |
| Kittiwake Developments Limited | United Kingdom |
| Olaer Group Limited | United Kingdom |
| Parker Hannifin (GB) Limited | United Kingdom |
| Parker Hannifin (Holdings) Limited | United Kingdom |
| Parker Hannifin 2007 LLP | United Kingdom |
| Parker Hannifin Industries Limited | United Kingdom |
| Parker Hannifin Limited | United Kingdom |
| Parker Hannifin Manufacturing (UK) Limited | United Kingdom |
| Parker Hannifin Manufacturing Limited | United Kingdom |
| President Engineering Group Limited | United Kingdom |
| SSD Drives Limited | United Kingdom |

**Exhibit 23 to Annual Report
On Form 10-K
for Fiscal Year Ended June 30, 2016
By Parker-Hannifin Corporation**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-186741 on Form S-3 and Registration Statement Nos. 333-117761, 333-126957, 333-186733, 333-186734, 333-192909 and 333-201071 on Form S-8 of our report dated August 26, 2016, relating to the financial statements and the financial statement schedule of Parker-Hannifin Corporation and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended June 30, 2016.

/s/ DELOITTE & TOUCHE LLP
Cleveland, Ohio
August 26, 2016

Securities and Exchange Commission
Washington, D.C. 20549

Re: Parker-Hannifin Corporation

Commission File No. 1-4982
Annual Report on Form 10-K
Authorized Representatives

Gentlemen:

Parker-Hannifin Corporation (the "Company") is the issuer of Securities registered under Section 12(b) of the Securities Exchange Act of 1934 (the "Act"). Each of the persons signing his or her name below confirms, as of the date appearing opposite his or her signature, that each of the following "Authorized Representatives" is authorized on his or her behalf to sign and to submit to the Securities and Exchange Commission Annual Reports on Form 10-K and amendments thereto as required by the Act:

Authorized Representatives

Thomas L. Williams
Jon P. Marten
Joseph R. Leonti

Each person so signing also confirms the authority of each of the Authorized Representatives named above to do and perform, on his or her behalf, any and all acts and things requisite or necessary to assure compliance by the signing person with the Form 10-K filing requirements. The authority confirmed herein shall remain in effect as to each person signing his or her name below until such time as the Commission shall receive from such person a written communication terminating or modifying the authority.

| | <u>Date</u> | | <u>Date</u> |
|--|------------------|---|------------------|
| <u>/s/ Thomas L. Williams</u> Thomas L. Williams, Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | <u>8/17/2016</u> | <u>/s/ Klaus-Peter Müller</u> Klaus-Peter Müller, Director | <u>8/17/2016</u> |
| <u>/s/ Jon P. Marten</u> Jon P. Marten, Executive Vice President – Finance & Administration and Chief Financial Officer (Principal Financial Officer) | <u>8/17/2016</u> | <u>/s/ Candy M. Obourn</u> Candy M. Obourn, Director | <u>8/17/2016</u> |
| | | <u>/s/ Joseph Scaminace</u> Joseph Scaminace, Director | <u>8/17/2016</u> |
| <u>/s/ Catherine A. Suever</u> Catherine A. Suever, Vice President and Controller (Principal Accounting Officer) | <u>8/17/2016</u> | <u>/s/ Wolfgang R. Schmitt</u> Wolfgang R. Schmitt, Director | <u>8/17/2016</u> |
| <u>/s/ Lee C. Banks</u> Lee C. Banks, Director | <u>8/17/2016</u> | <u>/s/ Åke Svensson</u> Åke Svensson, Director | <u>8/17/2016</u> |
| <u>/s/ Robert G. Bohn</u> Robert G. Bohn, Director | <u>8/17/2016</u> | <u>/s/ James R. Verrier</u> James R. Verrier, Director | <u>8/17/2016</u> |
| <u>/s/ Linda S. Hartly</u> Linda S. Hartly, Director | <u>8/17/2016</u> | <u>/s/ James L. Wainscott</u> James L. Wainscott, Director | <u>8/17/2016</u> |
| <u>/s/ Robert J. Kohlhepp</u> Robert J. Kohlhepp, Director | <u>8/17/2016</u> | <u>/s/ D. E. Washkewicz</u> Donald E. Washkewicz, Director | <u>8/17/2016</u> |
| <u>/s/ Kevin A. Lobo</u> Kevin A. Lobo, Director | <u>8/17/2016</u> | | |

CERTIFICATIONS

I, Thomas L. Williams, certify that:

1. I have reviewed this annual report on Form 10-K of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 26, 2016

/s/ Thomas L. Williams

Thomas L. Williams
Chief Executive Officer

CERTIFICATIONS

I, Jon P. Marten, certify that:

1. I have reviewed this annual report on Form 10-K of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 26, 2016

/s/ Jon P. Marten

Jon P. Marten

Executive Vice President – Finance &
Administration and Chief Financial Officer

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
§ 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Parker-Hannifin Corporation (the "Company") for the fiscal year ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: August 26, 2016

/s/ Thomas L. Williams

Name: Thomas L. Williams

Title: Chief Executive Officer

/s/ Jon P. Marten

Name: Jon P. Marten

Title: Executive Vice President-Finance &
Administration and Chief Financial Officer