

**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, 2004

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No .

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of December 31, 2003, excluding, for purposes of this computation only, stock holdings of the Registrant's Directors and Officers: \$7,065,377,992.

The number of Common Shares outstanding on July 31, 2004 was 119,441,795.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference:

- (1) Annual Report to Shareholders of the Company for the fiscal year ended June 30, 2004 is incorporated by reference into Parts I and II hereof.
- (2) Definitive Proxy Statement for the Company's 2004 Annual Meeting of Shareholders to be held on October 27, 2004 is incorporated by reference into Part III hereof.

PARKER-HANNIFIN CORPORATION

FORM 10-K

Fiscal Year Ended June 30, 2004

PART I

ITEM 1. Business. Parker-Hannifin Corporation is a leading worldwide full-line manufacturer of motion control products, including fluid power systems, electromechanical controls and related components. Fluid power involves the transfer and control of power through the medium of liquid, gas or air, in hydraulic, pneumatic and vacuum applications. Fluid power systems move and position materials, control machines, vehicles and equipment and improve industrial efficiency and productivity. Components of a simple fluid power system include one or more pumps which generate pressure, one or more valves which control the fluid's flow, one or more actuators which translate the pressure from the fluid into mechanical energy, one or more filters to insure proper fluid condition and numerous hoses, couplings, fittings and seals. Electromechanical control involves the use of electronic components and systems to control motion and precisely locate or vary speed in automation and aerospace applications. In addition to motion control products, the Company also is a leading worldwide producer of fluid purification, fluid and fuel control, process instrumentation, air conditioning, refrigeration, electromagnetic shielding and thermal management products and systems. Also, through Astron Buildings ("Astron"), the Company designs and manufactures custom-engineered buildings and through Wynn Oil Company and its subsidiaries (the "Wynn's Specialty Chemical Group"), the Company develops, manufactures and markets specialty chemical products and maintenance service equipment.

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 Report, unless the context otherwise requires, the term "Company" or "Parker" refers to Parker-Hannifin Corporation and its subsidiaries.

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 Board of Directors adopted a written charter for each of the committees of the Board of Directors. These charters, as well as the Company's Code of Ethics, Guidelines on 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, distribution and administrative facilities are located in 37 states and in 46 foreign countries. Its motion control technology is used in Products of its four business Segments: Industrial; Aerospace; Climate & Industrial Controls; and Other. The products are sold as original and replacement equipment through product and distribution centers worldwide. The Company markets its products through direct-sales employees, independent distributors, sales representatives and builder/dealers. Parker products are supplied to approximately 390,000 customers in virtually every significant manufacturing, transportation and processing industry. For the fiscal year ended June 30, 2004, total net sales were \$7,106,907,000; Industrial Segment products accounted for 72% of net sales, Aerospace Segment products for 16%, Climate & Industrial Controls Segment products for 9% and Other Segment products for 3%.

Markets

Motion control systems are used throughout industry in applications which include moving materials; controlling machines, vehicles and equipment; and positioning materials during manufacturing processes. Motion control systems contribute to the efficient use of energy and improve industrial productivity.

The approximately 390,000 customers who purchase the Company's products are found throughout virtually every significant manufacturing, transportation and processing industries. No single customer accounted for more than 4% of the Company's total net sales for the fiscal year.

Major markets for products of the Fluid Connectors, Hydraulics, Automation and Seal Groups of the Industrial Segment are agricultural machinery, analytical instrumentation, automotive, construction machinery, electronic equipment, fabricated metals, food production, industrial machinery, pulp and paper, machine tools, marine, medical devices, mining, mobile equipment, chemicals, robotics, semi-conductor equipment, telecommunications, textiles, transportation and every other major production and processing industry. Major markets for products manufactured by the Instrumentation Group of the Industrial Segment are power generation, oil and gas exploration, petrochemical and chemical processing, pulp and paper, and semi-conductor manufacturing. Major markets for products of the Filtration Group of the Industrial Segment are industrial machinery, mobile equipment, diesel engines, process equipment, marine, aviation, environmental and semi-conductor manufacturing. Sales of Industrial Segment products are made to original equipment manufacturers and their replacement markets.

Aerospace Segment sales are made primarily to original equipment manufacturers in the commercial, military and general aviation markets and to end users for maintenance, repair and overhaul.

Products manufactured by the Climate & Industrial Controls Segment are used principally in mobile air conditioning systems, industrial refrigeration systems, residential and commercial air conditioning systems and equipment and industrial fluid control markets. Sales of the Climate & Industrial Controls Segment are made to original equipment manufacturers and their replacement markets.

Astron of the Other Segment produces pre-engineered single and multi-story buildings that serve industries throughout Europe. The Wynn's Specialty Chemical Group of the Other Segment develops and manufactures a wide variety of specialty chemical car care products that are marketed to automobile service technicians and consumers.

Principal Products, Methods of Distribution and Competitive Conditions

Industrial Segment. The product lines of the Company's Industrial Segment consist of systems and components of motion control. The Fluid Connectors Group manufactures connectors, including tube fittings, hose fittings, valves, hoses and couplers, which control, transmit and contain fluid. The Hydraulics Group produces hydraulic components and systems for builders and users of industrial and mobile machinery and equipment, such as cylinders, accumulators, rotary actuators, valves, motors and pumps, hydrostatic steering units, power units, integrated hydraulic circuits, electrohydraulic systems, digitally controlled fan-drive systems, and power take-off equipment. The Automation Group supplies pneumatic and electromechanical components and systems. Pneumatic products include pneumatic valves, air preparation units, pneumatic actuators, vacuum products, pneumatic logic systems, and structural extrusions. Electromechanical products include human-machine interface hardware and software; industrial PCs; single and multi-axis stand-alone and bus-based controllers; rotary and linear servo motors; rotary and linear stepper motors; analog and digital stepper and servo drives; precision gearheads, ballscrew, belt, and linear motor driven positioning tables; electric rod-style and rodless cylinders; and gantry robots. The Seal Group manufactures sealing devices, including o-rings and o-seals; gaskets and packings, which insure leak-proof connections; electromagnetic interference shielding; and thermal management products. The Filtration Group manufactures filters, systems and instruments to monitor and to remove contaminants from fuel, air, oil, water and other fluids and gases, including hydraulic, lubrication and coolant filters; process, chemical and microfiltration filters; compressed air and gas purification filters; lube oil and fuel filters; fuel conditioning filters; fuel filters/water separators; cabin air filters; intake air filters; and nitrogen and hydrogen generators and condition monitoring devices. The Instrumentation Group manufactures high quality critical flow components for process instrumentation and ultra-high-purity applications, including fittings, valves, regulators and PTFE products.

Industrial Segment products include custom units which are engineered and produced to original equipment manufacturers' specifications for application to a particular end product and standard items. Both custom and standard products are also used in the replacement of original motion control system components. Industrial Segment products are marketed primarily through field sales employees and more than 8,600 independent distributors.

Aerospace Segment. Principal products of the Company's Aerospace Segment are hydraulic, fuel and pneumatic systems and components used on commercial and military airframe and engine programs.

The Aerospace Segment offers complete hydraulic and primary flight control systems that include hydraulic, electrohydraulic and electromechanical components used for precise control of aircraft rudders, elevators, ailerons and other aerodynamic control surfaces and utility hydraulic components such as reservoirs, accumulators, selector valves, electrohydraulic servovalves, thrust-reverser actuators, engine-driven pumps, motor pumps, nosewheel steering systems, electromechanical actuators, engine controls and electronic controllers. The Aerospace Segment also designs and manufactures aircraft wheels and brakes for general aviation and military markets.

The Aerospace fuel product line includes complete fuel systems as well as components such as fuel transfer and pressurization controls; in-flight refueling systems; fuel pumps and valves; fuel measurement and management systems; center of gravity controls; engine fuel injection atomization nozzles, manifolds and augmentor controls; and electronic monitoring computers.

Pneumatic components include bleed air control systems, pressure regulators, low-pressure pneumatic controls, engine starter systems, engine bleed control and anti-ice systems, and electronic control and monitoring computers.

Aerospace Segment products are marketed by the Company's regional sales organization and are sold directly to manufacturers and end users.

Climate & Industrial Controls Segment. The principal products of the Company's Climate & Industrial Controls Segment are refrigeration and air conditioning systems and components and fluid control process systems and components for use primarily in the mobile and stationary refrigeration and air conditioning industry.

The Climate & Industrial Controls Segment manufactures components and systems for use in industrial, residential, commercial, automotive and mobile air conditioning and refrigeration systems and other applications, including pressure regulators, solenoid valves, expansion valves, filter-dryers, gerotors and hose assemblies. The Climate & Industrial Controls Segment products are marketed primarily through field sales employees and independent distributors and wholesalers.

Other Segment. The principal products of the Company's Other Segment are custom-engineered buildings which are designed and manufactured by Astron; and automotive chemical products and professional automotive service equipment that are developed by the Wynn's Specialty Chemical Group.

Astron's pre-engineered single and multi-story buildings serve as factories, warehouses, aircraft hangars, indoor athletic facilities, automobile showrooms, offices and supermarkets. Astron's custom-engineered buildings are marketed primarily through builder/dealers and field sales employees.

The Wynn's Specialty Chemical Group's product line includes professional chemical products, programs and equipment for automobile service technicians and automotive chemical products for consumers. Products are marketed primarily to consumers, automobile dealerships and other automotive service facilities and are distributed through a strong network of independent distributors as well as a direct sales force.

Competition. All aspects of the Company's business are highly competitive. No single manufacturer competes with respect to all products manufactured and sold by the Company and the degree of competition varies with different products. In the Industrial Segment, the Company competes on the basis of product quality and innovation, customer service, manufacturing and distribution capability, and competitive price. The Company believes that, in most of the major markets for its Industrial Segment products, it is one of the principal suppliers of motion control systems and components. In the Aerospace 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, thereby, obtain the follow-on repair and replacement business for these programs. The Company believes that it is one of the primary suppliers in the aerospace marketplace.

In the Climate & Industrial Controls Segment, the Company competes on the basis of product quality and innovation, customer service, manufacturing and distribution capability, and competitive price. The Company believes that it is one of the principal suppliers in the climate and industrial controls marketplace.

In the Other Segment, the Company competes on the basis of product quality and performance, strong brand recognition (Wynn's) and competitive price. The Company believes that through Astron it is one of the primary suppliers of steel buildings in Europe and through Wynn's it is one of the principal suppliers of specialty chemicals and related services in the transportation marketplace.

Research and Product Development

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

Research and development costs relating to the development of new products or services and the improvement of existing products or services amounted to \$143,096,000 in fiscal year 2004, \$122,710,000 in fiscal year 2003 and \$109,090,000 in fiscal year 2002. Reimbursements of customer-sponsored research included in the total cost for each of the respective fiscal years were \$48,435,000, \$29,561,000 and \$13,517,000.

Patents, Trademarks, Licenses

The Company owns a number of patents, trademarks and licenses related to its products and has exclusive and non-exclusive rights under 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 or group of patents.

Backlog and Seasonal Nature of Business

The Company's backlog at June 30, 2004 was approximately \$2,203,732,000 and at June 30, 2003 was approximately \$1,803,091,000. Approximately 82.2% of the Company's backlog at June 30, 2004 is scheduled for delivery in the succeeding twelve months. The Company's business generally is not seasonal in nature.

Environmental Regulation

The Company is subject to federal, state and local laws and regulations designed to protect the environment and to regulate the discharge of materials into the environment. Among other environmental laws, the Company is subject to the 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 U.S. Environmental Protection Agency Superfund priority list.

As of June 30, 2004, the Company is involved in environmental remediation at 28 manufacturing facilities presently or formerly operated by the Company and has been named as a "potentially responsible party," along with other companies, at two off-site waste disposal facilities and three 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 effort 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, material effects on the capital expenditures, earnings, or competitive position of the Company.

As of June 30, 2004, the Company has a reserve of \$20,361,000 for environmental matters which are probable and reasonably estimable. This reserve 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 the above mentioned sites ranges from a minimum of \$20,361,000 to a maximum of \$60,439,000. The actual costs to be incurred by the Company will be dependent on final delineation of contamination, final determination of remedial action required, negotiations with federal and state agencies with respect to cleanup levels, changes in regulatory requirements, innovations in investigatory and remedial technology, effectiveness of remedial technologies employed, the ultimate ability to pay of the other responsible parties, and any insurance or third party recoveries.

Energy Matters and Sources and Availability of Raw Materials

The Company's primary energy source for each of its business segments is electric power. While the Company cannot predict future costs of such 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 both 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, aluminum, elastomeric 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 48,447 persons as of June 30, 2004, of whom approximately 21,290 were employed by foreign subsidiaries.

Business Segment Information

The Company's net sales, segment operating income and identifiable assets by business segment and net sales and long-lived assets by geographic area for the past three fiscal years, as set forth on pages 13-15 to 13-16 of Exhibit 13 hereto, are incorporated herein by reference.

ITEM 1A. Executive Officers of the Company

The Company's Executive Officers are as follows:

<u>Name</u>	<u>Position</u>	<u>Officer Since(1)</u>	<u>Age</u>
Donald E. Washkewicz	President, Chief Executive Officer and Director	1997	54
Nickolas W. Vande Steeg	Executive Vice President, Chief Operating Officer and Director	1995	61
John D. Myslenski	Executive Vice President – Sales, Marketing and Operations Support	1997	53
Timothy K. Pistell	Vice President - Finance and Administration and Chief Financial Officer	1993	57
Lee C. Banks	Vice President and President, Hydraulics Group	2001	41
Robert P. Barker	Vice President and President, Aerospace Group	2003	54

Robert W. Bond	Vice President and President, Automation Group	2000	47
Lynn M. Cortright	Vice President and President, Climate & Industrial Controls Group	1999	63
Dana A. Dennis	Vice President and Controller	1999	56
Heinz Droxner	Vice President and President, Seal Group	2002	59
William G. Eline	Vice President - Chief Information Officer	2002	48
Daniel T. Garey	Vice President - Human Resources	1995	61
Pamela J. Huggins	Vice President and Treasurer	2003	50
Marwan M. Kashkoush	Vice President – Worldwide Sales and Marketing	2000	50
Thomas W. Mackie	Vice President and President, Fluid Connectors Group	2000	57
M. Craig Maxwell	Vice President – Technology and Innovation	2003	46
John K. Oelslager	Vice President and President, Filtration Group	1997	61
Thomas A. Piraino, Jr.	Vice President, General Counsel and Secretary	1998	55
Roger S. Sherrard	Vice President and President, Instrumentation Group	2003	38

- (1) Officers of the Company serve for a term of office from the date of election to the next organizational meeting of the Board of Directors and until their respective successors are elected, except in the case of death, resignation or removal. Messrs. Cortright, Garey and Piraino have served in the executive capacities indicated above during the past five years.

Mr. Washkewicz was elected Chief Executive Officer effective in July 2001 and President in February 2000. He was Chief Operating Officer from February 2000 to July 2001; and Vice President and President of the Hydraulics Group from October 1997 to February 2000.

Mr. Vande Steeg was named Executive Vice President and Chief Operating Officer effective in October 2003. He was Senior Vice President from August 2002 to October 2003; Operating Officer from January 2002 to October 2003; Corporate Vice President from January 2002 to August 2002; Vice President from September 1995 to January 2002; and President of the Seal Group from 1987 to January 2002.

Mr. Myslenski was named Executive Vice President – Sales, Marketing and Operations Support effective in October 2003. He was Senior Vice President from August 2002 to October 2003; Operating Officer from October 2001 to October 2003; Corporate Vice President from July 2001 to August 2002; Vice President from October 1997 to July 2001; and President of the Fluid Connectors Group from July 1997 to July 2001.

Mr. Pistell was elected as Vice President – Finance and Administration and Chief Financial Officer effective in April 2003. He was a Vice President from October 2001 to April 2003; and Treasurer from July 1993 to April 2003.

Mr. Banks was elected as a Vice President in October 2001 and named President of the Hydraulics Group effective in October 2003. He was President of the Instrumentation Group from July 2001 to November 2003; Vice President – Operations of the Climate & Industrial Controls Group from January 2001 to July 2001; and General Manager of the Skinner Valve Division from August 1997 to January 2001.

Mr. Barker was elected as a Vice President in April 2003 and named President of the Aerospace Group effective in March 2003. He was Vice President-Operations of the Aerospace Group from April 1996 to March 2003.

Mr. Bond was elected as a Vice President in July 2000 and named President of the Automation Group effective in April 2000. He was Vice President – Operations of the Fluid Connectors Group from July 1997 to April 2000.

Mr. Dennis was elected as a Vice President in October 2001 and as Controller effective in July 1999.

Mr. Droxner was elected as Vice President and named President of the Seal Group effective in January 2002. He was President of the Seal Group Europe from July 1999 to January 2002.

Mr. Eline was elected as Vice President – Chief Information Officer effective in August 2002. He was Vice President – Information Technology International from July 2000 to August 2002 and Vice President – Enterprise Systems International from October 1987 to July 2000.

Ms. Huggins was elected as a Vice President and Treasurer in April 2003. She was Vice President and Controller of the Filtration Group from June 1999 to April 2003 and Corporate Financial Services Manager from April 1996 to June 1999.

Mr. Kashkoush was named Vice President – Worldwide Sales and Marketing in October 2003. He was Vice President from July 2000 to October 2003; President of the Hydraulics Group from February 2000 to October 2003; and President of the European Operations of the Hydraulics Group from February 1999 to February 2000.

Mr. Mackie was elected as a Vice President in July 2000 and named President of the Fluid Connectors Group in July 2001. He was President of the Instrumentation Group from July 1997 to July 2001.

Mr. Maxwell was elected as Vice President – Technology and Innovation in July 2003. He was Vice President – Engineering and Innovation from January 2003 to July 2003; Business Unit Manager of the Fluid Control Division from July 2002 to January 2003; and Engineering Manager of the Racor Division from July 1998 to July 2002.

Mr. Oelslager was elected as a Vice President in October 1997 and named President of the Filtration Group effective in March 2000. He was President of the Automation Group from July 1997 to March 2000.

Mr. Sherrard was elected as a Vice President and named President of the Instrumentation Group effective in November 2003. He was General Manager of the Automation Actuator Division from May 2000 to November 2003 and Manufacturing Manager of the Automation Actuator Division from July 1997 to May 2000.

ITEM 2. Properties. The following table sets forth the principal plants and other materially important properties of the Company and its subsidiaries. Leased properties are indicated with an asterisk. A “(1)” indicates that the property is occupied by the Company’s Industrial Segment, a “(2)” indicates that the property is occupied by the Company’s Aerospace Segment, a “(3)” indicates that the property is occupied by the Company’s Climate & Industrial Controls Segment, and a “(4)” indicates that the property is occupied by the Company’s Other Segment.

UNITED STATES

<u>State</u>	<u>City</u>
Alabama	Boaz(1) Huntsville(1) Jacksonville(1)
Arizona	Glendale(2) Tolleson(2) Tucson(1)
Arkansas	Benton(1) Trumann(3)
California	Azusa(4) Camarillo(2) Irvine(1)(2) Modesto(1) Richmond(1) Rohnert Park(1) San Diego(1) Sante Fe Springs*(1)
Colorado	Englewood(1)

<u>State</u>	<u>City</u>
Connecticut	New Britain(3)
Florida	Longwood(3)
	Miami*(1)(3)
	Sarasota(1)
	Vero Beach*(1)
Georgia	Dublin(2)
Illinois	Bensenville(1)
	Broadview(3)
	Des Plaines(1)
	Elgin(1)
	Lincolnshire(1)
	Rockford(1)
Indiana	Albion(1)
	Ashley(1)
	Goshen(1)
	Indianapolis*(1)
	New Haven(3)
	Syracuse(1)
	Tell City(1)
Iowa	Davenport*(1)
	Red Oak(1)
Kansas	Manhattan(1)
Kentucky	Lexington(1)
Maine	Kittery(1)
	Portland(3)
Maryland	Baltimore*(1)
Massachusetts	Auburn*(1)
	Ayer(2)
	Haverhill*(1)
	Woburn(1)
Michigan	Kalamazoo(2)
	Lakeview(1)
	Mason(1)
	Otsego(1)
	Oxford(1)
	Richland(1)
	Troy*(1)(3)
Minnesota	Blaine(1)
	Chanhassen(1)
	Deerwood(1)
	Golden Valley(1)
	Minneapolis(1)
	New Hope*(1)
	New Ulm(1)

<u>State</u>	<u>City</u>
Mississippi	Batesville(3)
	Booneville(3)
	Holly Springs(1)
	Madison(3)
	Olive Branch*(1)
Missouri	Kennett(3)
Nebraska	Alliance(1)
	Gothenburg(1)
	Lincoln(1)
	McCook (1)
Nevada	Carson City(1)
New Hampshire	Hollis*(1)
	Hudson(1)
	Portsmouth*(1)
New Jersey	Fairfield*(1)
New York	Chestnut Ridge(1)
	Clyde(2)
	Lyons(3)
	Smithtown(2)
	Forest City(1)
	Kings Mountain(1)
	Wilson(1)
	Akron(1)
	Avon(2)
	Brookville(1)
	Columbus(1)
	Eastlake(1)
Eaton(1)	
Elyria(1)(2)	
Hicksville(1)	
Kent(1)	
Lewisburg(1)	
Marysville(1)	
Mayfield Heights(1)(2)(3)	
Mentor(2)	
Metamora(1)	
Milford*(1)	
Ravenna(1)	
St. Marys(1)	
Strongsville*(1)	
Vandalia(1)	
Wadsworth(1)	
Wickliffe(1)	

<u>State</u>	<u>City</u>
Oklahoma	Youngstown(1)
Oregon	Henryetta*(1)
Pennsylvania	Eugene(1)
	Canton(1)
South Carolina	Harrison City(1)
	Beaufort(1)
	Bishopville (1)
	Moncks Corner(2)
	Spartanburg(1)
Tennessee	Collierville*(3)
	Greeneville(1)
	Greenfield(3)
	Lebanon(1)
	Livingston(1)
Texas	Ft. Worth(2)
	Houston*(1)
	Mansfield(2)
Utah	Ogden(2)
	Salt Lake City(1)
Virginia	Lynchburg(1)
Washington	Seattle*(2)
Wisconsin	Chetek(1)
	Grantsburg(1)
	Manitowoc(1)
	Mauston(3)
	Waukesha(1)

FOREIGN COUNTRIES

<u>Country</u>	<u>City</u>
Argentina	Buenos Aires(1)(3)
Australia	Castle Hill(1)(3)
	Elizabeth West (1)
	Wodonga*(1)
Austria	Vienna(1)
	Wiener Neustadt(1)
Belgium	Brussels*(1)
	St. Niklaas(4)
Brazil	Cachoerinha(1)
	Curitiba*(1)
	Jacarei(1)(2)(3)
	São Paulo(1)(3)
Canada	Brampton*(1)
	Grimsby(1)(3)

<u>Country</u>	<u>City</u>
	Milton(1)
	Orillia(1)
	Owen Sound(1)
Chile	Santiago*(1)
Croatia	Zagreb*(4)
Czech Republic	Chomutov(1)(3)
	Prague*(1)(3)
	Prerov*(4)
	Sadská(1)
Denmark	Ballerup(1)(3)
	Espergarde(1)
Egypt	Cairo*(1)
England	Barnstaple (1)
	Burgess Hill*(1)
	Buxton(1)
	Cannock(1)
	Cornwall*(1)
	Cradley Heath(1)
	Derby*(1)
	Dewsbury(1)
	Grantham(1)
	Halesowen(1)
	Hemel Hempstead(1)(3)
	Marlow*(1)
	Ossett(1)
	Rotherham(1)
	Wakefield(1)
	Warwick(1)
	Watford*(1)
Finland	Hyrnsalmi*(1)
	Oulu*(1)
	Tampere(1)
	Urjala(1)
	Vantaa(1)
France	Annemasse(1)
	Aubagne*(1)
	Contamine(1)(3)
	Evreux(1)
	Pontarlier(1)
	Vierzon(1)
	Wissembourg(1)
Germany	Bielefeld(1)
	Bietigheim-Bissingen(1)
	Chemnitz(1)

<u>Country</u>	<u>City</u>
	Cologne(1)
	Erfurt(1)
	Geringswalde(1)
	Hilden (1)
	Hochmössingen(1)
	Kaarst(1)
	Lampertheim(1)
	Mücke(1)
	Offenburg*(1)
	Pleidelsheim(1)
	Scholß-Holte(1)
	Stuhr-Seckenhausen(1)
	Wiesbaden(2)
Greece	Athens*(1)
Hungary	Budapest*(1)
India	Mumbai(1)(3)
Ireland	Dublin*(1)
Italy	Adro(1)
	Arsago Seprio(1)
	Bologna*(1)
	Corsico(1)(3)
	Cusago*(1)
	Gessate(3)
	Milan(1)
	Ortona*(1)
	Siziano*(1)
	Veniano*(1)
Japan	Tokyo*(1)(3)
	Yokohama(1)(2)(3)
Luxembourg	Diekirch(4)
Malaysia	Kuala Lumpur*(2)
Mexico	Guaymas*(2)
	Matamoros(1)
	Montemorelos(3)
	Monterrey(1)(3)
	Tijuana(1)
	Toluca(1)
Netherlands	Amelo*(1)
	Arnhem(1)
	Etten-Leur*(1)
	Hendrik-Ido-Ambacht(1)
	Hoogezand(1)
	Oldenzaal(1)(3)
New Zealand	Mt. Wellington(1)

<u>Country</u>	<u>City</u>
Norway	Langhus(1)
Peoples Republic of China	Hong Kong*(1)(3)
	Shanghai(1)(3)
Poland	Katowice*(1)
	Swiebodzice*(3)
	Warsaw*(1)(3)
	Wroclaw(1)
Portugal	Porto*(1)
Romania	Bucharest*(1)
Russia	Moscow*(1)
Singapore	Singapore*(1)(2)(3)
Slovenia	Novo Mesto*(1)
South Africa	Kempton Park(1)(3)
South Korea	Chonan(3)
	Hwaseong(1)
	Seoul*(1)
	Yongsan(1)
Spain	Barcelona*(1)
	Madrid(1)(3)
Sweden	Borås(1)
	Falköping(1)
	Spånga(1)
	Trollhätten(1)
	Ulricehamn(1)
Switzerland	Geneva(3)
Taiwan	Taipei*(1)(3)
Thailand	Bangkok*(1)(3)
Turkey	Istanbul*(1)
Ukraine	Kiev*(1)
United Arab Emirates	Abu Dhabi*(1)
Venezuela	Caracas*(1)(3)

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 of utilization of the Company's properties varies among its plants and from time to time. The Company's restructuring efforts over the past several years have brought capacity levels closer to present and anticipated needs. Although capacity has been reduced over the last fiscal year, most of the Company's material manufacturing facilities remain capable of handling additional volume increases.

ITEM 3. Legal Proceedings. None.

ITEM 4. Submission of Matters to a Vote of Security Holders. None.

PART II

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

- (a) As of July 31, 2004, the number of shareholders of record of the Company was 4,955 and the number of beneficial owners was approximately 54,680. Information regarding stock price and dividend information with respect to the Company's common stock, as set forth on page 13-38 of Exhibit 13 hereto, is incorporated herein by reference.
- (b) *Use of Proceeds.* Not Applicable.
- (c) *Issuer Purchases of Equity Securities.*

<u>Period</u>	<u>(a) Total Number of Shares Purchased</u>	<u>(b) Average Price Paid Per Share</u>	<u>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
April 1, 2004 through April 30, 2004	63,400	\$ 57.8865	63,400	2,899,316
May 1, 2004 through May 31, 2004	58,400	\$ 54.5366	58,400	2,840,916
June 1, 2004 through June 30, 2004	57,300	\$ 57.0341	57,300	2,783,616
Total:	179,100	\$ 56.5215	179,100	2,783,616

- (1) On August 16, 1990, the Registrant publicly announced that its Board of Directors authorized the repurchase of up to 3.0 million shares of its common stock. Such amount was subsequently adjusted to 6.75 million shares as a result of stock splits in June 1995 and September 1997. On July 14, 1998, the Registrant publicly announced that its Board of Directors authorized the repurchase of an additional 4.0 million shares of its common stock. There is no expiration date for the Registrant's repurchase program.

ITEM 6. Selected Financial Data. The information set forth on page 13-41 of Exhibit 13 hereto is incorporated herein by reference.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations The information set forth on pages 13-2 to 13-13 of Exhibit 13 hereto is incorporated herein by reference.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk. The Company enters into forward exchange contracts and costless collar contracts to reduce its exposure to fluctuations in foreign currencies. The total value of open contracts and any risk to the Company as a result of these arrangements is not material to the Company's financial position, liquidity or results of operations.

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 one hundred basis point increase in near term interest rates would increase annual interest expense on variable rate debt by approximately \$400,000.

For further discussion see the Significant Accounting Policies Footnote on page 13-21 of Exhibit 13 hereto and incorporated herein by reference.

ITEM 8. Financial Statements and Supplementary Data. The information set forth on pages 13-14 to 13-41 of Exhibit 13 hereto is incorporated herein by reference.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. Not applicable.

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 the end of the fourth fiscal quarter of fiscal year 2004. Based on this evaluation, the principal executive officer and principal financial officer, have concluded that the Company's disclosure controls and procedures are effective in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

The Company periodically conducts 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 as well as the Company's Audit Committee and independent auditors, of its internal controls and procedures. There have been no significant changes in the Company's internal controls or in other factors that materially affected, or are reasonably likely to materially affect, the Company's internal controls.

ITEM 9B. Other Information. Not applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant Information required with respect to the Directors of the Company is set forth under the caption "Election of Directors" in the definitive Proxy Statement for the Company's 2004 Annual Meeting of Shareholders to be held October

27, 2004 ("2004 Proxy Statement") and is incorporated herein by reference. Information with respect to the executive officers of the Company is included in Part I hereof under the caption "Executive Officers of the Company". The information set forth under the captions "Audit Committee Financial Expert" and "Report of the Audit Committee" in the 2004 Proxy Statement is incorporated herein by reference.

The information set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2004 Proxy Statement is incorporated herein by reference.

The Company has adopted procedures by which its shareholders may recommend nominees to the Company's Board of Directors. These procedures are set forth under the caption "Procedures for Submission and Consideration of Director Candidates" in the 2004 Proxy Statement and are incorporated herein by reference.

The Company has adopted a code of ethics that applies to its Chief Executive Officer, Chief Financial Officer and Controller. The Code of Ethics is posted on the Company's investor relations internet website at www.phstock.com under the Corporate Governance page. Any amendments to, or a waiver from, a provision of the Company's Code of Ethics 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.

ITEM 11. Executive Compensation. The information set forth under the captions "Compensation of Directors" and "Executive Compensation" in the 2004 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 "'Change in Control' Severance Agreements with Officers" and "Principal Shareholders of the Corporation" in the 2004 Proxy Statement is incorporated herein by reference. The information set forth under the caption "Equity Compensation Plan Information" in the 2004 Proxy Statement is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions. The information set forth under the caption "Certain Relationships and Related Transactions" in the 2004 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 2004 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:

1. Financial Statements and Schedule

The financial statements and schedule listed in the accompanying Index to Consolidated Financial Statements and Schedules are filed or incorporated by reference as part of this Report.

2. Exhibits

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 Report.

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/ Timothy K. Pistell

Timothy K. Pistell
Vice President - Finance and
Administration and Chief Financial Officer

September 3, 2004

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

DUANE E. COLLINS, Chairman of the Board of Directors; DONALD E. WASHKEWICZ, Chief Executive Officer and Director; DANA A. DENNIS, Principal Accounting Officer; JOHN G. BREEN, Director; WILLIAM E. KASSLING, Director; ROBERT J. KOHLHEPP, Director; PETER W. LIKINS, Director; GIULIO MAZZALUPI, Director; KLAUS-PETER MÜLLER, Director; CANDY M. OBOURN, Director; HECTOR R. ORTINO, Director; ALLAN L. RAYFIELD, Director; WOLFGANG R. SCHMITT, Director; DEBRA L. STARNES, Director; and NICKOLAS W. VANDE STEEG, Director.

Date: September 3, 2004

/s/ Timothy K. Pistell

Timothy K. Pistell, Vice President – Finance and
Administration, Principal Financial Officer and
Attorney-in-Fact

PARKER-HANNIFIN CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

	Reference	
	Form 10-K Annual Report (Page)	Excerpt from Exhibit 13 (Page)
Data incorporated by reference from Exhibit 13:		
Report of Independent Registered Public Accounting Firm	—	13-39
Consolidated Statement of Income for the years ended June 30, 2004, 2003 and 2002	—	13-14
Consolidated Statement of Comprehensive Income for the years ended June 30, 2004, 2003 and 2002	—	13-14
Consolidated Balance Sheet at June 30, 2004 and 2003	—	13-17
Consolidated Statement of Cash Flows for the years ended June 30, 2004, 2003 and 2002	—	13-18
Notes to Consolidated Financial Statements	—	13-19 to 13-38
Schedule:		
II - Valuation and Qualifying Accounts	F-2	—

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.

PARKER-HANNIFIN CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2002, 2003 and 2004

(Dollars in Thousands)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning Of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Other (Deductions)/ Additions (A)</u>	<u>Balance At End Of Period</u>
<u>Allowance for doubtful accounts:</u>				
Year ended June 30, 2002	\$ 11,110	\$ 6,500	\$ (2,214)	\$ 15,396
Year ended June 30, 2003	\$ 15,396	\$ 4,257	\$ (4,349)	\$ 15,304
Year ended June 30, 2004	\$ 15,304	\$ 4,326	\$ (5,239)	\$ 14,391

(A) Net balance of deductions due to uncollectible accounts charged off and additions due to acquisitions or recoveries.

Exhibit Index

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
(3)	<u>Articles of Incorporation and By-Laws:</u>
(3)(a)	Amended Articles of Incorporation(A).
(3)(b)	Code of Regulations, as amended(B).
(4)	<u>Instruments Defining Rights of Security Holders</u>
(4)(a)	Rights Agreement, dated January 31, 1997, between the Registrant and KeyBank National Association (“KeyBank”)(C), as amended by the First Addendum to Shareholder Protection Rights Agreement, dated April 21, 1997, between the Registrant and Wachovia Bank of North Carolina N.A. (“Wachovia”), as successor to KeyBank(D), and the Second Addendum to Shareholder Protection Rights Agreement, dated June 15, 1999, between the Registrant and National City Bank, as successor to Wachovia(D). 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 on page 13-28 of Exhibit 13 hereto, which Note is incorporated herein by reference.
(10)	<u>Material Contracts:</u>
(10)(a)	Form of Change in Control Severance Agreement entered into by the Registrant and executive officers, as amended and restated(E).*
(10)(b)	Parker-Hannifin Corporation Change in Control Severance Plan, as amended(F).*
(10)(c)	Form of Indemnification Agreement entered into by the Registrant and its directors and executive officers(G).
(10)(d)	Exchange Agreement entered into as of May 11, 1999 between the Registrant and Duane E. Collins including an Executive Estate Protection Plan comprised of the Executive Estate Protection Agreement entered into by the Registrant, Duane E. Collins and The Duane E. Collins Irrevocable Trust dated 5/10/99 (the “Trust”), the Collateral Assignment between the Registrant and the Trust and the “as sold” illustration of an Executive Estate Protection Plan Insurance Policy(H).*
(10)(e)	Cancellation Agreement dated December 29, 2003 between the Registrant, Duane E. Collins and the Trust (I).*
(10)(f)	Exchange Agreement entered into as of February 22, 2000 between the Registrant and Daniel T. Garey including the Executive Estate Protection Agreement among the Registrant, Daniel T. Garey, and the Daniel T. Garey and Diane-Worthington Garey Irrevocable Trust dated December 22, 1999 (the “Trust”) and the Collateral Assignment between the Trust and the Registrant(J).*

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- (10)(g) Cancellation Agreement dated December 19, 2003 between the Registrant, Daniel T. Garey and the Daniel T. Garey and Diane Worthington-Garey Irrevocable Trust dated December 22, 1999(K).*
 - (10)(h) Exchange Agreement entered into as of October 12, 2000 between the Registrant and Thomas A. Piraino, Jr. including an Executive Estate Protection Plan comprised of the Executive Estate Protection Agreement among the Registrant, Thomas A. Piraino, Jr., and the Thomas A. Piraino, Jr. and Barbara C. McWilliams Irrevocable Trust dated September 1, 2000 (the "Trust") and the Collateral Assignment between the Trust and the Registrant(L).*
 - (10)(i) Cancellation Agreement dated December 19, 2003 between the Registrant, Thomas A. Piraino, Jr. and the Thomas A. Piraino, Jr. and Barbara C. McWilliams Irrevocable Trust dated September 1, 2000(M).*
 - (10)(j) Form of Executive Life Insurance Agreement entered into by the Registrant and certain executives (including executive officers), as restated(N).*
 - (10)(k) Parker-Hannifin Corporation Supplemental Executive Retirement Benefits Program (Restatement).*
 - (10)(l) Parker-Hannifin Corporation 1993 Stock Incentive Program, as amended(O).*
 - (10)(m) Parker-Hannifin Corporation 2003 Stock Incentive Plan.*
 - (10)(n) Description of the Parker-Hannifin Corporation 2004 Target Incentive Bonus Plan(P).*
 - (10)(o) Description of the Parker-Hannifin Corporation 2005 Target Incentive Bonus Plan.*
 - (10)(p) Description of the Parker-Hannifin Corporation Amended 2002-03-04 Long Term Incentive Plan(Q).*
 - (10)(q) Description of the Parker-Hannifin Corporation Amended 2003-04-05 Long Term Incentive Plan(R).*
 - (10)(r) Description of the Parker-Hannifin Corporation 2004-05-06 Long Term Incentive Plan(S).*
 - (10)(s) Description of the Parker-Hannifin Corporation 2005-06-07 Long Term Incentive Plan.*
 - (10)(t) Parker-Hannifin Corporation Savings Restoration Plan, as restated.*
 - (10)(u) Parker-Hannifin Corporation Pension Restoration Plan, as amended and restated(T).*
 - (10)(v) Parker-Hannifin Corporation Executive Deferral Plan, as restated.*

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- (10)(w) Parker-Hannifin Corporation Volume Incentive Plan, as amended(U).*
 - (10)(x) Parker-Hannifin Corporation Non-Employee Directors' Stock Plan, as amended and restated.*
 - (10)(y) Parker-Hannifin Corporation Non-Employee Directors Stock Option Plan(V).*
 - (10)(z) Parker-Hannifin Corporation Deferred Compensation Plan for Directors, as amended and restated(W).*
 - (10)(aa) Parker-Hannifin Corporation Stock Option Deferral Plan(X).*
 - (11) Computation of Common Shares Outstanding and Earnings Per Share is incorporated by reference to Note 5 of the Notes to Consolidated Financial Statements on page 13-26 of Exhibit 13 hereto.
 - (12) Computation of Ratio of Earnings to Fixed Charges as of June 30, 2004.
 - (13) Excerpts from Annual Report to Shareholders for the fiscal year ended June 30, 2004 which are incorporated herein by reference thereto.
 - (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.

*Management contracts or compensatory plans or arrangements.

- (A) Incorporated by reference to Exhibit 3 to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 1997 (Commission File No. 1-4982).
- (B) Incorporated by reference to Exhibit 3(b) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).
- (C) Incorporated by reference to Exhibit 4.1 to the Registrant's Report on Form 8-K filed with the Commission on February 4, 1997 (Commission File No. 1-4982).

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- (D) Incorporated by reference to Exhibit 4(a) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1999 (Commission File No. 1-4982).
 - (E) Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2003 (Commission File No. 1-4982).
 - (F) Incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).
 - (G) 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).
 - (H) Incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1999 (Commission File No. 1-4982).
 - (I) Incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2004 (Commission File No. 1-4982).
 - (J) Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2000 (Commission File No. 1-4982).
 - (K) Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2004 (Commission File No. 1-4982).
 - (L) Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended December 31, 2000 (Commission File No. 1-4982).
 - (M) Incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended March 31, 2004 (Commission File No. 1-4982).
 - (N) Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2002 (Commission File No. 1-4982).
 - (O) Incorporated by reference to Exhibit 10 to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 1997 (Commission File No. 1-4982).
 - (P) Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2003 (Commission File No. 1-4982).
 - (Q) Incorporated by reference to Exhibit 10(b) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2003 (Commission File No. 1-4982).
 - (R) Incorporated by reference to Exhibit 10(c) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2003 (Commission File No. 1-4982).
 - (S) Incorporated by reference to Exhibit 10(d) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 2003 (Commission File No. 1-4982).

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- (T) Incorporated by reference to Exhibit 10(a) to the Registrant's Report on Form 10-Q for the quarterly period ended September 30, 1999 (Commission File No. 1-4982).
 - (U) Incorporated by reference to Exhibit 10(t) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2000 (Commission File No. 1-4982).
 - (V) Incorporated by reference to Exhibit 10(w) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).
 - (W) Incorporated by reference to Exhibit 10(x) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2001 (Commission File No. 1-4982).
 - (X) Incorporated by reference to Exhibit 10(u) to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1998 (Commission File No. 1-4982).

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.

Parker-Hannifin Corporation

Supplemental Executive
Retirement Benefits Program

WHEREAS, by instrument effective as of January 1, 1980, a supplemental executive retirement benefits program was established for the benefit of certain employees of Parker-Hannifin Corporation and their beneficiaries; and

WHEREAS, said Program was amended and restated from time to time; and

WHEREAS, it is desired to restate the terms, provisions, and conditions of said Program;

NOW, THEREFORE, effective as of July 1, 2004, said Program is hereby amended and restated in its entirety to provide as hereinafter set forth.

1. Definitions

Except as otherwise required by the context, the terms used in this Program shall have the meaning hereinafter set forth.

(a) Actuarial Equivalent or Actuarially Equivalent: An amount that is the actuarial equivalent of a value using the actuarial assumptions specified for the relevant purpose under the Consolidated Plan.

(b) Board: The Board of Directors of the Company

(c) Change in Control: Any one or more of the following occurrences:

(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) 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 (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 (A) 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 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 (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 Program to the contrary, if 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 (a "Third Party"), then for all purposes of this Program, the date immediately prior to the date of such termination of employment shall be deemed to be the date of a Change in Control for such Participant.

(d) Change in Control Lump Sum Payment: The lump sum payment made upon a Change in Control as calculated under Section 4.03(a).

(e) Change in Control Severance Agreement: The agreement between an Eligible Executive and the Company that provides for certain benefits if the Eligible Executive's employment terminates following a Change in Control; provided, that in the case of a former Participant who is receiving benefits under the Program, Change in Control Severance Agreement shall mean the change in control severance agreement that was in effect between the Participant and the Company at the time of his retirement.

(f) Code: The Internal Revenue Code of 1986, as amended, or any successor statute.

(g) Committee: The Compensation and Management Development Committee of the Board.

(h) Company: Parker-Hannifin Corporation, an Ohio corporation, its corporate successors, and the surviving corporation resulting from any merger of Parker-Hannifin Corporation with any other corporation or corporations.

(i) Consolidated Plan: The Parker-Hannifin Consolidated Pension Plan.

(j) Contingent Annuitant: The person designated by a Participant as a contingent annuitant as provided in the Consolidated Plan.

(k) Controlled Group: The Company, its Subsidiaries or any entity that owns, directly or indirectly, 50% or more of the total combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board of Directors of the Company.

(l) Disability: Disability that entitles a Participant to benefits under the Company's long-term disability program.

(m) Highest Average Three-Year Compensation: One-third of the aggregate amount of compensation paid to a Participant from the Controlled Group during the three calendar years of the Participant's employment which were the three highest years of annual compensation, including base salary, bonuses payable under the Company's Return on Net Assets Plan (RONA) and Target Incentive Program, any amounts which would otherwise be paid as compensation during a calendar year but which are deferred by a Participant pursuant to any qualified or nonqualified deferred compensation program sponsored by the Controlled Group, and any amounts that would otherwise be paid as compensation during a calendar year but which are deferred under Section 125 of the Code, but excluding: (i) any deferred compensation received during any such year but credited under the Program to the Participant for a prior year; (ii) any income realized due to the exercise of stock options or stock appreciation rights; (iii) any payments, in cash, deferred or otherwise, payable to the Participant under the Company's Long-Term Incentive Plan, under any extraordinary bonus arrangements, under any severance agreement (other than as may be required under Section 4.03(a)), or as an executive perquisite; and (iv) such items as fringe benefits includible in income as compensation for federal tax purposes, moving and educational reimbursement expenses, overseas allowances received by the Participant from the Controlled Group, and any other irregular payments.

(n) Life Expectancy: The expected remaining lifetime (to the nearest integer) based on the Mortality Table and the age at the nearest birthday of the Participant or Recipient at the date the Lump Sum Payment or Change in Control Lump Sum Payment is made (unless otherwise specified herein). If a joint and contingent survivor annuity has been elected, then Life Expectancy shall reflect the joint Life Expectancy of the Participant or Recipient and Contingent Annuitant.

(o) Lump Sum Payment: The Lump Sum Payment provided in Section 4.02 of the Program with the amount determined as set forth in Section 4.03.

(p) Mortality Table: Eighty percent (80%) of the 1983 Group Annuity Mortality factor (male only).

(q) Normal Retirement Date: The definition set forth in the Consolidated Plan.

(r) Participant: An employee of the Company designated to participate in the Program pursuant to Article 2 of the Program, while so employed; provided, however, that any employee of the Company who, as of the date of a Change in Control, has entered into a Change in Control Severance Agreement with the Company shall automatically be a Participant in the Plan.

(s) Profit Sharing Account Balance: The definition set forth in the Consolidated Plan.

(t) Program: The Supplemental Executive Retirement Benefits Program set forth herein.

(u) Qualified Plan Death Benefit: The death benefit payable to the Spouse under the Consolidated Plan (and/or any death benefit payable to a Spouse under any other defined benefit

arrangement described in Sections 3.03(c), (d), or (g)), multiplied by a factor equal to [1 plus (0.025 multiplied by each year of Service less than 35 but equal to or greater than 15)]. Thus, the factor will range from 1.5 at 15 years of Service to 1 at 35 or more years of Service, as illustrated by the following examples:

<u>Years of Service</u>	<u>Factor</u>
35 or more	1.000
30	1.125
25	1.250
20	1.375
15	1.500

(v) Recipient: A retiree, Contingent Annuitant, term certain beneficiary, or Surviving Spouse, who is currently receiving benefits or is entitled to receive benefits under the Program.

(w) RIA Balance: The total contributions to the Participant's Retirement Income Account under the Savings Plan (or any successor thereto) and the Participant's Nonqualified Retirement Income Account under the Parker-Hannifin Corporation Savings Restoration Plan (or any successor thereto), plus hypothetical earnings/losses calculated as if the accounts had been invested from the time of the first contribution 60% in the securities represented in the Standard & Poor's 500 Index (in the proportions represented therein) and 40% in the securities represented in the Lehman Brothers Intermediate Government/Corporate Bond Fund Index (in the proportions represented therein).

(x) Savings Plan: The Parker Retirement Savings Plan.

(y) Service: Employment as an employee by any member of the Controlled Group, as well as employment by a corporation, trade or business, that is now part of the Controlled Group at a time prior to its becoming part of the Controlled Group, but in such case only if and to the extent that the Committee shall so direct at any time prior to retirement. For purposes of determining a Participant's eligibility to receive a benefit hereunder, Service shall include any additional years credited to a Participant under Section 4.03(a)(i).

(z) Specified Rate: The average of the daily closing On-The-Run Long Bond rates as displayed by the Bloomberg Professional Financial System at screen "GT 30 GVT" (or any successor screen), for the second full calendar month preceding the month in which a payment is to be made; provided that if the U.S. Treasury should resume issuance of 30-Year Treasury Bonds, the Specified Rate shall be the monthly average annual yield of 30-Year United States Treasury Bonds for constant maturities as published by the Federal Reserve Bank and in effect on the first day of the month prior to the month in which a payment is to be made. Notwithstanding the foregoing, for purposes of calculating a Change in Control Lump Sum Payment, the Specified Rate shall be the interest rate for immediate annuities of the Pension Benefit Guaranty Corporation (PBGC) in effect on the date of the Change in Control as set forth in Appendix B to Part 2619 of 29 Code of Federal Regulations, or any other successor or similar rate.

(aa) Subsidiary: 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.

(bb) Surviving Spouse: 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.

2. Participation

2.01 Participants. The Participants in the Program shall be: (i) such officers and other key executives of the Company as shall be designated as Participants from time to time by the Committee; and (ii) upon a Change in Control, those individuals who have entered into a Change in Control Severance Agreement with the Company as of the date of such Change in Control.

2.02 Designation of Participants. An individual may be designated a Participant by action of the Committee or in a written employment agreement approved by the Committee. Participation of each individual designated as a Participant shall be subject to the terms, conditions, and limitations set forth in the Program and to such other terms, conditions and limitations as the Committee may, in its discretion, impose upon the participation of any such individual at the time the individual is designated a Participant in the Program.

2.03 Continuation of Participation. Subject only to the provisions of Section 2.04 and Article 6 of the Program, an individual designated as a Participant shall continue to be a Participant for the purpose of eligibility to receive the supplemental retirement benefits provided by the Program and his participation in the Program shall not be terminated; provided, however, that a Participant who terminates employment at a time when he is not eligible for a benefit under Article 3 shall cease to be a Participant in the Program.

2.04 Effect of Voluntary Termination of Employment. To be eligible for supplemental retirement benefits under the Program a Participant shall not voluntarily terminate employment with the Company without the consent of the Committee for a period, not exceeding 60 calendar months, set by the Committee at the time he is designated a Participant. If he shall so voluntarily terminate his employment within such period, his participation in the Program shall terminate, he shall cease to be a Participant and (subject to Section 3.02) he shall forfeit all benefits under the Program. Notwithstanding the foregoing, for purposes of this Section 2.04, in no event shall an exercise by a Participant of his right to terminate his employment for "Good Reason" as defined under any Change in Control Severance Agreement between the Participant and the Company be deemed to be a voluntary termination of employment with the Company.

3. Supplemental Retirement Benefits

3.01 Eligibility at or After Normal Retirement Date. Any provision of Section 2.04 to the contrary notwithstanding, any Participant with at least 120 calendar months of Service who terminates his employment with the Controlled Group on or after his Normal Retirement Date shall be eligible for a monthly supplemental retirement benefit computed as set forth in Section 3.03.

3.02 Eligibility Prior to Normal Retirement Date. Any Participant with at least 120 calendar months of Service: (i) who terminates his employment with the Controlled Group with the consent of the Committee after attainment of age 55; or (ii) who is employed at the time of a Change in Control of the Company; or (iii) whose employment with the Controlled Group is terminated by the Company for reasons other than for cause (as determined solely by the Committee) after attainment of age 55 but prior to the expiration of the requisite period of employment established by the Committee with respect to him pursuant to Section 2.04; or (iv) who terminates his employment with the Controlled Group due to Disability prior to his Normal Retirement Date; or (v) who terminates his employment with the Controlled Group after attainment of age 60 (and after completion of the requisite period of employment established by the Committee with respect to him pursuant to Section 2.04) but prior to his Normal Retirement Date; shall be eligible for a monthly supplemental retirement benefit as set forth in Section 3.04.

3.03 Amount of Normal Retirement Supplemental Benefit. The monthly supplemental retirement benefit payable to an eligible Participant at Normal Retirement Date shall be an amount equal to $1/12^{\text{th}}$ of 55% of his Highest Average Three-Year Compensation, reduced by all of the following that are applicable:

(a) in the case of a Participant who does not have at least 15 years of Service at the time of his retirement, .3055 percent for each calendar month his Service is less than 15 years;

(b) the monthly single life Actuarial Equivalent of any benefit to which the Participant is entitled under the Consolidated Plan, including the single life monthly equivalent attributable to the Participant's Profit-Sharing Account Balance, determined as if the Profit-Sharing Account Balance had remained in the Consolidated Plan until retirement, whether or not such Profit-Sharing Account Balance has been transferred to the Savings Plan;

(c) the monthly single life Actuarial Equivalent of any benefit to which the Participant is entitled under any other tax-qualified defined benefit plan of the Company and which is attributable to contributions of the Company, unless benefit service for employment on which such benefit is based is credited to the Participant under the Consolidated Plan;

(d) the monthly single life Actuarial Equivalent of any benefit to which the Participant is entitled under any non-qualified defined benefit program of the Company;

(e) the monthly single life Actuarial Equivalent of any benefit attributable to the Participant's RIA Balance;

(f) 50 percent of the monthly primary social security benefit to which the Participant is entitled or would be entitled as of the earliest date following the Participant's termination of employment for which social security benefits would be payable (whether or not social security benefits are actually paid to the Participant at such time), with such reduction to begin at the earliest date after retirement for which social security benefits would be payable to the Participant; and

(g) the monthly single life Actuarial Equivalent of any benefit which the Participant is entitled to receive from any previous employer, provided that a contract between the Participant and the Company grants the Participant service for service with the previous employer and the contract states the amount to be offset.

3.04 Amount of Early Retirement Supplemental Benefit. The monthly supplemental retirement benefit payable to a Participant who is retiring prior to Normal Retirement Date shall be an amount equal to 1/12th of 55 percent of the Highest Average Three-Year Compensation, reduced by all of the following that are applicable:

(a) in the case of a Participant who does not have at least 15 years of Service at the time of his retirement, .3055 percent for each month that his Service is less than 15 years;

(b) after applying Section 3.04(a) if applicable, .1515 percent for each of the first 60 months by which commencement of the benefit precedes Normal Retirement Date, and by .3030 percent for each additional month by which commencement of the benefit precedes Normal Retirement Age; provided, however, that if the Participant has at least 30 years of Service, and entitlement to payment is a result of a Change in Control, the .1515 shall be reduced to .07575, and the .3030 shall be reduced to .1515; and

(c) any amounts described in Sections 3.03(b)-(g).

3.05 Gross-Up Payment. Anything in this Program notwithstanding, in the event it shall be determined that any payment, distribution or acceleration of vesting of any benefit hereunder would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by the Participant with respect to such excise tax, then the Participant shall be entitled to receive an additional payment calculated as set forth in the Change in Control Severance Agreement with respect to such benefit hereunder; provided, however, that there shall be no duplication of such additional payment under this Program and the Change in Control Severance Agreement.

4. Payment of Benefits

4.01 Commencement of Benefits. Subject to Sections 4.02 (b) and (c), supplemental retirement benefits shall be payable monthly to an eligible Participant commencing as of the first of the month following retirement and terminating with the month in which the death of such Participant occurs.

4.02 Payments Under Certain Situations.

(a) Optional Methods of Payment Subject to Sections 4.02 (b) and (c), an optional method of payment selected by the Participant for payment of his retirement benefit under the Consolidated Plan shall automatically be applicable to the payment of the supplemental retirement benefits provided by the Program. The benefits provided pursuant to any such optional method of payment shall be the Actuarial Equivalent of the monthly amount of benefit to which the Participant otherwise would be entitled under the Program.

(b) Payment Upon a Change in Control. Within 15 business days of a Change in Control, in lieu of any other payments due with respect to benefits earned under the Program to the date of the Change in Control, each Participant and each Recipient shall receive a Change in Control Lump Sum Payment, as calculated under Section 4.03(a).

(c) Election to Receive a Lump Sum Payment A Participant who is eligible to receive benefits under the Program pursuant to Section 3.01 or 3.02, or a Recipient, may file a written request with the Committee, subject to the terms and conditions hereinafter set forth, to receive, in lieu of future payments of any and all then unpaid accrued and vested benefits under the Program, a Lump Sum Payment determined in accordance with Section 4.03(b). If the request for a Lump Sum Payment is filed at least 13 months prior to the Participant's termination of employment and is approved by the Committee, then 100% of such Lump Sum Payment shall be paid on the date on which the first monthly benefit payment under the Program would otherwise be made. In any case in which the request for a Lump Sum Payment is not filed at least 13 months prior to the Participant's termination of employment or is denied by the Committee, then the Participant or Recipient shall receive 90% of the Lump Sum Payment, and the remaining 10% shall be forfeited to the Company.

4.03 Determination of the Lump Sum Payment

(a) The Change in Control Lump Sum Payment referred to in Section 4.02(b) shall be equal to the present value of the monthly payments to which a Participant or Recipient would be entitled under the Program based on the following assumptions: (i) the Participant (but not a Recipient) is treated as having been employed, for purposes of determining age and service hereunder, for the lesser of (A) the duration of the "Termination Period", if any, under Participant's Change in Control Severance Agreement or (B) the period of time remaining until Normal Retirement Date; (ii) Highest Average Three-Year Compensation shall be the greater of (A) the amount that would be taken into account in determining a Participant's benefit under the Program as of the date of the Change in Control if there were no Change in Control or (B) the lump sum severance payment under Section 2(a)(ii) of the Participant's (but not the Recipient's) Change in Control Severance Agreement (as if he had been terminated immediately following the Change in Control) divided by the multiple used under such section to determine severance pay; (iii) the discount rate equals the Specified Rate; (iv) the Participant (or, if applicable, Recipient) lives the number of years equal to his Life Expectancy (calculated as of the date which includes any additional Service credited hereunder); and (v) with respect to any benefit to be deducted as an offset as described in Section 3.03(b) through (f), the Participant terminated employment with the Company on the date of the Change in Control and began to receive such benefits at the earliest date thereafter permitted under the applicable plan, agreement or statute.

(b) The Lump Sum Payment referred to in Section 4.02(c) shall be equal to the present value of the future monthly payments to which the participant is entitled under the Program based on the following assumptions: (i) the discount rate equals the Specified Rate; and (ii) the Participant lives the number of years equal to his Life Expectancy on the later of (A) date of his election to receive a Lump Sum Payment, or (B) the date of his termination of employment.

4.04 Certain Matters Following a Lump Sum Payment

(a) A Participant who has received a Change in Control Lump Sum Payment pursuant to Section 4.02(b) shall thereafter: (i) while in the employ of the Company, continue to accrue benefits under the Program, and (ii) be eligible for further benefits under Section 4.01 or 4.02(a), (b) or (c). The amount of such benefit shall be determined by:

(i) calculating the benefit that would be payable to the Participant if there had been no previous Change in Control Lump Sum Payment;

(ii) determining the present lump sum value of such benefit, using the Specified Rate as the discount rate and assuming the Participant lives the number of years equal to his Life Expectancy on the date of his retirement or termination of employment;

(iii) determining the present lump sum value of the Change in Control Lump Sum Payment, assuming the Change in Control Lump Sum Payment had earned interest at the average Specified Rate in effect from the time of payment of the Change in Control Lump Sum Payment until the date of retirement or other termination of employment;

(iv) reducing the amount determined in (ii) by the amount determined in (iii); and

(v) if applicable, converting the amount determined in (iv) to an Actuarially Equivalent single life only form of payment.

5. Death Benefits

5.01 Eligibility. If a Participant dies after completing 120 calendar months of Service (without regard to the requirements of Section 2.04) but prior to the earlier of his retirement or his Normal Retirement Date, his Surviving Spouse (or, in the event there is no surviving spouse, or there is a common death, his estate) shall be eligible for a benefit under this Article 5.

5.02 Benefit Amount.

(a) The monthly amount of a benefit payable under this Article 5 to a deceased Participant's Surviving Spouse who has applied therefor, shall be equal to the monthly payment the spouse would have received had the Participant retired on the day before his death after having effectively elected to receive payment in the form of a Joint and 100% Survivor Annuity under the Consolidated Plan, with his spouse as his Contingent Annuitant under such option; provided, that (i) in lieu of the offset for the Participant's primary social security benefit under Section 3.03(f), the benefit to the Surviving Spouse shall be offset by 50% of the primary or survivor social security benefit to which the Surviving Spouse is entitled at the earliest date as of which such payments become payable, and (ii) in lieu of the offset for the Consolidated Plan benefit set forth in Section 3.03(b) (and/or any other retirement benefit under any defined benefit arrangement described in Sections 3.03(c), (d), or (g)), the benefit to the Surviving Spouse shall be offset by the Qualified Plan Death Benefit. If the estate is the death beneficiary, the estate shall receive a lump sum payment equal to the present value (using the Specified Rate) of the total monthly payments that would have been paid to the Participant assuming he had not died but rather that he: (i) retired on the day before the date of his death (or the first day of the month following the time he would have reached age 55, if later); (ii) elected the 10-Year Certain Annuity under the Consolidated Plan; and (iii) received 120 monthly payments.

(b) If the Participant dies before reaching the age that is ten years prior to the Participant's Normal Retirement Date, then the monthly benefit used to determine the death benefit shall be further reduced by .3030 for each month that the Participant was under such age at the time of his death.

5.03 Benefit Payments. Subject to Section 4.02 (b) and (c), the benefit under this Article 5 shall be paid to the deceased Participant's Surviving Spouse commencing with the first day of the month following the month in which the Participant's death occurs, and shall be payable monthly thereafter during the life of the Surviving Spouse, the last payment being for the month in which the death of the Surviving Spouse shall occur. If payment is made to the estate of the Participant, payment shall be made within 30 days of the date of the Participant's death.

6. Non-Competition

6.01 Condition of Payment. Payment of supplemental retirement benefits under the Program shall be subject to the condition that the Participant or retiree-Recipient shall not have engaged in competition (as defined in Section 6.02) with the Company at any time prior to the date of such payment; provided, however, that this Section 6.01 shall not apply to a Participant following his termination of employment if such termination occurs after the date of a Change in Control that occurs at the time the Participant is actively participating in the Program.

6.02 Competition. Competition for purposes of the Program shall mean assuming an ownership position or a consulting, management, employee or director position with a business engaged in the manufacture, processing, purchase or distribution of products of the type manufactured, processed or distributed by the Controlled Group; provided, however, that in no event shall ownership of less than two percent of the outstanding capital stock entitled to vote for the election of directors of a corporation with a class of equity securities held of record by more

than 500 persons in itself be deemed Competition; and provided further, that all of the following shall have taken place:

(a) the Secretary of the Company shall have given written notice to the Participant or retiree-Recipient that, in the opinion of the Committee, the Participant or retiree-Recipient is engaged in Competition within the meaning of the foregoing provisions of this Section 6.02, specifying the details;

(b) the Participant or retiree-Recipient shall have been given a reasonable opportunity, upon receipt of such notice, to appear before and to be heard by the Committee with respect to his views regarding the Committee's opinion that the Participant or retiree-Recipient engaged in Competition;

(c) following any hearing pursuant to Section 6.02(b), the Secretary of the Company shall have given written notice to the Participant or retiree-Recipient that the Committee determined that the Participant or retiree-Recipient is engaged in Competition; and

(d) the Participant or retiree-Recipient shall neither have ceased to engage in such Competition within thirty days from his receipt of notice of such determination nor diligently taken all reasonable steps to that end during such thirty-day period and thereafter.

7. General Provisions

7.01 Denial of Claims. Whenever the Company denies, in whole or in part, a claim for benefits filed by any person (hereinafter referred to as the "Claimant"), the Company shall transmit a written notice setting forth, in a manner calculated to be understood by the Claimant, a statement of the specific reasons for the denial of the claim, references to the specific Program provisions on which the denial is based, a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary, and an explanation of the claims review procedure as set forth in Section 7.02. In addition, the written notice shall contain the date on which the written notice was sent and a statement advising the Claimant that, within 60 days of the date on which such notice was received, he may obtain review of the decision of the Company.

7.02 Claims Review Procedure. Within 60 days of the date on which the notice of denial of claim is received by the Claimant, the Claimant, or his authorized representative, may request that the claim denial be reviewed by filing with the Company a written request therefor, which request shall contain the following information:

(a) The date on which the notice of denial of claim was received by the Claimant;

(b) The date on which the Claimant's request was filed with the Company; provided, however, that the date on which the Claimant's request for review was in fact filed with the Company shall control in the event that the date of the actual filing is later than the date stated by the Claimant pursuant to this subsection (b);

(c) The specific portions of the denial of his claim which the Claimant requests the Company to review;

(d) A statement by the Claimant setting forth the basis upon which he believes the Company should reverse its previous denial of his claim for benefits and accept his claim as made; and

(e) Any written material (included as exhibits) which the Claimant desires the Company to examine in its consideration of his position as stated pursuant to subsection (d).

Within 60 days of the date determined pursuant to Section 7.02(b), the Company shall conduct a full and fair review of the decision denying the Claimant's claim for benefits. Within ten days following the date of such review, the Company will send to the Claimant its written decision setting forth, in a manner calculated to be understood by the Claimant, a statement of the specific reasons for its decision, including references to the specific Program provision relied upon. If the Claimant disputes the Company's decision, such dispute shall be resolved by arbitration in Cleveland, Ohio under the rules of the American Arbitration Association.

7.03 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.

7.04 Trust. The Company shall be responsible for the payment of all benefits under the Plan. At its discretion, 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 a Participant from any such trust shall be considered paid by the Company for purposes of meeting the obligations of the Company under the Plan.

7.05 Rights of Participants. Except as expressly provided in any grantor trust agreement established by the Company:

(a) no Participant or Recipient shall have any right, title, or interest whatsoever in or to any investments which the Company may make to aid it in meeting its obligations under the Program;

(b) nothing contained in the Program shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, Recipient or any other person;

(c) to the extent that any person acquires a right to receive payments from the Company under the Program, such right shall be no greater than the right of an unsecured general creditor of the Company; and

(d) all payments to be made under the Program shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of amounts payable under the Program.

7.06 Administration. The Committee shall be responsible for the general administration of the Program and for carrying out the provisions thereof. Any act authorized, permitted or required to be taken by the Company under the Program may be taken by action of the Committee. Subject to the provisions of Section 7.01 relating to denial of claims and claims review procedure, any action taken by the Committee which is authorized, permitted or required under the Program shall be final and binding upon the Company, all persons who have or who claim an interest under the Program, and all third parties dealing with the Company.

7.07 Program Non-Contractual. Nothing herein contained shall be construed as a commitment or agreement on the part of any person to continue his employment with the Company, and nothing herein contained shall be construed as a commitment on the part of the Company to continue the employment or the rate of compensation of any such person for any period, and all employees of the Company shall remain subject to discharge to the same extent as if the Program had never been put into effect.

7.08 Non-Alienation of Retirement Rights or Benefits. No right or benefit under the Program shall at any time be subject in any manner to alienation or encumbrances. If any person shall attempt to, or shall, alienate or in any way encumber his rights or benefits under the Program, or any part thereof, or if by reason of his bankruptcy or other event happening at any time any such benefits would otherwise be received by anyone else or would not be enjoyed by him, his interest in all such benefits shall automatically terminate and the same, at the discretion of the Company, shall be held or applied to or for the benefit of such person, his spouse, children, or other dependents as the Company may select.

7.09 Payment of Benefits to Others. If any person to whom a retirement benefit is payable is unable to care for his affairs because of illness or accident, any payment due (unless prior claim therefor shall have been made by a duly qualified guardian or legal representative) may be paid to the spouse, parent, brother, or sister, or any other individual deemed by the Company to be maintaining or responsible for the maintenance of such person. The monthly payment of a retirement benefit to a person for the month in which he dies, if not paid to such person prior to his death, shall be paid to his estate. Any payment made in accordance with the provisions of this Section 7.09 shall be a complete discharge of any liability of the Program with respect to the retirement benefit so paid.

7.10 Notices. All notices provided for by the Program shall be in writing and shall be sufficiently given if and when mailed in the continental United States by registered or certified mail or personally delivered to the party entitled thereto at the address stated below or to such changed address as the addressee may have given by a similar notice:

To the Company: Attention: Secretary
 Parker-Hannifin Corporation
 6035 Parkland Blvd.
 Cleveland, Ohio 44124-4141

To the Participant: address of residence

Any such notice delivered in person shall be deemed to have been received on the date of delivery.

7.11 Amendment, Modification, Termination. The Program may at any time be terminated, or at any time or from time to time be amended or otherwise modified, prospectively, by the Board of Directors of the Company; provided, however, that no such termination, amendment or modification of the Program shall operate to:

- (a) reduce or terminate the benefit of a Participant participating in the Program at the time of any such termination, amendment, or modification;
- (b) terminate the participation of a Participant participating in the Program at the time of any such termination, amendment, or modification;
- (c) increase the eligibility requirements applicable to a Participant participating in the Program at the time of any such termination, amendment or modification; or
- (d) terminate the Program, or reduce or terminate any benefit, or terminate the participation or any rights or benefits, after the occurrence of a Change in Control, with respect to a Participant or Recipient who was a Participant or Recipient, or became a Participant or Recipient, at the time of the occurrence of the Change in Control.

7.12 Applicable Law. Except to the extent preempted by ERISA, the laws of the State of Ohio shall govern the Program and any disputes arising thereunder.

7.13 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.

7.14 Headings. All headings are for convenience only and shall not be used in interpreting any text to which they relate.

EXECUTED in Cleveland, Ohio as of the ___ day of _____, 2004.

PARKER-HANNIFIN CORPORATION

By: _____

PARKER-HANNIFIN CORPORATION 2003 STOCK INCENTIVE PLAN

1. **Purpose.**

The 2003 Stock Incentive Plan is intended to help maintain and develop strong management through ownership of Shares of the Corporation by key employees of the Corporation and its Subsidiaries and for recognition of efforts and accomplishments which contribute materially to the success of the Corporation's business interests.

2. **Definitions.**

In this Plan, except where the context otherwise indicates, the following definitions apply:

(a) "Award" means a Stock Option, a Stock Appreciation Right, Restricted Stock, or a Dividend Equivalent Right.

(b) "Board" means the Board of Directors of the Corporation.

(c) "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 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 Corporation representing 20% or more of the combined voting power of the Corporation's then outstanding securities eligible to vote for the election of the Board (the "Corporation's 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 Corporation or any Subsidiary; (B) an acquisition by any employee benefit plan sponsored or maintained by the Corporation 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) as pertains to an individual Grantee, any acquisition by the Grantee or any group of persons (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act) including the Grantee (or any entity in which the Grantee or a group of persons including the Grantee, directly or indirectly, holds a majority of the voting power of such entity's outstanding voting interests); or (F) the acquisition of Corporation Voting Securities from the Corporation, 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 (A) any person becoming a director subsequent to the beginning of such twenty-four (24) month period, whose election, or nomination for election, by the Corporation’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 Corporation 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 Corporation 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 Corporation or any Subsidiary that requires the approval of the Corporation’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 Corporation Voting Securities that were outstanding immediately prior to the Business Combination (or, if applicable, shares into which such Corporation 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 Corporation 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 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 (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 Corporation Voting Securities from the Corporation, 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 Corporation approve a plan of complete liquidation or dissolution of the Corporation or the sale or other disposition of all or substantially all of the assets of the Corporation 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 Corporation Voting Securities as a result of the acquisition of Corporation Voting Securities by the Corporation which, by reducing the number of Corporation 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 Corporation (if not for the operation of this sentence), and after the Corporation's acquisition such person becomes the beneficial owner of additional Corporation Voting Securities that increases the percentage of outstanding Corporation Voting Securities beneficially owned by such person, a Change in Control shall then occur.

Notwithstanding anything in this Plan to the contrary, if a Grantee's employment is terminated prior to a Change in Control, and the Grantee 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"), 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 Change in Control for such Grantee.

(d) "Code" means the Internal Revenue Code and the regulations promulgated thereunder, as in effect from time to time.

(e) "Compensation and Management Development Committee" or "Committee" means the committee of the Board so designated. The Committee will be constituted in a manner that satisfies all applicable legal requirements, including satisfying any independence standard contained in the listing requirements of the New York Stock Exchange.

(f) "Corporation" means Parker-Hannifin Corporation, an Ohio corporation, and its Subsidiaries.

(g) "Designated Beneficiary" means the person designated by the Grantee of an Award hereunder to be entitled, on the death of the Grantee, to any remaining rights arising out of such Award. Such designation must be made in writing and in accordance with such regulations as the Committee may establish.

(h) "Detrimental Activity" means activity that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Corporation or a Subsidiary, including without limitation (i) the rendering of services to an organization, or engaging in a business, that is, in the judgment of the Committee or its express delegate, in competition with the Corporation; (ii) the disclosure to any one outside of the Corporation, or the use for any purpose other than the Corporation's business, of confidential information or material related to the Corporation, whether acquired by the Grantee during or after employment with the Corporation; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) a violation of the Corporation's Code of Ethics.

(i) "Dividend Equivalent Right," herein sometimes called a "DER," means the right of the Grantee thereof to receive, pursuant to the terms of the DER, credits based on the cash dividends that would be paid on the Shares specified in the DER if such shares were held by the grantee, as more particularly set forth in Section 10(a) below.

(j) "Eligible Employee" means an Employee who is an officer, or in a managerial, executive, technical, professional, or other key position as determined by the Committee.

(k) "Employee" means an employee of the Corporation or one of its Subsidiaries.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

(m) "Fair Market Value" in relation to a Share as of any specific time shall mean the closing price as reported for the New York Stock Exchange—Composite Transactions on such date, or if no shares are traded on that date, the next preceding date on which trading occurred.

(n) "Grantee" means a recipient of an Award under this Plan.

(o) "Incentive Stock Option," herein sometimes called an "ISO," means a stock option meeting all of the requirements of Section 422 of the Code or any successor provision.

(p) "Insider" means a person subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to equity securities of the Corporation.

(q) "Restricted Stock" means any Share issued with the restriction that the Grantee may not sell, transfer, pledge, or assign such Share and such other restrictions (which may include, but are not limited to, restrictions on the right to vote or receive dividends) which may expire separately or in combination, at one time or in installments, all as specified by the Award.

(r) "Rule 16b-3" means Rule 16b-3 (or any successor thereto) under the Exchange Act that exempts from Section 16(b) of the Exchange Act transactions under employee benefit plans, as in effect from time to time with respect to this Plan.

(s) "Share" means a common share, par value \$.50, of the Corporation issued and reacquired by the Corporation or previously authorized but unissued.

(t) "Stock Appreciation Right," herein sometimes called an "SAR," means the right of the Grantee thereof to receive, pursuant to the terms of the SAR, a number of Shares or cash or a combination of Shares and cash, based on the increase in the value of the number of Shares specified in the SAR, as more particularly set forth in Section 8 below.

(u) "Stock Option" means the right of the Grantee thereof to acquire a number of Shares upon payment to the Corporation of the exercise price specified in the Award.

(v) "Subsidiary" means any corporation, partnership, or other entity in which the Corporation, directly or indirectly, owns a 50 percent or greater equity interest.

(w) "Terminate" or "Termination" means cease to be an Employee, except by death, but a change of employment from the Corporation or one Subsidiary to another Subsidiary or to the Corporation shall not be considered a termination.

(x) "Terminate Normally" for an Employee participating in this Plan means to Terminate:

(i) as a result of retirement under the applicable retirement plan or policy of the Corporation or a Subsidiary,

(ii) as a result of that Employee becoming eligible for disability income under the Corporation's long-term disability Plan, or

(iii) with written approval of the Committee given in the context of recognition that all or a specified portion of the outstanding Awards to that Employee will not expire or be forfeited or annulled because of such Termination and, in each such case, without being Terminated for cause.

(y) "1993 Program" means the Corporation's 1993 Stock Incentive Program.

3. **Eligibility.**

The selection of eligible Employees to receive Awards will be within the discretion of the Committee. More than one Award may be granted to the same eligible Employee. Members of the Committee are not eligible for the grant of Awards.

4. **Administration.**

(a) The Committee shall administer this Plan. The Committee will, subject to the terms of the Plan, have the authority to (i) select the eligible Employees who will receive Awards; (ii) grant Awards; (iii) determine the number and types of Awards to be granted to Employees; (iv) subject to the terms of the Plan, determine the terms, conditions, vesting periods and restrictions applicable to Awards; (v) adopt, alter and repeal administrative rules and practices governing this Plan; (vi) interpret the terms and provisions of this Plan and any Awards granted under this Plan; (vii) prescribe the forms of any notices of Awards or other instruments relating to Awards; and (viii) otherwise supervise the administration of this Plan. All decisions by the Committee will be made with the approval of not less than a majority of its members.

(b) All determinations and interpretations pursuant to the provisions of this Plan shall be binding and conclusive upon the individual Employees involved and all persons claiming under them.

(c) With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Plan or any action by the Committee under this Plan fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with Rule 16b-3, provided that if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void, to the extent permitted by law and deemed advisable by the appropriate authority. Each Award to an Insider under this Plan shall be deemed issued subject to the foregoing qualification.

(d) Except as otherwise determined by the Committee, an Award under this Plan is not transferable other than by will or the laws of descent and distribution and is not subject, in whole or in part, to attachment, execution, or levy of any kind.

(e) Any rights with respect to an Award granted under this Plan existing after the Grantee dies are exercisable by the Grantee's Designated Beneficiary or, if there is no such Designated Beneficiary who may, and does, lawfully do so, by the Grantee's personal representative.

(f) Except as otherwise provided herein, a particular form of Award may be granted to an eligible Employee either alone or in addition to other Awards hereunder. The provisions of particular forms of Award need not be the same with respect to each recipient.

(g) The Committee may delegate any of its authority to any other person or persons that it deems appropriate, provided the delegation does not cause the Plan or any Awards granted under this Plan to fail to qualify for the exemption provided by Rule 16b-3 or violate any independence standard contained in the New York Stock Exchange listing requirements.

(h) This Plan and all action taken under it shall be governed by the laws of the State of Ohio without giving effect to the principles of conflict of laws thereof.

(i) The Committee may permit or require any Grantee to exercise any Stock Options or SARs by means of electronic signature.

(j) Each Award shall be evidenced in such form (written, electronic or otherwise) as the Committee shall determine. Each Award may contain terms and conditions in addition to those set forth in the Plan.

5. **Awards That May Be Granted**

(a) The aggregate number of Shares that may be delivered (i) upon the exercise of a Stock Option or SAR; (ii) as Restricted Stock and released from a substantial risk of forfeiture thereof; or (iii) in payment of DERs, subject to adjustment as provided in the Plan, is equal to the

sum of (A) 9,000,000; plus (B) the amount of any Shares that are not delivered to an Employee by reason of (1) the expiration, termination, cancellation or forfeiture of an award under the 1993 Program; and (2) the tendering or withholding of Shares to satisfy all or a portion of the exercise price or tax withholding obligations relating to Shares issued or distributed under an award under the 1993 Program.

(b) The aggregate number of Shares that may be issued upon exercise of ISOs is 3,000,000.

(c) The aggregate number of Shares of Restricted Stock that may be issued hereunder is 5,000,000.

(d) To the extent that Shares subject to an outstanding Award are not delivered to a Grantee by reason of the expiration, termination, cancellation or forfeiture of such Award or by reason of the tendering or withholding of Shares to satisfy all or a portion the tax withholding obligations relating to an Award, then such Shares shall not be deemed to have been delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. If the exercise price of any Stock Option granted under the Plan is satisfied by tendering Shares (by actual delivery or attestation), only the number of shares issued to the participant net of the Shares tendered shall be deemed to be delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. When an unexercised Award lapses, expires, terminates or is forfeited, the related Shares may be available for distribution in connection with future Awards. If the benefit provided by any Award is paid in cash, any Shares covered by the Award will be available for distribution in connection with future Awards.

(e) The assumption of Awards granted by an organization acquired by the Corporation, or the grant of Awards under this Plan in substitution for any such Awards, will not reduce the number of Shares available for the grant of Awards under this Plan.

6. **Adjustments.**

In the event that the Committee shall determine that any (a) stock dividend, stock split, combination of Shares, recapitalization or other change in the capital structure of the Corporation, or (b) merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) other corporate transaction or event having an effect similar to any of the foregoing affects the Shares of the Corporation such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under this Plan, then the Committee shall, in its sole discretion, and in such manner as the Committee may deem equitable, adjust any or all of (i) the number and kind of Shares which thereafter may be the subject of Awards under this Plan, (ii) the number and kind of Shares subject to outstanding Awards, and (iii) the exercise price with respect to any of the foregoing. Moreover, in the event of any such transaction or event, the Committee, in its discretion, may provide in substitution for any or all outstanding Awards under this Plan such alternative consideration as it, in good faith, may determine to be equitable in the circumstances and may require in connection therewith the surrender of all Awards so replaced.

7. **Stock Options.**

(a) One or more Stock Options may be granted to any eligible Employee. No Employee may be granted Stock Options for more than 1,000,000 Shares in any three-year period. Each Stock Option so granted shall be subject to such terms and conditions as the Committee shall impose. The exercise price per Share shall be specified by the Award, but shall in no instance be less than 100 percent of Fair Market Value at the time of the Award. Payment of the exercise price shall be made in cash, Shares, or other consideration, or any combination thereof, in accordance with the terms of this Plan and any applicable regulations of the Committee in effect at the time and valued at Fair Market Value on the date prior to exercise of the Stock Option. All Stock Options granted hereunder shall have a maximum life of no more than ten (10) years from the date of issuance of the Award. In no event shall any Stock Option vest sooner than one (1) year from date of issuance of the Award except in the event of a Change in Control.

(b) Stock Options granted hereunder may be designated as ISOs (except to the extent otherwise specified in this Section 7) or nonqualified Stock Options. ISOs may be granted only to Eligible Employees which meet the definition of "employees" under Section 3401(c) of the Code. To the extent that the aggregate Fair Market Value of Shares with respect to which Stock Options designated as ISOs are exercisable for the first time by any Grantee during any year (under all plans of the Corporation and any Subsidiary thereof) exceeds \$100,000, such stock options shall be treated as not being ISOs. ISOs and Awards thereof must comply with all of the requirements of Section 422 of the Code.

(c) The Committee shall not adjust or amend the exercise price of Stock Options previously awarded to any Grantee, whether through amendment, cancellation and replacement grant, or any other means.

(d) The Committee may grant reload Stock Options, separately or together with another Stock Option, pursuant to which, subject to the terms and conditions established by the Committee, the Grantee would be granted a new Stock Option when the payment of the exercise price of a previously granted Stock Option is made by the delivery of Shares owned by the Grantee, which new Stock Option would be an option to purchase the number of Shares not exceeding the number of Shares so provided as consideration upon the exercise of the previously granted Stock Option to which such reload Stock Option relates. Reload Stock Options may be granted with respect to Stock Options previously granted under the Plan or any other Stock Option plan of the Corporation. Reload Stock Options shall have a per Share exercise price equal to the Fair Market Value as of the date of grant of the reload Stock Option. Any Reload Option shall be subject to availability of sufficient Shares for grant under the Plan.

8. **Stock Appreciation Rights.**

(a) An SAR may be granted to an eligible Employee as a separate Award hereunder. No Employee may be granted SARs for more than 1,000,000 Shares in any three-year period. Any SAR shall be subject to such terms and conditions as the Committee shall impose, which shall include provisions that (i) such SAR shall entitle the Grantee, upon exercise thereof in

accordance with such SAR and the regulations of the Committee, to receive from the Corporation that number of Shares having an aggregate value equal to the excess of the Fair Market Value, at the time of exercise of such SAR, of one Share over the exercise price per Share specified by the Award of such SAR (which shall in no instance be less than 100 percent of Fair Market Value at the time of the Award) times the number of Shares specified in such SAR, or portion thereof, which is so exercised.

(b) Any Stock Option granted under this Plan may include an SAR, either at the time of the Award or by amendment. An SAR included in a Stock Option shall be subject to such terms and conditions as the Committee shall impose, which shall include provisions that

(i) such SAR shall be exercisable to the extent, and only to the extent, the Stock Option is exercisable; and

(ii) such SAR shall entitle the Grantee to surrender to the Corporation unexercised the Stock Option in which the SAR is included, or any portion thereof, and to receive from the Corporation in exchange therefor that number of shares having an aggregate value equal to the excess of the Fair Market Value, at the time of exercise of such SAR, of one Share over the exercise price specified in the Award of such Stock Option times the number of Shares specified in the Award of such Stock Option, or portion thereof, which is so surrendered.

(c) All SARs granted hereunder shall have a maximum life of ten (10) years from the date of issuance of the Award. In no event shall any SAR vest sooner than one (1) year from the date of issuance of the Award except in the event of a Change in Control.

(d) In lieu of the right to receive all or any specified portion of such Shares, an SAR may entitle the holder thereof to receive the cash equivalent thereof as specified by the Award.

(e) An SAR may provide that such SAR shall be deemed to have been exercised at the close of business on the business day preceding the expiration of such SAR or the related Stock Option, if any, if at such time such SAR has positive value and would have expired.

9. **Restricted Stock.**

(a) An Award of Restricted Stock may be granted hereunder to an eligible Employee for such consideration, if any, as may be required by applicable law. The terms and conditions of Restricted Stock, including the vesting period, shall be specified by the Committee, at its sole discretion, in the Award. In no event shall any Restricted Stock vest sooner than three (3) years from the date of the issuance of the Restricted Stock except, to the extent specified in the Award, (i) in the event of a Change in Control; (ii) upon the death of the Grantee; or (iii) if the Grantee Terminates Normally.

(b) Any Shares of Restricted Stock issued hereunder may be evidenced in such manner as the Committee in its sole discretion shall deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of Restricted Stock awarded hereunder, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such award.

(c) The grant of any Award of Restricted Stock may be conditioned upon the achievement of performance-based criteria. Further, any Award of Restricted Stock may specify performance-based criteria which, if achieved by the Corporation, will result in termination or early termination of the restrictions applicable to such Shares.

10. **Dividend Equivalent Rights; Interest Equivalents.**

(a) A DER may be granted hereunder to an eligible Employee, as a component of another Award or as a separate Award. The terms and conditions of DERs shall be specified by the Award. Dividend Equivalents Rights credited to the Grantee of a DER may be paid currently or may be deemed to be reinvested in additional Shares (which may thereafter accrue additional Dividend Equivalents Rights). Any such reinvestment shall be at Fair Market Value at the time thereof. DERs may be settled in cash or Shares or a combination thereof, in a single installment or installments. A DER granted as a component of another Award may provide that such DER shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award, and that such DER shall expire or be forfeited or annulled under the same conditions as such other Award. A DER granted as a component of another Award may also contain terms and conditions different from such other Award.

(b) Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide by the Award for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the Award.

11. **Deferral of Payment.**

With the approval of the Committee, the delivery of Shares, cash or any combination thereof subject to an award may be deferred, either in the form of installments or a single future delivery. The Committee may also permit or require selected Grantees to defer payment of some or all of their Awards, as well as other compensation, in accordance with procedures established by the Committee to assure that recognition of taxable income is deferred under the Code.

12. **Termination of Employment.**

If the employment of a Grantee terminates for any reason, all unexercised, deferred and unpaid Awards may be exercisable and paid only as specified in the Award and in accordance with rules established by the Committee. These rules may provide, as the Committee deems appropriate, subject to the terms of the Plan, for the expiration, continuation, or acceleration of the vesting of all or part of the Awards.

13. **Detrimental Activity.**

The Committee may cancel any unexpired, unpaid or deferred Awards at any time if the Grantee is not in compliance with all applicable provisions of this Plan or with the terms of any notice of Award or if the Grantee engages in Detrimental Activity. The Committee may, in its discretion and as a condition to the exercise of an Award, require a Grantee to acknowledge that he or she is in compliance with all applicable provisions of the Plan and of any notice of Award and has not engaged in any Detrimental Activity. Any Award may provide that if a Grantee, either during employment by the Corporation or within a specified period after termination of such employment, shall engage in any Detrimental Activity, and the Committee shall so find, forthwith upon notice of such finding, the Grantee shall:

- (a) return to the Corporation, in exchange for payment by the Corporation of any amount actually paid therefor by the Grantee, all Shares that the Grantee has not disposed of that were issued pursuant to this Plan within a specified period prior to the date of the commencement of such Detrimental Activity; and
- (b) with respect to any Shares so acquired that the Grantee has disposed of, pay to the Corporation in cash the difference between:
 - (i) any amount actually paid therefore by the Grantee pursuant to this Plan; and
 - (ii) the Fair Market Value of such Share on the date of such acquisition.

To the extent that such amounts are not paid to the Corporation, the Corporation may set off the amounts so payable to it against any amounts that may be owing from time to time by the Corporation to the Grantee, whether as wages, deferred compensation or vacation pay or in the form of any other benefit or for any other reason.

14. **Change in Control.**

The Committee may in its discretion and upon such terms as it deems appropriate, either in the Award or subsequent thereto, accelerate the date on which any outstanding Stock Option or SAR becomes exercisable or waive the restrictions or other terms and conditions on the vesting of any Restricted Stock in the event of a Change in Control or proposed Change in Control of the Corporation. In addition to the foregoing, the Corporation may, with the approval of the Committee, purchase Stock Options previously granted to any Grantee who is at the time of any such transaction an Employee of the Corporation for a price equal to the difference between the consideration per Share payable pursuant to the terms of the transaction resulting in the Change in Control and the exercise price specified in the Award.

15. **Substitute Awards**

The Committee may grant Awards in substitution for, or upon the assumption of, Awards granted by another corporation that is merged into, consolidated with, or all or a substantial part of the assets or stock of which is acquired by the Corporation or a Subsidiary. The terms and provisions of any Awards granted under this Section 15 may vary from the terms and provisions otherwise specified in this Plan and may, instead, correspond to the terms and provisions of the awards granted by the other corporation.

16. **Amendments to This Plan: Amendments of Outstanding Awards**

(a) The Board may from time to time amend or terminate this Plan, or any provision hereof, provided, however, approval of the shareholders of the Corporation will be required to the extent necessary to comply with Rule 16b-3 or any other applicable law, regulation, or stock exchange listing requirement, or to qualify for an exemption or characterization that is deemed desirable by the Board.

(b) The Committee may, in its discretion, subject to the terms of the Plan, amend the terms of any Award, prospectively or retroactively, but no such amendment may impair the rights of any Grantee without his or her consent. The Committee may, in whole or in part, subject to the terms of the Plan, waive any restrictions or conditions applicable to, or accelerate the vesting of, any Award.

17. **Withholding Taxes**

The Corporation shall have the right to deduct from any cash payment made under this Plan any federal, state or local income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of the Corporation to deliver Shares upon exercise of a Stock Option or SAR, upon settlement of a DER, upon delivery of Restricted Stock, or upon exercise, settlement, or payment of any other Award under this Plan, that the Grantee of such Award pay to the Corporation such amount as may be requested by the Corporation for the purpose of satisfying any liability for such withholding taxes. Any Award under this Plan may provide by the Award that the Grantee of such Award may elect, in accordance with any applicable regulations of the Committee, to pay a portion or all of the amount of such minimum required or additional permitted withholding taxes in shares. The Grantee shall authorize the Corporation to withhold, or shall agree to surrender back to the Corporation, on or about the date such withholding tax liability is determinable, shares previously owned by such Grantee or a portion of the shares that were or otherwise would be distributed to such Grantee pursuant to such Award having a Fair Market Value on the day prior to the date such payment is made equal to the amount of such required or permitted withholding taxes to be paid in Shares.

18. **Grants of Awards to Employees Who are Foreign Nationals**

Without amending this Plan, but subject to the limitations specified in Section 16 above, the Committee may grant, amend, administer, annul, or terminate Awards to eligible Employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of this Plan.

19. **Rights of Employees**

Nothing in this Plan will confer upon any Grantee the right to continued employment by the Corporation or limit in any way the Corporation's right to terminate any Grantee's employment at will.

20. **Effective Date**

This Plan was approved by the Board on August 14, 2003 and will become effective when approved by the shareholders of the Corporation. Upon approval of the Plan by the Shareholders of the Corporation, no further Awards may be made by the Corporation under the 1993 Program.

PARKER-HANNIFIN CORPORATION 2005 TARGET INCENTIVE BONUS PLAN DESCRIPTION

1. Definitions:

- (a) "Company" means Parker-Hannifin Corporation, an Ohio corporation.
- (b) "Committee" means the Compensation and Management Development Committee of the Board of Directors of the Company.
- (c) "Free Cash Flow" or "FCF" equals cash flow from operations less capital expenditures.
- (d) "FCF Margin" is FCF as a percent of sales.

2. Participants: All of the executive officers of the Company, plus Group Presidents who are not executive officers.

3. Payments earned under the Bonus Plan depend upon the Company's FCF Margin as compared to the Company's fiscal year 2005 operating plan for FCF Margin.

4. Target awards for each participant are determined by the Committee. The payout under the Plan ranges from 30% to 200% of each participant's target award with 100% payout set at achievement of fiscal year 2005 planned FCF Margin.

5. Fiscal year 2005 planned FCF Margin: 5.03%

FCF Payout Schedule	
FY04 FCF Margin	Percentage of Target Award Paid
<2.00%	0%
2.00%	30%
2.43%	40%
3.30%	60%
4.17%	80%
5.03%	100%
5.53%	120%
6.04%	140%
6.54%	160%
7.05%	180%
7.55%	200%

6. The Committee has determined that it is appropriate to exclude discretionary pension plan contributions from both the FY05 operating plan and actual results in calculating FCF Margin. The Committee retains discretion to exclude additional extraordinary items from actual results to the degree appropriate.

PARKER-HANNIFIN CORPORATION

2005-06-07

LONG TERM INCENTIVE PLAN

DESCRIPTION

1. Definitions:
 - (a) "Company" means Parker-Hannifin Corporation, an Ohio corporation.
 - (b) "Committee" means the Compensation and Management Development Committee of the Board of Directors of the Company.
 - (c) "EDP" means the Company's Executive Deferral Plan.
 - (d) "EPS" means earnings per share.
 - (e) "Plan" means the Company's 2005-06-07 Long Term Incentive Plan.
 - (f) "Peers" is the list of companies attached hereto as Exhibit A that have been approved by the Committee.
 - (g) "Performance Measures" means (i) compound annual revenue growth; (ii) EPS growth; and (iii) average ROC.
 - (h) "Performance Period" is the three-year period consisting of FY05, FY06 and FY07
 - (i) "ROC" means return on capital.
2. Participants: All of the executive officers of the Company, plus Group Presidents who are not executive officers.
3. Payouts earned under the Plan depend on the Company's results during the Performance Period, as compared to the results of its Peers, for each of the Performance Measures.
4. Target awards for each participant are determined by the Committee. Awards are expressed as a certain number of performance units calculated by dividing the dollar equivalent of the award by the Company's June 30, 2004 stock price.

5. Target awards are weighted as follows for the purpose of determining payouts for each Performance Measure:

Revenue Growth	20%
EPS Growth	40%
ROC	40%

The payout under the Plan for each Performance Measure ranges from 0% to 200% of each participant's weighted target award with 100% payout set if the Company ranks at the 55th percentile against its Peers for each Plan Measure. Total Plan payouts are determined by adding together the payouts for each of the Performance Measures.

LTIP Payout Schedule

<u>Percentile Ranking</u>	<u>Percentage of Target Award Paid</u>
£35%	0%
40%	25%
45%	50%
50%	75%
55%	100%
60%	125%
65%	150%
70%	175%
75%	200%

6. Payments earned under the Plan will be paid at the end of Performance Period. Except as otherwise provided herein, payment will be made in the form of a credit to the participant's account under the EDP. Payment may be made in restricted stock of the Company pursuant to the Company's 2003 Stock Incentive Plan at the discretion of the Committee unless the participant has previously elected a deferral under the EDP. The number of restricted shares issued will be equal to the number of performance units earned in accordance with the LTIP Payout Schedule described above and the restricted shares will be subject to a vesting schedule and such other terms and conditions determined by the Committee at the time of issuance. Retirees at the time of payout will receive cash unless the participant elected a deferral under the EDP prior to retirement. The value of any EDP credit or cash payment will be determined based upon the value of the earned performance units as of June 30, 2007 based upon the Company's stock price at such date.

7. If a participant dies, retires (with consent of the Committee if earlier than age 60) or is disabled during the Performance Period, he/she will receive a pro rata portion of the award payable upon completion of the Performance Period. A participant who resigns or is otherwise terminated during the Performance Period forfeits the award.

8. The Committee retains discretion to adjust (positively or negatively) the level of payouts earned based upon its assessment of overall Company results.

9. In the event of a "Change in Control" of the Company, the payout under the Plan will be accelerated to fifteen (15) days after the Change in Control. The amount of the payout will be in cash and will be the greater of the target award or the amount the payout would have been had the Company's ranking against the Peers during the Performance Period to the end of the fiscal quarter immediately preceding the date of the Change in Control continued throughout the Performance Period. The cash amount of such payout will be based upon the closing New York Stock Exchange stock price of the Company's common shares on the first day of the Performance Period or the date of the Change in Control, whichever is greater. If the Participant will reach age 65 prior to the end of the Performance Period, the payout in the event of a Change in Control will be reduced on a pro rata basis. "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 of Directors of the Company (the "Board") (the "Company's 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 corporation or 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 (a "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) as pertains to a Plan participant (the "Executive"), 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 (A) 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 shareholders, 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 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 (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 shareholders 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 Plan 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"), 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 Change in Control for such Executive.

Peers

Caterpillar Inc.
Cooper Industries, Ltd.
Cummins Inc.
DanaHER Corporation
Deere & Company
Dover Corporation
Eaton Corporation
Emerson Electric Co.
FlowsERVE Corporation
Goodrich Corporation
Honeywell International Inc.
Illinois Tool Works Inc.
Ingersoll-Rand Company Limited
ITT Industries, Inc.
Pall Corporation
Rockwell Automation, Inc.
SPX Corporation
Textron Inc.
York International Corporation

PARKER-HANNIFIN CORPORATION

SAVINGS RESTORATION PLAN

Parker-Hannifin Corporation, an Ohio corporation, (the "Company"), established this Savings Restoration Plan (the "Plan"), 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 benefits provided under the Plan shall be provided in consideration for services to be performed after the effective date of the Plan, but prior to the executive's retirement. The Plan is hereby amended and restated as of September 1, 2004, except as may be otherwise specifically set forth hereinafter.

ARTICLE 1

Definitions

1.1 **Administrator** shall mean the Company or, if applicable, the committee appointed by the Board of Directors of the Company to administer the Plan pursuant to Article 13 of the Plan.

1.2 **Annual Deferral** shall mean the amount of Compensation which the Participant elects to defer for a Plan Year pursuant to Articles 2 and 3 of the Plan.

1.3 **Beneficiary** shall mean the person or persons or entity designated as such in accordance with Article 14 of the Plan.

1.4 **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 of Directors of the Company (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 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 (a "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) 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 (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 (A) 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 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 (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 Plan to the contrary, if 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 (a "Third Party"), 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 Change in Control for such Participant.

1.5 **Compensation** shall mean the sum of the Participant's base salary and regular bonuses (including profit-sharing, RONA, and executive compensation, but excluding 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 Select program. Compensation shall not include any amounts payable on account of Termination of Employment, whether paid periodically or in a lump sum.

1.6 **Crediting Rate** shall mean: (i) the amount described in Section 1.6.1 to the extent the Restoration Account balance represents either Annual Deferrals under Article 3 or earnings previously credited on such deferrals under Section 5.2; or (ii) the amount described in Section 1.6.2 to the extent the Restoration Account balance represents either Matching Credits under Article 4 or interest previously credited on such Matching Credits under Section 5.2:

1.6.1 **Crediting Rate for Annual Deferrals** shall mean any notional gains or losses equal to those generated as if the Restoration Account balance attributable to Annual Deferrals under Article 3 had been invested in one or more of the investment portfolios designated as available by the Administrator, less separate account fees and less applicable administrative charges determined annually by the Administrator.

A Participant (or after his death, his Beneficiary) may elect to allocate his Restoration 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 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.

1.6.2 **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 Article 4 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.

1.7 **Disability** shall mean any long term disability as defined under the Company's long term disability plan. 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.

1.8 **Early Retirement Date** shall mean age 55 with ten or more years of employment with the Company.

1.9 **Eligible Executive** shall mean a key employee of the Company or any of its subsidiaries who: (i) is designated by the Administrator as eligible to participate in the Plan (subject to the restriction in Sections 10.2, 11.2 and 12.2 of the Plan); and (ii) qualifies as a member of the "select group of management or highly compensated employees" under ERISA.

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- 1.10 **ERISA** shall mean the Employee Retirement Income Security Act of 1974, as amended.
- 1.11 **Executive Deferral Plan** shall mean the Parker-Hannifin Corporation Executive Deferral Plan as it currently exists and as it may subsequently be amended.
- 1.12 **Financial Hardship** shall mean an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence as determined by the Administrator. Cash needs arising from foreseeable events such as the purchase of a residence or education expenses for children shall not, alone, be considered a Financial Hardship.
- 1.13 **Matching Credit** shall mean the Company's credit to the Participant's Restoration Account under Article 4.
- 1.14 **Normal Retirement Date** shall mean the date on which a Participant attains age 65.
- 1.15 **Participant** shall mean an Eligible Executive who has elected to participate and has completed a Participation Agreement pursuant to Article 2 of the Plan.
- 1.16 **Participation Agreement** shall mean the Participant's written election to participate in the Plan.
- 1.17 **Plan Year** shall mean the calendar year.
- 1.18 **Restoration Account** shall mean the notional account established for record-keeping purposes for a Participant pursuant to Article 5 of the Plan.
- 1.19 **Retirement** shall mean a termination of employment following Normal or Early Retirement Date.
- 1.20 **Savings Plan** shall mean the Parker Retirement Savings Plan, formerly known as The Parker-Hannifin Employees' Savings Plus Stock Ownership Plan, as it currently exists and as it may subsequently be amended.
- 1.21 **Termination of Employment** shall mean the Participant's employment with the Company ceases for any reason whatsoever, whether voluntary or involuntary, other than Retirement or death.
- 1.22 **Unscheduled Withdrawal** shall mean a distribution of all or a portion of the entire amount credited to the Participant's Restoration Account requested by the Participant pursuant to the provisions of Article 11 of the Plan.

1.23 **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 **Participation Agreement / Annual Deferral.** 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. To be effective, the Eligible Executive must submit the Participation Agreement to the Administrator during 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.

2.2 **Continuation of Participation.** An Eligible Executive who has elected to participate in the Plan by making an Annual Deferral shall continue as a Participant in the Plan for purposes of such Annual Deferral even though such executive ceases to be an Eligible Executive. However, a Participant shall not be eligible to elect a new Annual 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 Election.** A Participant may elect an Annual Deferral under this Plan to defer all or a portion of the Compensation that he or she cannot defer under the Savings Plan due to the Statutory Limit. Such election shall designate a specified percentage of Compensation to be deferred. Annual Deferrals under this Plan shall be irrevocable.

3.2 **Maximum Annual Deferral.** The Annual Deferral for a Plan Year shall be determined as:

- (i) For a Participant who is not eligible to participate in the Executive Deferral Plan, any whole percentage between 1 and 15% of Compensation up to \$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 up to \$7,600.

3.3 **Vesting.** The Participant's right to receive Compensation deferred (and gains or losses thereon) under this Article 3 shall be 100% vested at all times.

ARTICLE 4

Company Matching Credits

4.1 **Amount.** The Company's Matching Credit in each Plan Year shall equal one hundred percent (100%) of the first three percent (3%) of Compensation deferred and fifty percent (50%) of the next two (2%) of Compensation deferred, reduced by the maximum matching contributions that would have been credited to the Participant's account under the Savings Plan if he had elected to make the maximum permitted deferral to the Savings Plan, whether or not he actually does so. Notwithstanding the foregoing, the maximum Matching Credit allocated to any Participant's Restoration Account in a Plan Year shall be \$17,000, less the maximum matching contributions that would have been credited to the Participant's account under the Savings Plan if he had elected to make the maximum permitted deferral to the Savings Plan.

4.2 **Vesting.** Subject to Section 12.4, 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.

ARTICLE 5

Restoration Accounts

5.1 **Restoration Accounts.** Solely for record keeping purposes, the Company shall maintain a Restoration Account for each Participant.

5.2 The Timing of Credits.

(i) 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;

(ii) 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; and

(iii) gains or losses shall be credited to the Restoration Account as of the close of business on each Valuation Date, based on the Crediting Rate in effect for the day under Section 1.6.

5.3 **Terminations.** Following a Participant's Termination of Employment, Retirement or death, gains or losses shall continue to be credited to the Restoration 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 Restoration 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 Restoration Account at the time and in the manner selected by the Participant pursuant to the rules set forth in Sections 6.2 and 6.3.

6.2 **Form of Retirement Benefits.** The retirement benefit shall be paid monthly over a period of fifteen (15) years or the number of whole years required to result in a monthly benefit of at least one thousand dollars (\$1,000), if less; provided, however, that the Participant may elect 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; provided, that if a monthly benefit is less than \$1,000, the Administrator may shorten the payout period in whole year increments to assure that each monthly payment is at least \$1,000; or

(iii) an annual lump sum amount payable as of January 1 of each year 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; provided, that if a monthly benefit is less than \$1,000, the Administrator may shorten the payout period in whole year increments to assure that each monthly payment is at least \$1,000.

Payments shall be made or shall begin as of the first day of the month no later than the date sixty (60) days after the Participant's Retirement, unless the Participant has elected to have payments begin as of January 1 of a later year. However, in no event shall payments commence later than the January 1 occurring five (5) years after Retirement or, if earlier, the January 1 following the date the Participant attains age seventy (70). Notwithstanding the foregoing, the Company may postpone all or a portion of any scheduled payment until the next fiscal year to avoid loss of the corporate tax deduction under Internal Revenue Code Section 162(m). Except as provided in Article 7, 10, 11 or 15, the Participant may change the election of the form of payment at any time prior to commencement of payment, except that if the election is not filed at least thirteen (13)

months prior to the Participant's scheduled date of commencement of payment, the election shall be ineffective unless the Participant agrees to take a ten percent (10%) reduction in the value of the Restoration Account.

6.3 **Small Benefit Exception.** Notwithstanding any of the foregoing, if the sum of all benefits payable to the Participant is less than or equal to ten thousand dollars (\$10,000), the Company shall pay such benefits in a single lump sum.

ARTICLE 7

Termination Benefits

7.1 **Amount.** As of the first day of the month beginning no later than sixty (60) days after Termination of Employment, the Company shall pay to the Participant a termination benefit equal to the balance of the Restoration Account as of the Valuation Date.

7.2 **Form of Termination Benefits.** The Company shall pay the termination benefits in a single lump sum; provided, however, that except following a Change in Control the Company may, in its sole discretion, elect to pay the termination benefits over a period of three (3) years in monthly installments, in which event the Restoration Account shall continue to be credited with gains or losses based on the Crediting Rate(s) elected by the Participant from time to time.

ARTICLE 8

Survivor Benefits

8.1 **Pre-Commencement Survivor Benefit.** If the Participant dies prior to the commencement of installment payments, the Company shall pay the balance of the Restoration Account to the Participant's Beneficiary in one of the following forms, based on the Participant's election:

(i) a single lump sum payment in cash;

(ii) monthly installments over 5, 10 or 15 years; provided, that if a monthly benefit is less than \$1,000, the Administrator may shorten the payout period in whole year increments to assure that each monthly payment is at least \$1,000; or

(iii) an annual lump sum amount equal to a specified 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; provided, that if a monthly benefit is less than \$1,000, the Administrator may shorten the payout period in whole year increments to assure that each monthly payment is at least \$1,000.

In the absence of an election by the Participant, payment shall be made to the Beneficiary in a single lump sum payment in cash; provided, that the Beneficiary may elect either of the installment forms of payment described above if he/she agrees to take a 10% reduction in the value of the Account.

Payments shall be made or shall begin as of the first day of the month no later than the date sixty (60) days after the Participant's death unless the Participant has elected to have payments begin as of January 1 of a later year. However, in no event shall payments commence later than the January 1 occurring five (5) years after death or, if earlier, the January 1 following the date the Participant would have attained age seventy (70). Except as provided in Article 7, 10, 11 or 15, the Participant (or after his death, his Beneficiary) may change the election of the form of payment at any time prior to commencement of payment, except that if the election is not filed at least thirteen (13) months prior to the scheduled time of payment for the survivor benefit, the election shall be ineffective unless the Beneficiary agrees to take a ten percent (10%) reduction in the value of the Restoration Account.

8.2 Post-Commencement Survivor Benefit. If the Participant dies after the time installment payments have commenced, the Company shall pay the remaining balance of the Restoration Account to the Participant's Beneficiary in accordance with the following rules, based on the Participant's election:

(i) continue in the form in effect before the Participant's death; or

(ii) a single lump sum in cash to be paid the first of the month no later than the date 60 days after the Participant's death.

In the absence of an election by the Participant, payment shall continue to be made in accordance with the schedule of payments in effect prior to the Participant's death.

8.3 Small Benefit Payment. Notwithstanding any of the foregoing, in the event the sum of all benefits payable to the Beneficiary is less than or equal to ten thousand dollars (\$10,000), the Company shall pay such benefits in a single lump sum.

ARTICLE 9

Disability

If a Participant suffers a Disability, the Company shall pay the benefit described in Article 6 to the Participant as if the date of the Participant's Termination of Employment for Disability were the Participant's Normal Retirement Date.

ARTICLE 10

Change in Control

10.1 **Election.** At the time the Participant is completing his initial Participation Agreement, the Participant may elect that, 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 Restoration Account within thirty (30) days after the Change of Control. Such balance shall be determined as of the end of the month sixty (60) days prior to the month in which the Change in Control occurs.

10.2 **Benefit Reduction on Withdrawal.** If a Participant has not made the election described in Section 10.1 above and, within thirty (30) days after a Change of Control, the Participant (or Beneficiary) elects to receive a distribution of the balance of the Restoration Account (determined as described in Section 10.1), the lump sum payment shall be reduced by an amount equal to five percent (5%) of the total balance of the Restoration Account (instead of the ten percent (10%) reduction otherwise provided for in Section 11.2). If a Participant elects such a withdrawal, any on-going Annual Deferral shall cease, and the Participant may not make any further Annual Deferrals until one entire Plan Year following the Plan Year in which such withdrawal was made has elapsed.

ARTICLE 11

Withdrawals

11.1 **Election.** A Participant (or Beneficiary if the Participant is deceased) may request an Unscheduled Withdrawal of all or a portion of the entire amount credited to the Participant's Restoration Account as of the Valuation Date on which the written request is received by the Administrator, which shall be paid in a single lump sum as soon as practicable following receipt of the request; provided, however, that (i) the minimum withdrawal shall be twenty-five percent (25%) of the Restoration Account balance, and (ii) an election to withdraw seventy-five percent (75%) or more of the balance shall be deemed to be an election to withdraw the entire balance.

11.2 **Withdrawal Penalty.** There shall be a penalty deducted from the Restoration Account prior to an Unscheduled Withdrawal equal to ten percent (10%) of the Unscheduled Withdrawal. If a Participant elects such a withdrawal, any on-going Annual Deferral shall cease, and the Participant may not make further Annual Deferrals until one entire Plan Year following the Plan Year in which such withdrawal was made has elapsed.

11.3 **Financial Hardship Distribution.** Upon a finding that the Participant or the Beneficiary has suffered a Financial Hardship, the Administrator may in its sole

discretion permit the Participant to cease any on-going deferrals and accelerate distributions of benefits under the Plan in the amount reasonably necessary to alleviate such Financial Hardship. If a distribution is made to a Participant on account of Financial Hardship, 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 Financial Hardship was made has elapsed; however, there shall be no withdrawal penalty assessed.

11.4 **Small Benefit Exception.** Notwithstanding any of the foregoing, if the sum of all benefits payable to the Participant or Beneficiary who has requested the Unscheduled Withdrawal or Financial Hardship withdrawal is less than or equal to ten thousand dollars (\$10,000), the Company shall pay out the entire Restoration Account balance (reduced by the ten percent (10%) penalty, if applicable) in a single lump sum.

11.5 **Limit on Withdrawals.** Notwithstanding any of the foregoing, no Participant in a position described in Section 162(m) of the Internal Revenue Code (or who the Company reasonably believes will be in such a position) shall be permitted to take any distribution from the Plan in any year in which he is in or is believed to be in such a position.

ARTICLE 12

Conditions Related to Benefits

12.1 **Nonassignability.** 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.

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 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.

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 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. 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.

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 Company shall administer the Plan, provided, however, that the Company may elect to appoint a committee of three (3) or more individuals to administer the Plan. All references to the Administrator herein shall refer to the Company or, if such committee has been appointed, the committee.

The Administrator shall administer the Plan and shall have discretionary authority to interpret, construe and apply its provisions in accordance with its terms. 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 the 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 Participant's estate.

ARTICLE 15

Amendment and Termination of Plan

15.1 Amendment of Plan. Except as provided in Section 15.3, 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 Restoration 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 Participant of such amendment in writing within thirty (30) days after such amendment.

15.2 Termination of Plan. Except as provided in Section 15.3, the Company may at any time terminate the Plan. If the Company terminates the Plan, the date of such termination shall be treated as the date of Retirement or Termination of Employment for the purpose of calculating Plan benefits, and the Company shall pay to the Participant the benefits the Participant is entitled to receive under the Plan in monthly installments over a thirty-six (36) month period. Interest at an annualized rate equal to 90% of the Ten-Year United States Treasury Note rate as of January 1 of the year in which the Plan is terminated will be credited to the Participant's Restoration Account commencing as of the date of the Plan's termination and continuing until distribution under this Section is completed.

15.3 Amendment or Termination After Change in Control. Notwithstanding the foregoing, the Company shall not amend or terminate the Plan without the prior written consent of affected Participants for a period of two calendar years following a Change in Control and shall not thereafter amend or terminate the Plan in any manner which affects any Participant (or Beneficiary of a deceased Participant) who commences receiving payment of benefits under the Plan prior to the end of such two year period following a Change in Control.

15.4 Company Action. Except as provided in Section 15.3 or 15.5, 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.

15.5 Constructive Receipt Termination. In the event the Administrator determines that amounts deferred under the Plan have been constructively received by Participants and must be recognized as income for federal income tax purposes, the Plan shall terminate and distributions shall be made to Participants in accordance with the Provisions of Section 15.2 or as may be determined by the Administrator. The determination of the Administrator under this Section 15.5 shall be binding and conclusive.

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. At its discretion, 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 hereunder 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 Ohio except where the laws of Ohio are preempted by ERISA.

16.10 **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, 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 Company 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 Company determines that a Participant is not eligible for benefits or full benefits, the notice shall set forth: (i) the specific reasons for such denial; (ii) a specific reference to the provisions of the Plan on which the denial is based; (iii) 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 (iv) 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 Company determines that there are special circumstances requiring additional time to make a decision, the Company 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 Company 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 Company by filing a petition for review with the Company within sixty (60) days after receipt of the notice issued by the Company. 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 Company of the petition, the Company shall afford the Participant (and counsel, if any) an opportunity to present his or her position to the Company orally or in writing, and the Participant (or counsel) shall have the right to review the pertinent documents. The Company 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, because of the

need for a hearing, the sixty-day period is not sufficient, the decision may be deferred for up to another sixty-day period at the election of the Company, 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.

PARKER-HANNIFIN CORPORATION

EXECUTIVE DEFERRAL PLAN

WHEREAS, the Parker-Hannifin Corporation Executive Deferral Plan (the "Plan") was originally established as of 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; and

WHEREAS, pursuant to the authority granted in Article 14 of the Plan, Parker-Hannifin Corporation (the "Company"), has the authority to amend the Plan; and

WHEREAS, the Plan has been amended from time to time; and

WHEREAS, the Company now desires to further amend the Plan;

NOW, THEREFORE, the Plan is hereby amended and restated as of September 1, 2004 except as may be otherwise specifically set forth hereinafter.

ARTICLE 1

Definitions

1.1 **Account** shall mean the sum of the Annual Deferral Account and all LTI Deferral Accounts (vested and unvested).

1.2 **Administrator** shall mean the Company or, if applicable, the committee appointed by the Board of Directors of the Company to administer the Plan pursuant to Article 12 of the Plan.

1.3 **Annual Deferral** shall mean the amount of Compensation which the Participant elects to defer for a Plan Year pursuant to Articles 2 and 3 of the Plan.

1.4 **Annual Deferral Account** shall mean the notional account established with respect to a Participant's Annual Deferrals and Automatic Deferrals for recordkeeping purposes pursuant to Article 4 of the Plan.

1.5 **Automatic Deferral** shall mean any amount automatically deferred to this Plan pursuant to Section 3.4 of this Plan.

1.6 **Beneficiary** shall mean the person or persons or entity designated as such in accordance with Article 13 of the Plan.

1.7 **Board** shall mean the Board of Directors of the Company.

1.8 **Bonuses** shall mean amounts paid 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 Plan (RONA) 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.

1.9 **Change in Control** shall mean any of the following events have occurred:

(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 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 (a "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) 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 (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 (A) 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 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 (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 Plan to the contrary, if 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 (a "Third Party"), 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 Change in Control for such Participant.

1.10 **Code** shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.11 **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, or the Benefits Plus Program. Compensation shall not include any amounts payable on account of Termination of Employment, whether paid periodically or in a lump sum.

1.12 **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 Administrator, less separate account fees and less applicable administrative charges determined annually by the Administrator.

A Participant (or after his death, his Beneficiary) may elect to allocate his 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.

1.13 **Disability** shall mean any long term disability as defined under the Company's long term disability plan. 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.

1.14 **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 of the Board.

1.15 **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 (subject to the restriction in Sections 9.2, 10.3 and 11.2 of the Plan); and (b) qualifies as a member of the "select group of management or highly compensated employees" under ERISA.

1.16 **ERISA** shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.17 **Financial Hardship** shall mean an unexpected need for cash arising from an illness, casualty loss, sudden financial reversal, or other such unforeseeable occurrence as determined by the Administrator. Cash needs arising from foreseeable events such as the purchase of a residence or education expenses for children shall not, alone, be considered a Financial Hardship.

1.18 **In-Service Distribution** shall mean a distribution elected by the Participant pursuant to Article 10 of the Plan.

1.19 **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.

1.20 **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 of the Plan.

1.21 **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 4 of the Plan.

1.22 **Normal Retirement Date** shall mean the date on which a Participant attains age 65.

1.23 **Participant** shall mean an Eligible Executive who has elected to participate and has completed a Participation Agreement pursuant to Article 2 of the Plan.

1.24 **Participation Agreement** shall mean the Participant's written election to participate in the Plan.

1.25 **Plan Year** shall mean the calendar year.

1.26 **Retirement** shall mean a termination of employment following Normal or Early Retirement Date.

1.27 **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 or the Savings Restoration Plan.

1.28 **Savings Plan** shall mean The Parker Retirement Savings Plan as it currently exists and as it may subsequently be amended.

1.29 **Savings Restoration Plan** shall mean the Parker-Hannifin Corporation Savings Restoration Plan as it currently exists and as it may subsequently be amended.

1.30 **Scheduled Withdrawal** shall mean a distribution of all or a portion of the entire vested amount credited to the Participant's Account requested by the Participant pursuant to the provisions of Article 10 of the Plan.

1.31 **Termination of Employment** shall mean the Participant's employment with the Company ceases for any reason whatsoever, whether voluntary or involuntary, other than Retirement or death.

1.32 **Unscheduled Withdrawal** shall mean a distribution of all or a portion of the entire amount credited to the Participant's Account requested by the Participant pursuant to the provisions of Article 10 of the Plan.

1.33 **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 5, 6, 7, 8 or 14, 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 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) In addition, an Eligible Executive shall become a Participant automatically as of the date Automatic Deferrals are credited to his Account pursuant to Section 3.4.

(c) With respect to those Participants who are eligible for an LTI Payment, the Administrator shall provide for a separate enrollment period and separate LTI Participation Agreements each year under which the Participant may designate any LTI Deferrals for a specified Plan Year.

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 and a percentage (up to a maximum specified dollar amount) of Bonuses to be earned by such Participant 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 LTI Payment that may be payable to the Participant in the next Plan Year.

(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) 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.

(b) The LTI Deferral for a Plan Year may be 100% of the LTI Payment.

(c) Notwithstanding the foregoing, the Administrator may reduce the amount of an Annual Deferral and/or an LTI Deferral to the extent necessary to insure the Participant will have sufficient earnings from the Company from which to take any taxes required to be withheld from the Participant's earnings under federal, state or local law.

3.4 **Automatic Deferrals.** An amount equal to any Compensation that is not paid to an Eligible Executive because it cannot be deducted by the Company by reason of Section 162(m) of the Code shall be deemed to have been deferred under this Plan.

3.5 **Vesting.** Subject to Section 11.3:

(a) The Participant's right to the value of his 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: (1) he is vested in his benefit under the Supplemental Executive Retirement Benefits Program; (2) he retires prior to age 60 with permission of the Compensation Committee of the Board; (3) he retires due to Disability; (4) he dies; (5) there is a Change in Control; or (6) the Plan terminates.

ARTICLE 4

Accounts

4.1 **Accounts.** Solely for recordkeeping purposes, the Company shall maintain for each Participant one Annual Deferral Account for all Annual Deferrals and all Automatic Deferrals, and shall maintain for each Participant a separate LTI Deferral Account with respect to each LTI Deferral made by the Participant.

4.2 **Timing of Credits—Pre-Termination.** Each Plan Year, the Company shall credit to the Annual Deferral Account a Participant's Annual Deferrals and any Automatic Deferrals as of the time the deferrals would otherwise have been paid to the Participant but for the Annual Deferral election or the operation of Section 162(m) of the Code, and 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. 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 1.6.

4.3 **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.

4.4 **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 5

Retirement Benefits

5.1 **Amount.** Upon Retirement, the Company shall pay to the Participant the value of his Account at the time and in the manner selected by the Participant pursuant to the rules set forth in Sections 5.2 and 5.3.

5.2 **Form of Retirement Benefits.** The retirement benefit shall be paid monthly over a period of fifteen (15) years or the number of whole years required to result in a monthly benefit of at least one thousand dollars (\$1,000), if less; provided, however, that the Participant may elect 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; provided, that if a monthly benefit is less than \$1,000, the Administrator may shorten the payout period in whole year increments to assure that each monthly payment is at least \$1,000; or

(iii) an annual lump sum amount payable as of January 1 of each year 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; provided, that if a monthly benefit is less than \$1,000, the Administrator may shorten the payout period in whole year increments to assure that each monthly payment is at least \$1,000.

Payments shall be made or shall begin as of the first day of the month no later than the date sixty (60) days after the Participant's Retirement, unless the Participant has elected to have payments begin as of January 1 of a later year. However, in no event shall payments commence later than the January 1 occurring five (5) years after Retirement or, if earlier, the January 1 following the date the Participant attains age seventy (70). Notwithstanding the foregoing, the Company may postpone all or a portion of any scheduled payment until the next fiscal year to avoid loss of the corporate tax deduction under Internal Revenue Code Section 162(m). Except as provided under Article 6, 9, 10 or 14, the Participant may change the election of the form of payment at any time prior to commencement of payment, except that if the election is not filed at least thirteen (13) months prior to the Participant's scheduled date of commencement of payment, the election shall be ineffective unless the Participant agrees to take a ten percent (10%) reduction in the value of the Account.

5.3 **Small Benefit Exception.** Notwithstanding any of the foregoing, if the sum of all benefits payable to the Participant is less than or equal to ten thousand dollars (\$10,000), the Company shall pay such benefits in a single lump sum.

ARTICLE 6

Termination Benefits

6.1 **Amount.** As of the first day of the month beginning no later than sixty (60) days after Termination of Employment, the Company shall pay to the Participant a termination benefit equal to the balance as of the Valuation Date of the Annual Deferral Account and each LTI Deferral Account in which he is vested under Section 3.5(b).

6.2 **Form of Termination Benefits.** The Company shall pay the termination benefits in a single lump sum; provided, however, that except following a Change in Control the Company may, in its sole discretion, elect to pay the termination benefits over a period of three (3) years in monthly installments, in which event the Account shall continue to be credited with gains and losses based on the Crediting Rate(s) elected by the Participant from time to time.

ARTICLE 7

Survivor Benefits

7.1 **Pre-Commencement Survivor Benefit.** If the Participant dies prior to the commencement of installment payments, the Company shall pay the balance of the Account to the Participant's Beneficiary in one of the following forms, based on the Participant's election:

(i) a single lump sum payment in cash;

(ii) monthly installments over 5, 10 or 15 years; provided, that if a monthly benefit is less than \$1,000, the Administrator may shorten the payout period in whole year increments to assure that each monthly payment is at least \$1,000; or

(iii) an annual lump sum amount equal to a specified 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; provided, that if a monthly benefit is less than \$1,000, the Administrator may shorten the payout period in whole year increments to assure that each monthly payment is at least \$1,000.

In the absence of an election by the Participant, payment shall be made to the Beneficiary in a single lump sum payment in cash; provided, that the Beneficiary may elect either of the installment forms of payment described above if he/she agrees to take a 10% reduction in the value of the Account.

Payments shall be made or shall begin as of the first day of the month no later than the date sixty (60) days after the Participant's death unless the Participant has elected to have payments begin as of January 1 of a later year. However, in no event shall payments commence later than the January 1 occurring five (5) years after death or, if earlier, the January 1 following the date the Participant would have attained age seventy (70). Except as provided in Article 9, 10 or 14 the Participant (or after his death, his Beneficiary) may change the election of the form of payment at any time prior to commencement of payment, except that if the election is not filed at least thirteen (13) months prior to the scheduled time of payment for the survivor benefit, the election shall be ineffective unless the Beneficiary agrees to take a ten percent (10%) reduction in the value of the Account.

7.2 Post-Commencement Survivor Benefit. If the Participant dies after the time installment payments have commenced, the Company shall pay the remaining balance of the Account to the Participant's Beneficiary in accordance with the following rules, based on the Participant's election:

(i) continue in the form in effect before the Participant's death; or

(ii) a single lump sum in cash to be paid the first of the month no later than the date 60 days after the Participant's death.

In the absence of an election by the Participant, payment shall continue to be made in accordance with the schedule of payments in effect prior to the Participant's death.

7.3 Small Benefit Payment. Notwithstanding any of the foregoing, in the event the sum of all benefits payable to the Beneficiary is less than or equal to ten thousand dollars (\$10,000), the Company shall pay such benefits in a single lump sum.

ARTICLE 8

Disability

If a Participant suffers a Disability, the Company shall pay the balance of the Participant's Account as of the Valuation Date to the Participant in accordance with Article 5 as if the date of the Participant's Termination of Employment for Disability were the Participant's Normal Retirement Date.

ARTICLE 9
Change in Control

9.1 Distribution.

(a) 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 Account within thirty (30) days after the Change of Control. In the event such a distribution is made, the Participant shall receive an additional adjustment payment calculated in accordance with the formula set forth in Exhibit A hereto.

(b) In addition to any other amounts payable hereunder, in the event it shall be determined that any payment, distribution or acceleration of vesting of any benefit hereunder would be subject to the excise tax imposed by Section 4999 of the Code, or any successor provision, or any interest or penalties are incurred by the 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.

ARTICLE 10
Scheduled and Unscheduled Withdrawals, Financial Hardship Distributions

10.1 Payment of Scheduled Withdrawal. No later than the last day of March of the Plan Year designated in the initial Annual Participation Agreement for a Scheduled Withdrawal (which date shall be no sooner than the January 1 following 5 years of participation), the Company shall pay to the Participant, in a lump sum or four approximately equal annual installments, all or a portion of the vested balance in the Participant's Annual Deferral and/or his LTI Deferral Account as of the Valuation Date preceding the time payment is made or commences. Any election of a Scheduled Withdrawal shall be irrevocable.

10.2 Unscheduled Withdrawal. A Participant (or Beneficiary if the Participant is deceased) may request an Unscheduled Withdrawal of all or any portion of the vested balance credited to the Participant's Account as of the Valuation Date on which the written request is received by the Administrator, which shall be paid in a single lump sum as soon as practicable following receipt of the request; provided, however, (i) that the minimum withdrawal shall be twenty-five percent (25%) of the vested Account balance, and (ii) that an election to withdraw seventy-five percent (75%) or more of the vested Account balance shall be deemed to be an election to withdraw the entire vested Account balance.

10.3 Unscheduled Withdrawal Penalty. There shall be a penalty deducted from the Account prior to an Unscheduled Withdrawal equal to ten percent (10%) of the Unscheduled Withdrawal, which shall be ratably allocated among the Participant's Annual Deferral Account and each of his vested LTI Deferral Accounts. If a Participant elects such a withdrawal, any on-going

Annual Deferral shall cease, any election of an LTI Deferral that otherwise would be effective before the first day of the Plan Year beginning one full Plan Year after such withdrawal shall not be effective, and the Participant may not make any further deferrals until one entire Plan Year following the Plan Year in which such withdrawal was made has elapsed.

10.4 **Financial Hardship Distribution.** Upon a finding that the Participant or the Beneficiary has suffered a Financial Hardship, the Administrator may in its sole discretion, permit the Participant to request distribution of a portion or all of his vested benefits under the Plan in the amount reasonably necessary to alleviate such Financial Hardship, which shall be ratably allocated among the Participant's Annual Deferral Account and each of his vested LTI Deferral Accounts. If a distribution is to be made to a Participant on account of Financial Hardship, any on-going Annual Deferrals shall cease, any election of an LTI Deferral that otherwise would be effective before the first day of the Plan Year beginning one full Plan Year after such withdrawal shall not be effective, and the Participant may not make any further deferrals until one entire Plan Year following the Plan Year in which such withdrawal was made has elapsed; however, there shall be no withdrawal penalty assessed.

10.5 **Small Benefit Exception.** Notwithstanding any of the foregoing, if the sum of all vested benefits payable to the Participant or Beneficiary who has requested any withdrawal under this Article 10 is less than or equal to ten thousand dollars (\$10,000), the Company shall elect to pay out the entire vested Account balance (reduced, if applicable, by the ten percent (10%) penalty) in a single lump sum.

10.6 **Limit on Withdrawals.** Notwithstanding any of the foregoing, no Eligible Executive in a position described in Section 162(m)(3) of the Code (or who the Company reasonably believes will be in such a position) shall be permitted to take any distribution from the Plan in any year in which he is in or is believed to be a position described in Section 162(m)(3) of the Code.

ARTICLE 11

Conditions Related to Benefits

11.1 **Nonassignability.** 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.

11.2 **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 hereunder.

11.3 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. 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 and LTI Deferrals.

11.4 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 12

Administration of Plan

The Company shall administer the Plan, provided, however, that the Company may elect to appoint a committee of three (3) or more individuals to administer the Plan. All references to the Administrator herein shall refer to the Company or, if such committee has been appointed, the committee.

The Administrator shall administer the Plan and shall have discretionary authority to interpret, construe and apply its provisions in accordance with its terms. 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 the 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 13

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 Participant's estate.

ARTICLE 14

Amendment and Termination of Plan

14.1 Amendment of Plan. Except as provided in Section 14.3, the Company may at any time amend the Plan in whole or in part, provided, however, that such amendment: (a) shall not decrease the balance of the Participant's Account at the time of such amendment; and (b) 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 Participant of such amendment in writing within thirty (30) days after such amendment.

14.2 Termination of Plan. Except as provided in Section 14.3, the Company may at any time terminate the Plan. If the Company terminates the Plan, the date of such termination shall be treated as the date of Retirement or Termination of Employment for the purpose of calculating Plan benefits, and the Company shall pay to the Participant the benefits the Participant is entitled to receive under the Plan in monthly installments over a thirty-six (36) month period. Interest at an annualized rate equal to 90% of the Ten-Year United States Treasury Note rate as of January 1 of the year in which the Plan is terminated will be credited to the Participant's Account prospectively commencing as of the date of the Plan's termination and continuing until distribution under this Section is completed.

14.3 Amendment or Termination After Change in Control. Notwithstanding the foregoing, the Company shall not amend or terminate the Plan without the prior written consent of affected Participants for a period of two calendar years following a Change in Control and shall not thereafter amend or terminate the Plan in any manner which affects any Participant (or Beneficiary) who commences receiving payment of benefits under the Plan prior to the end of such two year period following a Change in Control.

14.4 **Company Action.** Except as provided in Section 14.3 or 14.5, 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.

14.5 **Constructive Receipt Termination.** In the event the Administrator determines that amounts deferred under the Plan have been constructively received by Participants and must be recognized as income for federal income tax purposes, the Plan shall terminate and distributions shall be made to Participants in accordance with the Provisions of Section 14.2 or as may be determined by the Administrator. The determination of the Administrator under this Section shall be binding and conclusive.

ARTICLE 15

Miscellaneous

15.1 **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.

15.2 **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.

15.3 **Trust.** The Company shall be responsible for the payment of all benefits under the Plan. At its discretion, 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.

15.4 **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.

15.5 **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.

15.6 **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.

15.7 **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.

15.8 **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.

15.9 **Applicable Law.** The Plan shall be governed and construed in accordance with the laws of Ohio except where the laws of Ohio are preempted by ERISA.

15.10 **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, 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 16

Claims and Review Procedures

16.1 **Claims Procedure.** The Company 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 Company 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 Company determines that there are special circumstances requiring additional time to make a decision, the Company 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.

16.2 **Review Procedure.** If a Participant is determined by the Company 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 Company by filing a petition for review with the Company within sixty (60) days after receipt of the notice issued by the Company. 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 Company of the petition, the Company shall afford the Participant (and counsel, if any) an opportunity to present his or her position to the Company orally or in writing, and the Participant (or counsel) shall have the right to review the pertinent documents. The Company 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, because of

the need for a hearing, the sixty-day period is not sufficient, the decision may be deferred for up to another sixty-day period at the election of the Company, 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.

EXHIBIT A

The purpose of the adjustment payment to be added to the distribution made pursuant to Section 9.1(a) (the “Make Whole Amount”) is to offset the Participant’s inability to defer until retirement 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 the date on which the Participant elected to commence receipt of his Account (the “Commencement Date”) 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 (exclusive of Automatic Deferrals) (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”.

**AMENDED AND RESTATED
PARKER-HANNIFIN CORPORATION NON-EMPLOYEE DIRECTORS'
STOCK PLAN**

ARTICLE A — Purpose.

The purpose of the Parker-Hannifin Non-Employee Directors' Stock Plan (hereinafter referred to as the "Plan") is to strengthen the alignment of interests between non-employee directors (hereinafter referred to as "Participants") and the shareholders of Parker-Hannifin Corporation (hereinafter referred to as the "Company") through the increased ownership of shares of the Company's Common Stock. This will be accomplished by allowing Participants to elect voluntarily to convert a portion of their fees for services as a director into Common Stock.

ARTICLE B — Administration.

1. The Plan shall be administered by the Compensation and Management Development Committee (hereinafter referred to as the "Committee") of the Board of Directors of the Company (hereinafter referred to as the "Board"), or such other committee as may be designated by the Board. The Committee will be constituted in a manner that satisfies all legal requirements, including satisfying any independence standard contained in the listing requirements of the New York Stock Exchange.

2. It shall be the duty of the Committee to administer this Plan in accordance with its provisions and to make such recommendations of amendments or otherwise as it deems necessary or appropriate. A decision by a majority of the Committee shall govern all actions of the Committee.

3. Subject to the express provisions of this Plan, the Committee shall have authority to allow Participants the right to elect to receive all or part of the annual retainer for services as a director in whole shares of Common Stock of the Company, subject to such conditions or restrictions, if any, as the Committee may determine. The Committee also has the authority to make all other determinations it deems necessary or advisable for administering this Plan.

4. The Committee may establish from time to time such regulations, provisions, and procedures within the terms of this Plan as, in its opinion, may be advisable in the administration of this Plan.

5. The Committee may designate the Secretary of the Company or other employees of the Company to assist the Committee in the administration of this Plan and may grant authority to such persons to execute documents on behalf of the Committee, provided that any such delegation does not cause the Plan to fail to qualify for the exemption provided by Rule 16b-3 promulgated under the Exchange Act of 1934 or violate any independence standard in the New York Stock Exchange Listing Requirements.

ARTICLE C — Participation.

Participation in the Plan shall be limited to Directors who are not full-time employees of the Company.

ARTICLE D — Limitation on Number of Shares for the Plan.

1. The total number of shares of Common Stock of the Company that may be awarded each year shall not exceed 16,875 shares. The total number of shares of Common Stock of the Company that may be awarded under the Plan is 230,000.

2. Shares transferred or reserved for purposes of the Plan will be subject to appropriate adjustment in the event of future stock splits, stock dividends or other changes in capitalization; following any such change, the term “Common Stock” or “shares of Common Stock” of the Company, as used in the Plan, shall be deemed to refer to such class of shares or other securities as may be applicable.

ARTICLE E — Shares Subject to Use Under the Plan.

Shares of Common Stock to be awarded under the terms of this Plan shall be either treasury shares or authorized but unissued shares.

ARTICLE F — Transfer of Shares.

1. The Committee may transfer Common Stock of the Company under the Plan subject to such conditions or restrictions, if any, as the Committee may determine. The conditions and restrictions may vary from time to time and may be set forth in agreements between the Company and the Participant or in the awards of stock to them, all as the Committee determines.

2. The shares awarded shall be valued at the average of the high and low quotations for Common Stock of the Company on the New York Stock Exchange on the day of the transfer to a Participant. All shares awarded shall be full shares, rounded up to the nearest whole share.

ARTICLE G — Additional Provisions.

1. The Board may, at any time, repeal this Plan or may amend it from time to time except that no such amendment may amend this paragraph, increase the annual aggregate number of shares subject to this Plan, or alter the persons eligible to participate in this Plan. The Participants and the Company shall be bound by any such amendments as of their effective dates, but if any outstanding awards are affected, notice thereof shall be given to the holders of such awards and such amendments shall not be applicable to such holder without his or her written consent. If this Plan is repealed in its entirety, all theretofore awarded shares subject to conditions or restrictions transferred pursuant to this Plan shall continue to be subject to such conditions or restrictions.

2. Every recipient of shares pursuant to this Plan shall be bound by the terms and provisions of this Plan and the transfer of shares agreement referable thereto, and the acceptance of any transfer of shares pursuant to this Plan shall constitute a binding agreement between the recipient and the Company.

ARTICLE H —Duration of Plan.

The Amended and Restated Plan shall become effective as of August 12, 2004. This Plan will terminate on December 31, 2014 unless a different termination date is fixed by the shareholders or by action of the Board but no such termination shall affect the prior rights under this Plan of the Company or of anyone to whom shares have been transferred prior to such termination.

**Exhibit (12) * to Report
on Form 10-K for Fiscal
Year Ended June 30, 2004
by Parker-Hannifin Corporation**

**Computation of Ratio of Earnings to Fixed Charges
as of June 30, 2004**

	Fiscal Year Ended June 30,				
	2004	2003	2002	2001	2000
<u>EARNINGS</u>					
Income from continuing operations before income taxes	\$ 494,068	\$ 297,382	\$ 218,036	\$ 528,183	\$ 562,187
Add:					
Interest on indebtedness, exclusive of interest capitalized in accordance with FASB #34 and interest on ESOP loan guarantee	67,435	75,380	75,994	89,141	51,576
Amortization of deferred loan costs	2,293	1,786	1,357	810	659
Portion of rents representative of interest factor	22,195	21,524	20,509	18,663	13,457
Equity share of losses of companies for which debt obligations are not guaranteed		2,895	6,078	1,571	1,359
Amortization of previously capitalized interest	291	291	297	274	254
Income as adjusted	<u>\$ 586,282</u>	<u>\$ 399,258</u>	<u>\$ 322,271</u>	<u>\$ 638,642</u>	<u>\$ 629,492</u>
<u>FIXED CHARGES</u>					
Interest on indebtedness, exclusive of interest capitalized in accordance with FASB #34 and interest on ESOP loan guarantee	\$ 67,435	\$ 75,380	\$ 75,994	\$ 89,141	\$ 51,576
Amortization of deferred loan costs	2,293	1,786	1,357	810	659
Portion of rents representative of interest factor	22,195	21,524	20,509	18,663	13,457
Fixed charges	<u>\$ 91,923</u>	<u>\$ 98,690</u>	<u>\$ 97,860</u>	<u>\$ 108,614</u>	<u>\$ 65,692</u>
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	6.38x	4.05x	3.29x	5.88x	9.58x

Forward-Looking Statements

Forward-looking statements contained in this Annual Report and other written reports and oral statements 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 Company's future performance and earnings projections of the Company may differ materially from current expectations, depending on economic conditions within both its industrial and aerospace markets, and the Company's ability to achieve anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins and growth initiatives. A change in 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 or suppliers, including delays or cancellations in shipments,
- uncertainties surrounding timing, successful completion or integration of acquisitions,
- threats associated with and efforts to combat terrorism,
- competitive market conditions and resulting effects on sales and pricing,
- increases in raw material costs that cannot be recovered in product pricing, and
- global economic factors, including currency exchange rates, difficulties entering new markets and general economic conditions such as interest rates.

The Company undertakes no obligation to update or publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The Company is a leading worldwide diversified manufacturer of motion control technologies and systems, providing precision engineered solutions for a wide variety of commercial, mobile, industrial and aerospace markets. The Company's order rates are highly indicative of the Company's future revenues and thus a key metric for future performance. The Company publishes its order rates on a monthly basis. The lead time between the time an order is received and revenue is realized is typically eight to 12 weeks for commercial, mobile and industrial orders and six to 12 months for aerospace orders. The Company believes the leading economic indicators of these markets that have a strong correlation to the Company's future order rates are the Institute of Supply Management (ISM) index of manufacturing activity with respect to commercial, mobile and industrial markets and aircraft miles flown and revenue passenger miles for aerospace markets. An ISM index above 50 indicates that the manufacturing economy is expanding resulting in the expectation that the Company's order rates in the commercial, mobile and industrial markets should be increasing. The ISM index at the end of fiscal 2004 was 61.1 and was in the expansionary range throughout 2004. With respect to the aerospace market, aircraft miles flown and revenue passenger miles have shown slight improvement during 2004, although they continue to be at depressed levels.

The Company's major opportunities for growth are as follows:

- Leverage the Company's broad product line with customers desiring to consolidate their vendor base and outsource engineering,
- Expand the Company's business presence in non-North American markets,
- New product introductions,
- Systems solutions, and
- Strategic acquisitions.

The financial condition of the Company remains strong as evidenced by the continued generation of substantial cash flows from operations, a debt to debt-equity ratio of 24.9 percent, ample borrowing capabilities and strong short-term credit ratings. Cash flows from operations achieved a new record in 2004 even though the Company made discretionary contributions to its retirement and benefits plans of \$146 million.

Acquisition opportunities remain available to the Company, as evidenced by the increased level of acquisition activity in 2004. Additional acquisitions will be pursued to the extent there is a strong strategic fit while maintaining the Company's strong financial position.

Current challenges facing the Company include continuing efforts to improve operating margins despite the rising costs related to employee retirement and health care benefits, insurance, compliance with the provisions of the Sarbanes-Oxley Act and other corporate governance measures and more recently, increases in raw material prices and the ability to recover such increases in product pricing. The Company has implemented a number of strategic financial performance initiatives relating to growth and margin improvement in order to meet these challenges, including strategic procurement, strategic pricing, lean manufacturing and business realignments.

The discussion below is structured to separately discuss each of the financial statements presented on pages 13-14 to 13-18. All year references are to fiscal years.

Discussion of Consolidated Statement of Income

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

(millions)	2004	2003	2002
Net sales	\$7,107	\$6,411	\$6,149
Gross profit margin	19.2%	17.2%	16.8%
Selling, general and administrative expenses, as a percent of sales	11.3%	11.2%	11.2%
Goodwill impairment loss	\$ 1		\$ 40
Interest expense	73	\$ 81	82
Interest and other (income), net	(2)	(3)	(2)
(Gain) loss on disposal of assets	(2)	4	9
Effective tax rate	30.0%	34.0%	40.3%
Net income	\$ 346	\$ 196	\$ 130
Net income, as a percent of sales	4.9%	3.1%	2.1%

Net sales in 2004 were 10.9 percent higher than 2003. The increase in sales in 2004 primarily reflects higher volume experienced in the Industrial North American and Industrial International operations. Sales in the Aerospace operations and Climate & Industrial Controls Segment increased slightly during 2004. The effects of acquisitions completed in 2004 and currency-rate changes also contributed to the sales increase.

Net sales in 2003 were 4.3 percent higher than 2002. Acquisitions completed in 2003 and the effects of foreign currency rate changes accounted for all of the 2003 sales increase. Lower demand was experienced in virtually all of the markets in the Industrial North American operations as recession-like business conditions prevailed throughout 2003. Sales in the Industrial International operations were higher across most businesses in Latin America and the Asia Pacific region while sales in Europe were flat. The Aerospace operations experienced lower demand in the commercial original equipment and aftermarket businesses.

During the last half of fiscal 2004, the Company saw continued improvement in business conditions in the markets that the Industrial North American businesses serve. The Company expects this trend to continue into 2005 resulting in an increase in both sales and operating income over their 2004 level. Sales in the Industrial European operations are expected to increase modestly with profits improving as a result of the continued implementation of financial performance initiatives. Sales and profits in the Asia Pacific and Latin America regions are anticipated to grow as business conditions in substantially all of these markets are expected to improve. The Aerospace operations expect the commercial OEM and aftermarket businesses to experience slightly stronger business conditions than those in 2004, while the defense business is projected to remain relatively constant. The Climate & Industrial Controls operations are expected to experience the same economic conditions as experienced in 2004.

Gross profit margin was higher in 2004 as a result of the increased sales volume, most notably in the Industrial Segment. The higher margins in both 2004 and 2003 reflect the effects of the Company's financial performance initiatives, resulting in better manufacturing utilization levels, as well as a reduction in the year over year amount of business realignment costs.

Selling, general and administrative expenses as a percent of sales increased slightly in 2004 due to higher expenses associated with employee benefit and performance-based compensation plans as well as an increase in professional fees.

Goodwill impairment loss in 2004 and 2002 resulted from the Company's goodwill impairment tests required to be performed under the provisions of SFAS No. 142. No impairment loss was required to be recognized in 2003.

Interest expense declined in 2004 as a result of lower average debt outstanding and declined in 2003 as a result of lower weighted-average interest rates. Interest expense in 2004 included expenses associated with renewing the Company's revolving credit agreement.

(Gain) loss on disposal of assets includes property, plant and equipment disposals, divestitures of businesses and asset impairments and other miscellaneous asset adjustments.

<u>(millions)</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Property, plant and equipment disposals	\$ 2	\$ 4	\$ 3
Divestitures	(9)	(5)	(3)
Asset adjustments	5	5	9

See Note 2 on page 13-23 for a discussion of divestitures. See Notes 1 and 3 on pages 13-20 and 13-24, respectively, for a discussion of asset adjustments.

Effective tax rate in 2004 was lower due primarily to the net effect of both the completion of tax planning initiatives that have generated a capital loss that was used to offset capital gains in the current and prior years and the settlement of an IRS audit. The higher tax rate in 2002 was primarily due to the effect of the goodwill impairment loss, which was nondeductible for tax purposes.

Net income - In addition to the individual income statement items discussed above, net income in 2004 and 2003 was adversely affected by an additional expense of approximately \$30 million and \$17 million, respectively, related to domestic qualified defined benefit plans. The increase in expense associated with the Company's domestic qualified defined benefit plans results from a lower market value of plan assets and changes in actuarial assumptions regarding the long-term rate of return on plan assets and the discount rate. Net income in 2005 is expected to be adversely affected by an additional estimated \$13 million in excess of the 2004 expense for domestic qualified defined benefit plans. The estimated increase in expense in 2005 primarily results from the amortization of actuarial losses.

Other comprehensive income (loss) – Items included in other comprehensive income (loss) are gains and losses that under generally accepted accounting principles are recorded directly into stockholders' equity. The following are the Company's items of other comprehensive income (loss):

(millions)	2004	2003	2002
Foreign currency translation	\$ 34	\$ 99	\$ 70
Unrealized gains (losses) on marketable equity securities	5		(5)
Minimum pension liability	95	(297)	(108)

The change in foreign currency translation in 2004 resulted from the strengthening of the U.S. dollar against most other currencies. The change in foreign currency translation in 2003 and 2002 resulted primarily from a weaker U.S. dollar against the Euro. The minimum pension liability was recorded in comprehensive income in accordance with the requirements of SFAS No. 87 (see Note 10 on page 13-29 for further discussion).

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. See Note 1 on page 13-19 for a description of the Company's reportable business segments.

Industrial Segment (millions)

	2004	2003	2002
Sales			
North America	\$ 3,092	\$ 2,841	\$ 2,792
International	1,970	1,584	1,279
Operating income			
North America	307	155	141
International	160	96	61
Operating income as a percent of sales			
North America	9.9%	5.5%	5.1%
International	8.1%	6.1%	4.7%
Backlog	\$ 881	\$ 639	\$ 689
Assets	4,319	3,955	3,883
Return on average assets	11.3%	6.4%	5.5%

Sales in 2004 for the Industrial North American operations were 8.8 percent higher than 2003 following a 1.7 percent increase from 2002 to 2003. The increase in sales in 2004 was primarily due to higher end-user demand experienced in virtually all markets, with the largest increases in heavy-duty truck, construction and agriculture. Acquisitions made in 2004 also contributed to the sales increase. All of the sales increase from 2002 to 2003 was attributable to acquisitions completed in 2003. Customer demand in virtually all of the Industrial North American markets was weak throughout 2003 as the North American economy was stagnant.

Sales in the Industrial International operations increased 24.4 percent in 2004 following an increase of 23.9 percent from 2002 to 2003. The increase in sales in 2004 was primarily due to higher volume in Latin America and the Asia Pacific region as well as the effect of foreign currency exchange rates and acquisitions completed in 2004. Sales in 2004 in the European businesses were down slightly. Acquisitions completed in 2003 and the effect of foreign currency exchange rates accounted for about 80 percent of the sales increase from 2002 to 2003. Also in 2003, higher volume was experienced in virtually all markets in the Latin America and Asia Pacific regions while sales in the European businesses were flat.

The higher Industrial North American operating margins in 2004 were primarily due to the increased sales volume as well as operating efficiencies. The operating efficiencies reflect the benefits of past business realignment activities as well as the implementation of financial performance initiatives. The increase in margins in 2003 was primarily due to operating efficiencies and product mix. Acquisitions, not yet fully integrated, negatively impacted margins in both 2004 and 2003. Included in Industrial North American operating income in 2004, 2003 and 2002 are business realignment charges of \$9.1 million, \$8.3 million and \$8.9 million, respectively. The business realignment charges resulted from actions the Company took to structure the Industrial North American operations to operate in their then current economic environment and primarily consisted of severance costs and costs relating to the consolidation of manufacturing operations.

The Industrial International operating margin improvement in 2004 was primarily due to the higher sales volume in the Asia Pacific region and Latin America, especially in higher margin businesses, as well as the effects of the Company's financial performance initiatives, especially in Europe. The higher margins in 2003 were primarily due to the higher volume in the Asia Pacific region as well as operating efficiencies experienced in most of the European businesses. Operating income in 2004, 2003 and 2002 included \$4.5 million, \$7.9 million and \$7.4 million, respectively, of business realignment charges that were taken primarily to appropriately structure the European operations.

Industrial Segment order rates were higher throughout 2004 as virtually all markets experienced strengthening in end-user demand. The Company expects order entry levels in most markets of the Industrial North American operations to improve throughout 2005 reflecting the continuation of the broad-based recovery experienced in the second half of 2004 although the current level of order rates in all markets may not be sustainable throughout 2005. Operating income in the Industrial North American operations is expected to increase as a result of the higher sales volume and continued implementation of the Company's financial performance initiatives. Industrial European operations in 2005 are anticipated to track closely with the Industrial North American operations. The Asia Pacific region and Latin American operations are expected to continue to improve as the Company continues to expand its operations into these regions with demand in substantially all markets expected to grow in 2005. As part of the Company's financial performance initiatives, the recognition of additional business realignment charges may be required in 2005.

The increase in total Industrial Segment backlog from 2003 to 2004 is primarily due to higher order rates within most markets in both the Industrial North American and Industrial International businesses. The decrease in backlog from 2002 to 2003 results from shipments exceeding new order rates.

The increase in assets in 2004 was primarily due to current-year acquisitions and the effect of currency fluctuations. The increase in assets in 2003 for the Industrial Segment was primarily due to the effect of currency fluctuations partially offset by decreases in accounts receivable, inventory and property, plant and equipment.

Aerospace Segment (millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales	\$1,140	\$1,110	\$1,173
Operating income	142	157	189
Operating income as a percent of sales	12.4%	14.2%	16.1%
Backlog	\$1,162	\$1,006	\$1,010
Assets	594	623	679
Return on average assets	23.3%	24.2%	27.2%

Sales in 2004 increased slightly primarily due to an upturn in commercial activity in late 2004 as well as higher volume in the military business throughout the year. The commercial upturn was the result of higher aircraft deliveries to low cost airlines and commuter airlines as well as an increase in aftermarket volume. The lower sales in 2003 was primarily due to a decline in both commercial original equipment manufacturers (OEM) and aftermarket volume, partially offset by an increase in military volume.

The lower margins in 2004 were primarily due to higher costs associated with employee benefit plans and product liability insurance partially offset by the higher commercial volume. The lower margins in 2003 were primarily due to lower sales in the commercial OEM and aftermarket businesses and higher costs associated with employee benefit plans and product liability insurance partially offset by an increase in volume in military business. Included in operating income in 2003 and 2002 were \$2.5 million and \$4.7 million, respectively, in business realignment charges primarily related to severance costs as the workforce was adjusted in response to declining commercial aircraft orders.

The increase in backlog in 2004 was primarily due to higher order rates being experienced in both the commercial and military businesses. Backlog remained flat in 2003 due to higher order rates in military business being offset by lower order rates in the commercial aircraft and regional jet market. The upward trend in commercial order rates experienced in the latter part of 2004 is expected to continue throughout 2005 as commercial airline carriers accept deliveries for new aircraft and once again place orders for spare parts for existing aircraft instead of using parts from inactive aircraft. Order rates in the military market are expected to remain steady in 2005.

The decline in assets in 2004 was primarily due to a decrease in inventory and property, plant and equipment partially offset by an increase in accounts receivable. The decline in 2003 was primarily due to a decline in accounts receivable, inventory and property, plant and equipment.

Climate & Industrial Controls Segment (millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales	\$ 671	\$ 666	\$ 613
Operating income	72	63	48
Operating income as a percent of sales	10.7%	9.5%	7.8%
Backlog	\$ 122	\$ 117	\$ 122
Assets	361	377	387
Return on average assets	19.5%	16.6%	14.2%

The Climate & Industrial Controls Segment produces motion-control systems and components for use in the refrigeration and air conditioning and transportation industries.

The slight sales increase in 2004 was primarily the result of the effect of foreign currency exchange rates and higher end-user demand in the commercial refrigeration and air conditioning market. Acquisitions and the effect of foreign currency exchange rates accounted for about one-half of the sales increase in 2003. Higher demand in the mobile and refrigeration and air conditioning markets accounted for the balance of the sales increase in 2003. Higher margins in 2004 and 2003 were primarily a result of the realization of benefits from business realignment actions. Margins in 2003 also benefited from the higher sales volume. Operating income in 2003 and 2002 includes \$1.2 million and \$2.3 million, respectively, of business realignment charges.

The decrease in assets in 2004 was due to a decline in inventory, accounts receivable and property, plant and equipment. The decrease in assets in 2003 was due to the effect of currency fluctuations.

Other Segment (millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales	\$ 233	\$ 210	\$ 293
Operating income	22	12	7
Operating income as a percent of sales	9.5%	5.5%	2.3%
Backlog	\$ 39	\$ 41	\$ 42
Assets	200	212	190
Return on average assets	10.8%	5.8%	4.6%

The Other Segment consists of a business unit which designs and manufactures custom-engineered buildings and a business unit which develops and manufactures chemical car care products and maintenance equipment (the Company is actively soliciting offers for the sale of the latter business unit). In 2004 and 2002 the Company divested businesses included in the Other Segment which sold industrial lubricants and administered vehicle service contract programs and product-related service programs.

The increase in sales in 2004 was primarily due to the effect of foreign currency exchange rates as well as higher demand for custom engineered buildings. The decrease in sales in 2003 was primarily due to the 2002 divestiture of businesses which administered vehicle service contract programs and product-related service programs. The increase in margins in 2004 was primarily due to the higher sales volume. The increase in margins in 2003 was primarily due to operating efficiencies. Operating income in 2004, 2003 and 2002 included \$1.0 million, \$1.3 million and \$4.7 million, respectively, of business realignment charges.

The decrease in assets in 2004 is primarily due to the business divestiture partially offset by the effect of currency fluctuations. The increase in assets in 2003 was primarily due to the effect of currency fluctuations.

Corporate assets decreased 4.5 percent in 2004 and increased 33.5 percent in 2003. The fluctuation in both years is primarily due to the level of cash and cash equivalents.

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 statement provides information to assist in assessing factors such as the Company's liquidity and financial resources.

<u>(millions)</u>	<u>2004</u>	<u>2003</u>
Accounts receivable	\$ 1,201	\$ 1,002
Inventories	991	997
Plant and equipment	1,592	1,657
Investments and other assets	799	720
Goodwill	1,198	1,109
Intangible assets, net	102	59
Accounts payable, trade	535	437
Shareholders' equity	2,982	2,521
Working capital	\$ 1,277	\$ 973
Current ratio	2.01	1.68

Accounts receivable are primarily receivables due from customers for sales of product (\$1,064.6 million at June 30, 2004 and \$912.1 million at June 30, 2003). The current year increase in accounts receivable is primarily due to an increase in sales volume primarily in the Industrial North American and Industrial International operations. In addition, accounts receivable increased due to acquisitions and the effect of currency rate changes. Days sales outstanding for the Company remained constant at 55 days in 2004 compared to 2003. The allowance for doubtful accounts in 2004 decreased \$0.9 million from 2003.

Inventories decreased primarily due to a concerted effort to reduce inventory levels through the use of lean manufacturing across all segments of the Company with days supply of inventory on hand decreasing to 67 days in 2004 from 82 days in 2003. Inventories from acquisitions and the effect of currency rate changes partially offset the inventory decline.

Plant and equipment, net of accumulated depreciation, decreased in 2004 as a result of depreciation expense exceeding capital expenditures, partially offset by acquisitions and the effect of currency rate changes.

Investments and other assets increased primarily as a result of discretionary cash contributions made by the Company to its retirement and benefit plans.

Goodwill primarily increased as a result of current year acquisitions.

Intangible assets, net consist primarily of patents, trademarks and engineering drawings. Intangible assets, net increased primarily due to current year acquisitions.

Accounts payable, trade increased as a result of an increased level of purchasing across all segments of the Company to support the increase in customer orders.

Accrued domestic and foreign taxes increased to \$124.5 million in 2004 from \$65.1 million in 2003 primarily due to higher taxable income in 2004.

Pensions and other postretirement benefits decreased 11.6 percent in 2004. The change in this amount is explained further in Note 10 to the Consolidated Financial Statements.

Deferred income taxes increased \$58.2 million in 2004 primarily due to the tax effect related to the additional minimum pension liability recorded in 2004.

Other liabilities increased to \$168.2 million in 2004 from \$133.5 million in 2003 as a result of higher long-term incentive compensation accruals.

Shareholders' equity - The effect of currency rate changes during the year caused a \$34.5 million increase in Shareholders' equity. These rate changes also caused significant increases in accounts receivable, inventories, goodwill, plant and equipment, accounts payable, various accrual accounts and long-term debt.

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 is as follows:

(millions)	2004	2003	2002
Cash provided by (used in):			
Operating activities	\$ 662	\$ 557	\$ 631
Investing activities	(271)	(137)	(608)
Financing activities	(448)	(222)	(1)
Effect of exchange rates	(5)	1	1
Net (decrease) increase in cash and cash equivalents	\$ (62)	\$ 199	\$ 23

Cash Flows From Operating Activities – The increase in net cash provided by operating activities in 2004 was primarily the result of an increase in net income partially offset by a decrease in working capital. Working capital decreased primarily due to an increase in accounts receivable resulting from a higher level of sales earned in the latter part of 2004.

Cash Flows Used In Investing Activities – The significant increase in the amount of cash used in investing activities in 2004 is attributable to an increase in acquisition activity partially offset by an increase in proceeds from divestitures and a reduction in capital expenditures. The reduction in capital expenditures in 2004 can be attributed to the consolidation of manufacturing facilities and lean manufacturing initiatives. The level of capital expenditures is expected to be approximately three and one-half percent of sales in 2005. Refer to Note 2 on page 13-22 for a summary of net assets of acquired companies at their respective acquisition dates.

Cash Flows From Financing Activities – In 2004, the Company decreased its outstanding borrowings by a net total of \$415.4 million after a decrease of \$145.8 million in 2003. The substantial level of cash flow from operating activities allowed the Company to incur a low level of borrowings to complete acquisitions in 2004.

The Company has the availability to issue securities with an aggregate initial offering price of \$775 million under its universal shelf registration statement. Securities that may be issued under this shelf registration statement include debt securities, common stock, serial preferred stock, depositary shares, warrants, stock purchase contracts and stock purchase units.

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 one means of achieving this objective, the Company has established a financial goal of maintaining a ratio of debt to debt-equity of 34 to 37 percent.

<u>Debt to Debt-Equity Ratio (millions)</u>	<u>2004</u>	<u>2003</u>
Debt	\$ 989	\$1,391
Debt & Equity	3,971	3,911
Ratio	24.9%	35.6%

The Company is currently exploring several acquisition opportunities and additional borrowings may be used to finance acquisitions completed in 2005.

Common share activity in 2004 primarily involves the exercise of stock options and the purchase of shares of the Company's common stock for treasury. The purchase of the Company's shares is done pursuant to a program to repurchase shares on the open market when the strike price is within a specific range and the systematic repurchase of up to \$10 million in common shares each fiscal quarter.

Dividends have been paid for 216 consecutive quarters, including a yearly increase in dividends for the last 48 fiscal years. The current annual dividend rate is \$.76 per share.

As of June 30, 2004 the Company has committed lines of credit totaling \$825 million through two multi-currency unsecured revolving credit agreements. The credit agreements support the Company's commercial paper note program, which is rated A-1 by Standard & Poor's, P-1 by Moody's and F-1 by Fitch, Inc. These ratings are considered investment grade. The revolving credit agreements contain provisions that increase the facility fee of the credit agreement in the event the Company's credit ratings are changed. A credit rating change would not limit the Company's ability to use the credit agreements nor would it accelerate the repayment of any outstanding borrowings.

The Company seeks to minimize its total cost of borrowing and therefore uses its commercial paper note program as its primary source of working capital liquidity. The primary alternative source of borrowing for working capital liquidity is the committed lines of credit, which typically bear a higher cost of borrowing.

The Company's revolving credit agreements and certain debt agreements contain certain financial and other covenants, the violation of which would limit or preclude the use of the agreements for future borrowings. The most restrictive financial covenant provides that the ratio of debt to total capitalization be less than 50 percent. As of June 30, 2004, the ratio of debt to total capitalization was 24.9 percent. The Company is in compliance with all covenants and expects to remain in compliance during the term of the agreements.

Based upon the Company's past performance and current expectations, management believes the cash flows generated from future operating activities should provide adequate funds to support internal growth and continued improvements in the Company's manufacturing facilities and equipment. The Company's worldwide financial capabilities may be used to support planned growth as needed.

Contractual Obligations – The Company is obligated to make future payments in fixed amounts primarily under long-term debt and various lease agreements. The following table summarizes the Company's fixed contractual obligations.

(In thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Long-term debt	\$ 969,901	\$ 16,471	\$ 416,234	\$ 49,355	\$ 487,841
Operating leases	150,628	49,434	57,324	26,340	17,530
Capital lease obligations	633	259	374		
Total	\$ 1,121,162	\$ 66,164	\$ 473,932	\$ 75,695	\$ 505,371

Quantitative and Qualitative Disclosures About Market Risk

The Company enters into forward exchange contracts and costless collar contracts to reduce its exposure to fluctuations in related foreign currencies. The total carrying and fair value of open contracts and any risk to the Company as a result of these arrangements is not material to the Company's financial position, liquidity or results of operations.

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, 2004 by approximately \$0.4 million.

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements with unconsolidated entities.

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 Industrial Segment, the Climate & Industrial Controls Segment and the Other Segment revenues are recognized when the risks and rewards of ownership and title to the product have transferred to the customer. This generally takes place at the time the product is shipped. The Aerospace Segment uses the percentage of completion method to recognize a portion of its revenue. The percentage of completion method requires the use of estimates of costs to complete long-term contracts and for some contracts includes estimating costs related to aftermarket orders. The estimation of these costs requires substantial judgment on the part of management due to the duration of the contracts as well as the technical nature of the products involved. Adjustments to estimated costs are made on a consistent basis and a contract reserve is established when the costs to complete a contract exceed the 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's goodwill may exceed its fair value. A discounted cash flow model is used to estimate the fair value of a reporting unit. This model requires the use of long-term planning forecasts and assumptions regarding industry specific economic conditions that are outside the control of the Company. Long-lived assets held for use are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use and eventual disposition is less than their carrying value. The long-term nature of these assets require the estimation of its cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test.

Inventories – Inventories are valued at the lower of cost or market. Cost is determined on the last-in, first-out basis for a majority of U.S. inventories and on the first-in, first-out basis for the balance of the Company's inventories. Inventories have been reduced by an allowance for excess and obsolete inventories. The estimated allowance is based on management's review of inventories on hand compared to estimated future usage and sales.

Pensions and Postretirement Benefits Other Than 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 return on plan assets, increases in compensation levels, amortization periods for actuarial gains and losses and health care cost trends. Assumptions are determined based on Company data and appropriate market indicators, and are evaluated each year as of the plan's measurement date. Changes in the assumptions to reflect actual experience could result in a material change in the annual net periodic expense and benefit obligations reported in the financial statements. For the Company's domestic defined benefit plans, a one-half percentage point change in the assumed long-term rate of return on plan assets is estimated to have a \$6 million effect on pension expense and a one-half percentage point decrease in the discount rate is estimated to increase pension expense by \$13 million.

Further information on pensions and postretirement benefits other than pensions is provided in Note 10 to the Consolidated Financial Statements.

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

Recently Issued Accounting Pronouncements

In May 2004 the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). FSP 106-2 provides that the measure of the accumulated benefit obligation and net periodic postretirement cost on or after the date of enactment should reflect the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The effect of the Act will be reflected in the measurement of the accumulated postretirement benefit obligation and net periodic postretirement cost in fiscal 2005 and is not expected to have a material effect on the Company's results of operations, cash flows or financial position.

Consolidated Statement of Income

(Dollars in thousands, except per share amounts) For the years ended June 30,

	2004	2003	2002
Net Sales	\$ 7,106,907	\$ 6,410,610	\$ 6,149,122
Cost of sales	<u>5,742,053</u>	<u>5,309,775</u>	<u>5,116,570</u>
Gross profit	1,364,854	1,100,835	1,032,552
Selling, general and administrative expenses	800,204	721,065	686,485
Goodwill impairment loss (Note 7)	1,033		39,516
Interest expense	73,396	81,561	82,484
Interest and other (income), net	(1,770)	(3,016)	(2,483)
(Gain) loss on disposal of assets	(2,077)	3,843	8,514
Income before income taxes	494,068	297,382	218,036
Income taxes (Note 4)	148,285	101,110	87,886
Net Income	\$ 345,783	\$ 196,272	\$ 130,150
Earnings per Share (Note 5)			
Basic earnings per share	\$ 2.94	\$ 1.69	\$ 1.13
Diluted earnings per share	\$ 2.91	\$ 1.68	\$ 1.12

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,

	2004	2003	2002
Net Income	\$ 345,783	\$ 196,272	\$ 130,150
Other comprehensive income (loss), net of taxes (Note 11):			
Foreign currency translation adjustment	34,487	99,029	69,673
Minimum pension liability	94,513	(297,487)	(107,563)
Net unrealized gain (loss) on marketable equity securities	5,272	(27)	(5,076)
Comprehensive Income (Loss)	\$ 480,055	\$ (2,213)	\$ 87,184

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

**Business Segment Information
By Industry**

(Dollars in thousands)	2004	2003	2002
Net Sales:			
Industrial:			
North America	\$ 3,091,947	\$ 2,840,628	\$ 2,792,315
International	1,970,398	1,584,443	1,278,694
Aerospace	1,140,122	1,109,566	1,172,608
Climate & Industrial Controls	671,157	665,629	612,533
Other	233,283	210,344	292,972
	<u>\$ 7,106,907</u>	<u>\$ 6,410,610</u>	<u>\$ 6,149,122</u>
Segment Operating Income:			
Industrial:			
North America	\$ 306,903	\$ 155,258	\$ 141,315
International	159,629	96,301	60,721
Aerospace	141,838	157,295	189,353
Climate & Industrial Controls	71,769	63,441	47,980
Other	22,141	11,584	6,663
	<u>702,280</u>	<u>483,879</u>	<u>446,032</u>
Total segment operating income	702,280	483,879	446,032
Corporate administration	106,501	80,147	73,335
	<u>595,779</u>	<u>403,732</u>	<u>372,697</u>
Income before interest expense and other	595,779	403,732	372,697
Interest expense	73,396	81,561	82,484
Other expense	28,315	24,789	72,177
	<u>494,068</u>	<u>297,382</u>	<u>218,036</u>
Income before income taxes	\$ 494,068	\$ 297,382	\$ 218,036
Identifiable Assets:			
Industrial			
	\$ 4,318,751	\$ 3,954,929	\$ 3,883,107
Aerospace			
	593,593	622,960	679,371
Climate & Industrial Controls			
	361,148	376,730	386,619
Other			
	200,469	211,521	189,769
	<u>5,473,961</u>	<u>5,166,140</u>	<u>5,138,866</u>
Corporate (a)	782,943	819,493	613,717
	<u>\$ 6,256,904</u>	<u>\$ 5,985,633</u>	<u>\$ 5,752,583</u>
Property Additions (b):			
Industrial			
	\$ 165,984	\$ 145,357	\$ 295,139
Aerospace			
	9,691	12,092	20,266
Climate & Industrial Controls			
	12,625	8,811	36,384
Other			
	3,263	1,815	10,728
Corporate			
	843	1,555	4,679
	<u>\$ 192,406</u>	<u>\$ 169,630</u>	<u>\$ 367,196</u>
Depreciation:			
Industrial			
	\$ 195,865	\$ 200,772	\$ 183,917
Aerospace			
	19,723	20,115	19,806
Climate & Industrial Controls			
	18,675	20,545	19,675
Other			
	3,302	2,432	2,251
Corporate			
	4,626	4,617	5,586
	<u>\$ 242,191</u>	<u>\$ 248,481</u>	<u>\$ 231,235</u>

By Geographic Area (c)

(Dollars in thousands)

	2004	2003	2002
Net Sales:			
North America	\$ 4,758,133	\$ 4,501,098	\$ 4,567,370
International	2,348,774	1,909,512	1,581,752
	<u>\$ 7,106,907</u>	<u>\$ 6,410,610</u>	<u>\$ 6,149,122</u>
Long-Lived Assets:			
North America	\$ 1,042,994	\$ 1,168,882	\$ 1,249,767
International	548,859	488,543	447,198
	<u>\$ 1,591,853</u>	<u>\$ 1,657,425</u>	<u>\$ 1,696,965</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 management basis that is consistent with the manner in which the Company disaggregates financial information for internal review and decision-making.

- (a) Corporate assets are principally cash and cash equivalents, domestic deferred income taxes, investments, benefit plan assets, headquarters facilities, assets held for sale and the major portion of the Company's domestic data processing equipment.
- (b) Includes value of net plant and equipment at the date of acquisition of acquired companies accounted for by the purchase method and the reclassification of assets previously held for sale (2004 - \$50,860; 2003 - \$11,370; 2002 - \$160,632).
- (c) 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% of consolidated sales. Long-lived assets are comprised of property, plant and equipment based on physical location.

Consolidated Balance Sheet

(Dollars in thousands)	June 30,	
	2004	2003
Assets		
Current Assets		
Cash and cash equivalents	\$ 183,847	\$ 245,850
Accounts receivable, less allowance for doubtful accounts (2004 - \$14,391; 2003 - \$15,304)	1,201,343	1,002,060
Inventories (Notes 1 and 6):		
Finished products	448,081	475,057
Work in process	415,749	399,574
Raw materials	127,548	122,536
	<u>991,378</u>	<u>997,167</u>
Prepaid expenses	45,814	51,949
Deferred income taxes (Notes 1 and 4)	114,551	99,781
	<u>2,536,933</u>	<u>2,396,807</u>
Total Current Assets		
Plant and equipment (Note 1):		
Land and land improvements	175,663	174,682
Buildings and building equipment	955,715	924,065
Machinery and equipment	2,446,578	2,379,611
Construction in progress	47,116	58,425
	<u>3,625,072</u>	<u>3,536,783</u>
Less accumulated depreciation	2,033,219	1,879,358
	<u>1,591,853</u>	<u>1,657,425</u>
Investments and other assets (Note 1)	799,381	720,022
Goodwill (Notes 1 and 7)	1,198,411	1,108,610
Intangible assets, net (Notes 1 and 7)	102,097	59,444
Deferred income taxes (Notes 1 and 4)	28,229	43,325
	<u>28,229</u>	<u>43,325</u>
Total Assets	\$ 6,256,904	\$ 5,985,633
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable and long-term debt payable within one year (Notes 8 and 9)	\$ 35,198	\$ 424,235
Accounts payable, trade	534,561	437,103
Accrued payrolls and other compensation	239,070	197,696
Accrued domestic and foreign taxes	124,546	65,094
Other accrued liabilities	326,366	299,599
	<u>1,259,741</u>	<u>1,423,727</u>
Total Current Liabilities		
Long-term debt (Note 9)	953,804	966,332
Pensions and other postretirement benefits (Note 10)	813,635	920,420
Deferred income taxes (Notes 1 and 4)	79,028	20,780
Other liabilities	168,242	133,463
	<u>3,274,450</u>	<u>3,464,722</u>
Total Liabilities		
Shareholders' Equity (Note 11)		
Serial preferred stock, \$.50 par value, authorized 3,000,000 shares; none issued		
Common stock, \$.50 par value, authorized 600,000,000 shares; issued 119,711,057 shares in 2004 and 118,285,736 shares in 2003 at par value	59,856	59,143
Additional capital	451,891	389,021
Retained earnings	2,840,787	2,584,268
Unearned compensation related to ESOP (Note 9)	(48,868)	(63,418)
Deferred compensation related to stock options	2,347	2,347
Accumulated other comprehensive (loss)	(311,710)	(445,982)
	<u>2,994,303</u>	<u>2,525,379</u>
Common stock in treasury at cost: 227,067 shares in 2004 and 120,637 shares in 2003	(11,849)	(4,468)
	<u>2,982,454</u>	<u>2,520,911</u>
Total Shareholders' Equity		
Total Liabilities and Shareholders' Equity	\$ 6,256,904	\$ 5,985,633

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,		
	2004	2003	2002
Cash Flows From Operating Activities			
Net income	\$ 345,783	\$ 196,272	\$ 130,150
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	242,191	248,481	231,235
Amortization	10,594	10,697	50,363
Deferred income taxes	(4,576)	21,614	29,095
Foreign currency transaction loss	2,027	5,309	5,629
Loss on sale of plant and equipment	7,165	8,288	12,125
(Gain) on divestiture of businesses	(11,444)	(7,400)	
Changes in assets and liabilities, net of effects from acquisitions and divestitures:			
Accounts receivable	(138,019)	61,541	70,993
Inventories	71,976	106,129	111,041
Prepaid expenses	9,364	(993)	(4,458)
Assets held for sale			3,242
Other assets	(74,533)	(73,757)	2,702
Accounts payable, trade	81,244	(27,045)	(10,956)
Accrued payrolls and other compensation	30,687	(909)	(15,465)
Accrued domestic and foreign taxes	51,058	23,555	(25,356)
Other accrued liabilities	(130)	8,943	13,038
Pensions and other postretirement benefits	3,438	(8,020)	(3,872)
Other liabilities	35,573	(15,216)	31,540
Net cash provided by operating activities	662,398	557,489	631,046
Cash Flows From Investing Activities			
Acquisitions (less cash acquired of \$63,691 in 2004, \$196 in 2003 and \$3,118 in 2002)	(200,314)	(16,648)	(388,315)
Capital expenditures	(141,546)	(158,260)	(206,564)
Proceeds from sale of plant and equipment	27,195	20,745	19,849
Proceeds from divestitures	33,213	14,709	3,222
Other	10,980	2,269	(36,910)
Net cash (used in) investing activities	(270,472)	(137,185)	(608,718)
Cash Flows From Financing Activities			
Proceeds from common share activity	56,223	9,386	20,250
(Payments of) notes payable, net	(12,785)	(370,540)	(146,170)
Proceeds from long-term borrowings	18,962	258,667	235,794
(Payments of) long-term borrowings	(421,605)	(33,891)	(27,913)
Dividends paid, net of tax benefit of ESOP shares	(89,286)	(85,833)	(82,838)
Net cash (used in) financing activities	(448,491)	(222,211)	(877)
Effect of exchange rate changes on cash	(5,438)	1,373	1,368
Net (decrease) increase in cash and cash equivalents	(62,003)	199,466	22,819
Cash and cash equivalents at beginning of year	245,850	46,384	23,565
Cash and cash equivalents at end of year	\$ 183,847	\$ 245,850	\$ 46,384
Supplemental Data:			
Cash paid during the year for:			
Interest, net of capitalized interest	\$ 73,433	\$ 73,575	\$ 78,446
Income taxes	96,097	44,632	76,830
Non-cash investing activities:			
Stock issued for acquisitions			13,081

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

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

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 full-line manufacturer of motion-control products, including fluid power systems, electromechanical controls and related components. The Company evaluates performance based on segment operating income before Corporate general and administrative expenses, Interest expense and Income taxes.

The Company operates in two principal business segments: Industrial and Aerospace. The 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. Industrial Segment products are marketed primarily through field sales employees and independent distributors. The North American Industrial business represents the largest portion of the Company's manufacturing plants and distribution networks and primarily services North America. The International Industrial operations provide Parker products and services to countries throughout Europe, Asia Pacific and Latin America.

The Aerospace Segment produces hydraulic, fuel and pneumatic 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 Segment products are marketed by field sales employees and are sold directly to manufacturers and end users.

The Company also reports a Climate & Industrial Controls Segment and an Other Segment. The Climate & Industrial Controls Segment manufactures motion-control systems and components for use primarily in the refrigeration and air conditioning and transportation industries. The Other Segment consists of a business unit which designs and manufactures custom-engineered buildings and a business unit which develops and manufactures chemical car care products and maintenance equipment. In February 2004 and June 2002, the Company divested businesses included in the Other Segment which sold industrial lubricants and administered vehicle service contract programs and product-related service programs, respectively (See Note 2 for further discussion). The products in the Climate & Industrial Controls Segment and the Other Segment are marketed primarily through field sales employees and independent distributors.

See the table of Business Segment Information "By Industry" and "By Geographic Area" on pages 13-15 and 13-16 for further disclosure of business segment information.

There are no individual customers to whom sales are four percent or more 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 significantly the risk that adverse changes 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 domestic and foreign subsidiaries. All material intercompany transactions and profits have been eliminated in the consolidated financial statements. The Company does not have off-balance sheet arrangements with unconsolidated entities. Within the Business Segment Information, intersegment and interarea sales are recorded at fair market value and are immaterial in amount.

Revenue Recognition - Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the customer. The Company's revenue recognition policies are in compliance with the SEC's Staff Accounting Bulletin (SAB) No. 104. Shipping and handling costs billed to customers are included in Net sales and the related costs in Cost of sales.

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.

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

Long-term Contracts - The Company enters into long-term contracts for the production of aerospace products and the manufacture of custom-engineered buildings. For financial statement purposes, revenues are recognized using the percentage-of-completion method. Unbilled costs on these contracts are included in inventory. Progress payments are netted against the inventory balances. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

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; 10 years for machinery; seven years for equipment; and three to five years for vehicles and office equipment. Improvements, which extend the useful life of property, are capitalized, and maintenance and repairs are expensed. When property is 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.

Investments and Other Assets - Investments in joint-venture companies in which ownership is 50% or less and in which the Company does not have operating control are stated at cost plus the Company's equity in undistributed earnings. These investments and the related earnings are not material to the consolidated financial statements. During 2003 and 2002 the Company recorded a charge of \$2,565 (\$.02 per share) and \$4,973 (\$.04 per share), respectively, related to an adjustment in an equity investment in a publicly traded Japanese company. Investments and Other Assets includes a prepaid pension cost at June 30, 2004 and 2003 of \$371,819 and \$354,330, respectively, and an intangible asset recognized in connection with an additional minimum pension liability of \$95,076 and \$100,294 at June 30, 2004 and 2003, respectively.

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.

Intangible Assets - Intangible assets primarily include patents, trademarks and engineering drawings and are recorded at cost and amortized on a straight-line method over their legal or estimated useful life.

Income Taxes - Income taxes are provided based upon income for financial reporting purposes. Deferred income taxes arise from temporary differences in the recognition of income and expense for tax purposes. Tax credits and similar tax incentives are applied to reduce the provision for income taxes in the year in which the credits arise.

Product Warranty- In the ordinary course of business the Company warrants its products against defect in design, materials and workmanship over various time periods. The warranty accrual at June 30, 2004 and 2003 is immaterial to the financial position of the Company and the change in the accrual during 2004 was immaterial to the Company's results of operations and cash flows.

Foreign Currency Translation - Assets and liabilities of most 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 and losses from transactions in a currency other than the local currency of the entity involved, and translation adjustments in countries with highly inflationary economies, are included in Net income.

Financial Instruments - The Company's financial instruments consist primarily of investments in cash, cash equivalents and long-term investments as well as obligations under notes payable and long-term debt. The carrying values for Cash and cash equivalents, Investments and other assets and Notes payable approximate fair value. See Note 9 for fair value of long-term debt.

The Company enters into forward exchange contracts (forward contracts) and costless collar contracts to reduce its exposure to fluctuations in related foreign currencies. These contracts are with major financial institutions and the risk of loss is considered remote. The Company does not hold or issue derivative financial instruments for trading purposes.

Gains or losses on forward contracts that hedge specific transactions are recognized in Net income, offsetting the underlying foreign currency gains or losses. Gains or losses on costless collar contracts are recognized in Net income when the spot rate of the contract falls outside the collar range.

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

The total carrying and fair value of open contracts and any risk to the Company as a result of the above mentioned arrangements is not material.

Stock Options - In 2003 the Company adopted the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." The Company continues to apply the intrinsic-value based method to account for stock options granted to employees or Directors to purchase common shares. The option price equals the market price of the underlying common shares on the date of grant, therefore no compensation expense is recognized. The Company does recognize compensation expense related to the issuance of restricted stock. The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested stock awards:

	2004	2003	2002
Net income, as reported	\$ 345,783	\$ 196,272	\$ 130,150
Add: Stock-based employee compensation included in reported net income, net of tax	7,691	(327)	575
Deduct: Total stock-based employee compensation expense determined under fair value method, net of tax	27,109	18,498	15,377
Pro forma net income	\$ 326,365	\$ 177,447	\$ 115,348
Earnings per share:			
Basic: as reported	\$ 2.94	\$ 1.69	\$ 1.13
pro forma	\$ 2.77	\$ 1.52	\$ 1.00
Diluted: as reported	\$ 2.91	\$ 1.68	\$ 1.12
pro forma	\$ 2.74	\$ 1.51	\$.99

Recent Accounting Pronouncements- In May 2004 the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). FSP 106-2 provides that the measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit cost on or after the date of enactment should reflect the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The effect of the Act will be reflected in the measurement of the accumulated postretirement benefit obligation and net periodic postretirement cost in fiscal 2005. The effect of the Act is not expected to have a material effect on the Company's results of operations, cash flows or financial position.

Reclassifications- Certain prior period amounts have been reclassified to conform to the current year presentation.

2. Acquisitions and Net Assets Held for Sale and Divestitures

Acquisitions— On February 12, 2004 the Company completed the acquisition of Denison International plc (Denison). Denison is an industrial manufacturer and service provider for highly engineered hydraulic fluid power systems and components. Annual sales for Denison, for their most recent fiscal year prior to acquisition, were approximately \$180 million. Total purchase price for Denison (which had a cash balance of \$64 million at the date of acquisition) was approximately \$255 million in cash.

On July 16, 2001 the Company completed the acquisition of Dana Corporation's Chelsea Products Division (Chelsea). Chelsea is a supplier of power take-offs and related auxiliary power devices for medium and heavy-duty mobile equipment. On August 31, 2001 the Company acquired the Aeroquip Air Conditioning and Refrigeration (AC&R) business from Eaton Corporation. AC&R produces mechanical controls and fluid systems for the residential and commercial air conditioning and refrigeration markets. On October 19, 2001 the Company acquired the assets of the global fluid management business of Dayco Industrial from MarkIV/BC Partners. The Dayco assets acquired include Imperial-Eastman products and a wide array of hydraulic and industrial hose and connectors. On February 1, 2002 the Company completed its acquisition of ITR SpA, a subsidiary of the SAIAG Group. ITR is a manufacturer of hoses, fittings and rubber compounds for hydraulic, industrial and oil and gas applications. On May 23, 2002 the Company acquired the assets of Camfil Farr's Engine Air Filter business (Farr). Farr produces air-intake filtration products for heavy-duty off-road equipment, marine applications and power generation. Combined annual sales for these operations, for their most recent fiscal year prior to acquisition, were approximately \$608 million. Total purchase price for these businesses was approximately \$367 million in cash and \$13 million in common stock.

All acquisitions were accounted for by the purchase method, and results of operations for all acquisitions are included as of the respective dates of acquisition. The purchase price allocation for acquisitions in 2004, 2003 and 2002 are presented below. Some of the 2004 purchase price allocations are preliminary and may require subsequent adjustment.

	2004	2003	2002
Assets acquired:			
Accounts receivable	\$ 49,556	\$ 5,339	\$ 95,436
Inventories	51,192	7,227	101,917
Prepaid expenses	2,675	219	1,855
Deferred income taxes	(4,462)		8,713
Plant & equipment	50,860	11,370	151,116
Other assets	54,519	2,851	46,876
Goodwill	78,192	3,544	103,916
	<u>282,532</u>	<u>30,550</u>	<u>509,829</u>
Liabilities and equity assumed:			
Notes payable	3,466	242	9,099
Accounts payable	12,139	2,786	57,421
Accrued payrolls	8,037	795	17,483
Accrued taxes	4,542	79	638
Other accrued liabilities	17,593	1,247	12,462
Long-term debt	2,402	785	1,481
Pensions and other postretirement benefits	18,583		9,849
Deferred income taxes	11,681	3,882	
Other liabilities	3,775	4,086	
	<u>82,218</u>	<u>13,902</u>	<u>108,433</u>
Net assets acquired	<u>\$ 200,314</u>	<u>\$ 16,648</u>	<u>\$ 401,396</u>

Net Assets Held for Sale and Divestitures – In June 2004 the Company completed the divestiture of its Zenith Pump (Zenith) division. Zenith was part of the Industrial Segment for segment reporting purposes. In February 2004 the Company completed the divestiture of Wynn's Industrie, an industrial lubricants unit of the Wynn's Specialty Chemicals business. Wynn's Industrie was part of the Other Segment for segment reporting purposes. In May 2003 the Company completed the divestiture of its United Aircraft Products (UAP) division. The UAP division was part of the Aerospace Segment for segment reporting purposes. In August 2001 the Company completed the divestiture of the metal forming business and in June 2002 completed the divestiture of the business units which administer vehicle service contract and product-related service programs. These businesses were part of the Other Segment for segment reporting purposes. The divestitures resulted in a gain of \$11,070 (\$6,223 after-tax or \$.05 per share), \$7,400 (\$4,618 after-tax or \$.04 per share) and \$4,464 (no gain after-tax) in 2004, 2003 and 2002, respectively, and are reflected in (Gain) loss on disposal of assets in the Consolidated Statement of Income. The results of operations and net assets of the divested businesses were immaterial to the consolidated results of operations and financial position of the Company.

The Company is actively soliciting offers for the sale of the business unit which develops and manufactures chemical car care products and maintenance equipment. The results of operations and net assets of this business unit are immaterial to the consolidated results of operations and financial position of the Company.

3. Charges Related to Business Realignment

In January 2003 the Company adopted the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The implementation of this accounting pronouncement did not have a material effect on the Company's results of operations, financial position or cash flows.

In 2004 the Company recorded a \$15,146 charge (\$10,140 after-tax or \$.09 per share) for the costs to structure its businesses in light of current and anticipated customer demand. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital. The charge primarily related to severance costs attributable to approximately 1,200 employees in the Industrial Segment, 90 employees in the Climate & Industrial Controls Segment, 15 employees in the Other Segment and 5 employees in the Aerospace Segment. A significant portion of the severance payments have been made. Of the pre-tax amount, \$13,591 relates to the Industrial Segment, \$443 relates to the Climate & Industrial Controls Segment, \$1,003 relates to the Other Segment and \$109 relates to the Aerospace Segment. The business realignment costs are primarily presented in the Cost of sales caption in the Consolidated Statement of Income for 2004.

In 2003 the Company recorded a \$24,624 charge (\$16,275 after-tax or \$.14 per share) related to costs of structuring its businesses in response to current and anticipated customer demand. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital. The business realignment charge primarily consists of severance costs of \$16,237 and \$8,387 of costs relating to the consolidation of manufacturing product lines. The severance costs are attributable to approximately 1,050 employees in the Industrial Segment, 210 employees in the Aerospace Segment and 50 employees in the Other Segment. All severance payments have been made as of June 30, 2004. Of the pre-tax amount, \$18,715 relates to the Industrial Segment, \$2,495 relates to the Aerospace Segment, \$2,106 relates to the Climate & Industrial Controls Segment and \$1,308 relates to the Other Segment. The business realignment charge is presented in the Consolidated Statement of Income for 2003 in the following captions: \$20,133 in Cost of sales; \$992 in Selling, general and administrative expenses; and \$3,499 in (Gain) loss on disposal of assets.

In 2002 the Company recorded a \$37,352 charge (\$24,466 after-tax or \$.21 per share) related to costs of structuring its businesses in response to current and anticipated customer demand. The business realignment charge consists of severance costs of \$22,578 and \$14,774 of costs relating to the consolidation of manufacturing product lines, primarily asset impairments. The severance costs are attributable to approximately 1,050 employees in the Industrial Segment, 440 employees in the Aerospace Segment, 240 employees in the Climate & Industrial Controls Segment and 80 employees in the Other segment. All severance payments were made as of June 30, 2003. The asset impairment portion relates to assets being held for sale and was calculated as the amount by which the carrying value of the assets exceeded their estimated selling price. Of the pre-tax amount, \$25,654 relates to the Industrial Segment, \$4,667 relates to the Aerospace Segment, \$2,348 relates to the Climate & Industrial Controls Segment and \$4,683 relates to the Other Segment. The business realignment charge is presented in the Consolidated Statement of Income for 2002 in the following captions: \$23,977 in Cost of sales; \$3,987 in Selling, general and administrative expenses; and \$9,388 in (Gain) loss on disposal of assets.

4. Income Taxes

Income before income taxes was derived from the following sources:

	2004	2003	2002
United States	\$ 302,648	\$ 195,188	\$ 181,010
Foreign	191,420	102,194	37,026
	<u>\$ 494,068</u>	<u>\$ 297,382</u>	<u>\$ 218,036</u>

Income taxes include the following:

	2004	2003	2002
Federal	\$ 77,180	\$ 29,672	\$ 32,728
Foreign	64,533	48,075	26,054
State and local	11,148	1,749	9
Deferred	(4,576)	21,614	29,095
	<u>\$ 148,285</u>	<u>\$ 101,110</u>	<u>\$ 87,886</u>

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

	2004	2003	2002
Statutory Federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes	1.6	.6	.9
State operating loss carryforwards		(1.3)	
Export tax benefit	(1.5)	(1.3)	(4.3)
Foreign tax rate difference	(1.6)	(2.1)	(1.8)
Cash surrender of life insurance	(.7)	.8	2.2
Nondeductible goodwill		.3	5.7
Capital loss	(4.1)		
Other	1.3	2.0	2.6
Effective income tax rate	<u>30.0%</u>	<u>34.0%</u>	<u>40.3%</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:

	2004	2003
Postretirement benefits	\$ 143,290	\$ 182,925
Other liabilities and reserves	88,495	76,518
Long-term contracts	11,542	11,045
Operating loss carryforwards	56,453	53,275
Foreign tax credit carryforwards	486	2,329
Valuation allowance	(54,912)	(47,669)
Depreciation and amortization	(198,196)	(172,056)
Inventory	11,039	13,177
Net deferred tax asset	\$ 58,197	\$ 119,544
Change in net deferred tax asset:		
Provision for deferred tax	\$ 4,576	\$ (21,614)
Items of other comprehensive income	(45,696)	127,697
Acquisitions and other	(20,227)	(1,272)
Total change in net deferred tax	\$ (61,347)	\$ 104,811

At June 30, 2004, the Company has recorded deferred tax assets of \$56,453 resulting from \$329,834 in loss carryforwards. A valuation allowance has been established due to the uncertainty of realizing certain operating loss carryforwards, capital loss carryforwards and items of other comprehensive income. Some of the operating loss carryforwards can be carried forward indefinitely and others can be carried forward from one to 19 years. The capital loss carryforward expires in five years. An increase in the valuation allowance of \$5,261 was attributable to the Denison acquisition. The recognition of any future tax benefit resulting from a reduction in this portion of the valuation allowance will reduce any goodwill related to the Denison acquisition remaining at the time of the reduction.

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 of foreign operations reinvested in their operations amounted to \$364,864, \$321,479 and \$267,093, at June 30, 2004, 2003 and 2002, respectively.

5. Earnings Per Share

Earnings per share have been computed according to SFAS No. 128, "Earnings per Share." Basic earnings per share is computed using the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is 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 options. The computation of net income per share was as follows:

	2004	2003	2002
Numerator:			
Net income applicable to common shares	\$ 345,783	\$ 196,272	\$ 130,150
Denominator:			
Basic - weighted average common shares	117,707,772	116,381,880	115,408,872
Increase in weighted average from dilutive effect of exercise of stock options	1,298,696	512,626	651,847
Diluted - weighted average common shares, assuming exercise of stock options	119,006,468	116,894,506	116,060,719
Basic earnings per share	\$ 2.94	\$ 1.69	\$ 1.13
Diluted earnings per share	\$ 2.91	\$ 1.68	\$ 1.12

For 2004, 2003 and 2002, 0.3 million, 3.1 million, and 1.4 million common shares, respectively, subject to stock options were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

6. Inventories

Inventories valued on the last-in, first-out cost method were approximately 36% and 38%, respectively, of total inventories in 2004 and 2003. The current cost of these inventories exceeds their valuation determined on the LIFO basis by \$152,579 in 2004 and \$151,757 in 2003. Progress payments of \$14,100 in 2004 and \$13,736 in 2003 are netted against inventories.

7. Goodwill and Intangible Assets

The Company conducts an annual impairment test as required by FASB Statement No. 142. The annual impairment test performed in 2003 resulted in no impairment loss being recognized. Goodwill impairment tests performed in 2004 and 2002 resulted in an impairment charge of \$1,033 (\$682 after-tax or \$.01 per share) and \$39,516 (\$37,137 after-tax or \$.32 per share), respectively. The 2004 impairment charge was recorded in the Industrial Segment. Of the 2002 impairment charge, \$28,354 was recorded in the Industrial Segment and \$11,162 was recorded in the Other Segment. The Company uses a discounted cash flow analysis for purposes of estimating the fair value of a reporting unit. The impairment charges primarily resulted from declining market conditions and lower future growth potential relative to expectations at the acquisition date for the reporting units involved.

The changes in the carrying amount of goodwill for the year ended June 30, 2004 are as follows:

	Industrial Segment	Aerospace Segment	Climate & Industrial Controls Segment	Other Segment	Total
Balance June 30, 2003	\$ 841,296	\$ 76,255	\$ 95,582	\$ 95,477	\$ 1,108,610
Acquisitions	76,937	1,255			78,192
Goodwill impairment	(1,033)				(1,033)
Foreign currency translation	14,330	235	1,123	4,232	19,920
Goodwill adjustments	(3,062)	13		(4,229)	(7,278)
Balance June 30, 2004	\$ 928,468	\$ 77,758	\$ 96,705	\$ 95,480	\$ 1,198,411

“Goodwill adjustments” primarily represent final adjustments to the purchase price allocation during the twelve-month period subsequent to the acquisition date and goodwill associated with businesses divested.

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

June 30,	2004		2003	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Patents	\$ 36,078	\$ 14,491	\$ 26,472	\$ 12,264
Trademarks	38,378	3,126	21,159	1,702
Engineering drawings and other	56,148	10,890	32,112	6,333
Total	\$ 130,604	\$ 28,507	\$ 79,743	\$ 20,299

Total intangible amortization expense in 2004, 2003 and 2002 was \$7,083, \$5,760 and \$3,308, respectively. The estimated amortization expense for the five years ending June 30, 2005 through 2009 is \$9,848, \$9,188, \$8,156, \$7,166 and \$6,334, respectively.

8. Financing Arrangements

The Company has committed lines of credit totaling \$825,000 through two multi-currency unsecured revolving credit agreements with a group of banks, all of which was available at June 30, 2004. One agreement, totaling \$200,000, expires September 2004, and the other, totaling \$625,000, expires September 2008. The interest on borrowings is based upon the terms of each specific borrowing and is subject to market conditions. These agreements also require facility fees of up to 9/100ths of one percent of the commitment per annum at the Company’s present rating level. Covenants in some of the agreements include a limitation on the Company’s ratio of debt to total capitalization. It is the Company’s policy to reduce the amount available for borrowing under the revolving credit agreements, on a dollar for dollar basis, by the amount of commercial paper notes outstanding.

The Company has other lines of credit, primarily short-term, aggregating \$255,925 from various foreign banks, of which \$248,498 was available at June 30, 2004. Most of these agreements are renewed annually.

As of June 30, 2004 the Company has \$775,000 available under its universal shelf registration statement.

The Company is authorized to sell up to \$825,000 of short-term commercial paper notes, rated A-1 by Standard & Poor’s, P-1 by Moody’s and F-1 by Fitch, Inc. At June 30, 2004 and 2003 there were no commercial paper notes outstanding.

Commercial paper notes outstanding, along with short-term borrowings from foreign banks, primarily make up the balance of Notes payable. The balance and weighted average interest rate of the Notes payable at June 30, 2004 and 2003 were \$18,468 and 1.6% and \$27,422 and 2.7%, respectively.

9. Debt

June 30,	2004	2003
Domestic:		
Debtures		
7.30%, due 2011	\$ 100,000	\$ 100,000
Fixed rate medium-term notes		
6.55% to 7.39%, due 2004-2019	195,000	370,000
Variable rate medium-term notes		
2.09%, due 2004		200,000
Fixed rate senior notes		
4.88%, due 2013	225,000	225,000
ESOP loan guarantee		
6.34%, due 2009	54,479	65,993
Variable rate demand bonds		
1.27%, due 2010-2025	20,035	20,035
Foreign:		
Bank loans, including revolving credit		
1.0% to 11.7%, due 2005-2017	6,514	17,626
Euro Notes		
6.25%, due 2006	365,880	345,450
Other long-term debt, including capitalized leases	3,626	19,041
Total long-term debt	970,534	1,363,145
Less long-term debt payable within one year	16,730	396,813
Long-term debt, net	\$ 953,804	\$ 966,332

Principal amounts of Long-term debt payable in the five years ending June 30, 2005 through 2009 are \$16,730, \$378,991, \$37,617, \$42,742 and \$6,612, respectively. The carrying value of the Company's Long-term debt (excluding leases) was \$969,901 and \$1,356,034 at June 30, 2004 and 2003, respectively, and was estimated to have a fair value of \$1,015,761 and \$1,460,007, at June 30, 2004 and 2003, respectively. The fair value of the Long-term debt was estimated using discounted cash flow analyses based on the Company's current incremental borrowing rate for similar types of borrowing arrangements. Some of the debt agreements include a limitation on the Company's ratio of secured debt to net tangible assets and debt to total capitalization.

ESOP Loan Guarantee - In 1999 the Company's Employee Stock Ownership Plan (ESOP) was leveraged when the ESOP Trust borrowed \$112,000 and used the proceeds to purchase 3,055,413 shares of the Company's common stock from the Company's treasury. The loan is unconditionally guaranteed by the Company and therefore the unpaid balance of the borrowing is reflected on the Consolidated Balance Sheet as Long-term debt. A corresponding amount representing Unearned compensation is recorded as a deduction from Shareholders' equity.

Lease Commitments - Future minimum rental commitments as of June 30, 2004, under noncancelable operating leases, which expire at various dates, are as follows: 2005-\$49,434; 2006-\$34,370; 2007-\$22,954; 2008-\$15,389; 2009-\$10,951 and after 2009-\$17,530.

Rental expense in 2004, 2003 and 2002 was \$66,586, \$64,571 and \$61,528, 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 uses a June 30 measurement date for a majority of its pension plans. The Company also has contractual arrangements with 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.

Pension cost for all plans was \$109,160, \$58,623 and \$32,004 for 2004, 2003 and 2002, respectively. Pension cost for all defined benefit plans accounted for using SFAS No. 87, "Employers' Accounting for Pensions," was as follows:

	2004	2003	2002
Service cost	\$ 67,103	\$ 56,613	\$ 54,886
Interest cost	119,770	113,464	104,152
Expected return on plan assets	(127,968)	(132,152)	(143,816)
Net amortization and deferral and other	47,025	16,887	10,107
Net periodic benefit cost	\$ 105,930	\$ 54,812	\$ 25,329
Change in benefit obligation		2004	2003
Benefit obligation at beginning of year		\$ 1,995,511	\$ 1,663,828
Service cost		67,103	56,613
Interest cost		119,770	113,464
Actuarial loss		16,172	210,159
Benefits paid		(92,372)	(84,686)
Plan amendments		5,288	(7,573)
Acquisitions		25,042	
Foreign currency translation and other		40,596	43,706
Benefit obligation at end of year		\$ 2,177,110	\$ 1,995,511
Change in plan assets			
Fair value of plan assets at beginning of year		\$ 1,315,899	\$ 1,337,485
Actual gain (loss) on plan assets		244,272	(103,590)
Employer contributions		110,674	125,550
Benefits paid		(83,384)	(73,502)
Acquisitions		9,698	
Foreign currency translation and other		27,344	29,956
Fair value of plan assets at end of year		\$ 1,624,503	\$ 1,315,899
Funded status			
Plan assets (under) benefit obligation		\$ (552,607)	\$ (679,612)
Unrecognized net actuarial loss		693,448	818,273
Unrecognized prior service cost		93,323	98,313
Unrecognized initial net (asset)		(130)	(1,068)
Net amount recognized		\$ 234,034	\$ 235,906

Amounts recognized on the Consolidated Balance Sheet	2004	2003
Prepaid benefit cost	\$ 371,819	\$ 354,330
Accrued benefit liability	(703,181)	(816,141)
Intangible asset	95,076	100,294
Accumulated other comprehensive loss	470,320	597,423
Net amount recognized	\$ 234,034	\$ 235,906

The accumulated benefit obligation for all defined benefit plans was \$1,958,613 and \$1,781,297 at June 30, 2004 and 2003, 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 \$2,137,471, \$1,922,560 and \$1,582,576, respectively, at June 30, 2004, and \$1,971,980, \$1,759,956 and \$1,293,176, respectively, at June 30, 2003.

If the accumulated benefit obligation exceeds the fair value of plan assets, accounting rules require that the Company recognize a liability that is at least equal to the unfunded accumulated benefit obligation. Accordingly, a minimum pension liability of \$565,397 and \$697,717 has been recognized at June 30, 2004 and 2003, respectively. The net of tax effect of recording the minimum pension liability on shareholders' equity was an increase of \$94,513 in 2004 and a decrease of \$297,487 in 2003. The minimum pension liability could be reversed should the fair value of plan assets exceed the accumulated benefit obligation at the end of 2005.

The Company expects to contribute approximately \$95 million to its defined benefit pension plans in 2005. The majority of the expected contribution is discretionary. Estimated future benefit payments in the five years ending June 30, 2005 through 2009 are \$88,541, \$92,710, \$98,743, \$105,154 and \$111,704, respectively and \$660,129 in the aggregate for the five years ending June 30, 2010 through June 30, 2014.

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

	2004	2003	2002
U.S. defined benefit plans			
Discount rate	6.25%	7.25%	7.25%
Average increase in compensation	4.9%	4.9%	4.9%
Expected return on plan assets	8.25%	8.5%	9.5%
Non-U.S. defined benefit plans			
Discount rate	2 to 6.75%	4.5 to 6.75%	4.5 to 6.75%
Average increase in compensation	1 to 3.5%	2.5 to 3.75%	3 to 4%
Expected return on plan assets	1 to 7.5%	5 to 7.75%	5 to 8%

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

	2004	2003
U.S. defined benefit plans		
Discount rate	6.25%	6.25%
Average increase in compensation	4.9%	4.9%
Non-U.S. defined benefit plans		
Discount rate	2 to 6.25%	2 to 6.75%
Average increase in compensation	1 to 4%	2 to 3.5%

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.

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

	2004	2003
Equity securities	66%	65%
Debt securities	31%	33%
Other	3%	2%
	100%	100%

The investment strategy for the defined benefit pension plan assets focuses on achieving prudent actuarial funding ratios while maintaining acceptable levels of risk. This strategy requires an investment portfolio that is broadly diversified across various asset classes and investment managers. The current weighted-average target asset allocation is 63% equity securities, 35% debt securities and 2% other. At June 30, 2004 and 2003, the plans' assets included Company stock with market values of \$71,293 and \$50,346, respectively.

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. Parker Hannifin common stock is used to match contributions made by employees to the ESOP up to a maximum of 4.0 percent of an employee's annual compensation. A breakdown of shares held by the ESOP is as follows:

	2004	2003	2002
Allocated shares	9,453,916	9,440,648	9,023,664
Suspense shares	1,315,814	1,844,112	2,384,301
Total shares held by the ESOP	10,769,730	11,284,760	11,407,965
Fair value of suspense shares	\$ 78,238	\$ 77,434	\$ 113,946

In 1999, the ESOP was leveraged and the loan was unconditionally guaranteed by the Company. The Company's matching contribution and dividends on the shares held by the ESOP are used to repay the loan, and shares are released from the suspense account as the principal and interest are paid. The unreleased portion of the shares in the ESOP suspense account is not considered outstanding for purposes of earnings per share computations. Company contributions to the ESOP, recorded as compensation and interest expense, were \$37,208 in 2004, \$37,733 in 2003 and \$38,449 in 2002. Dividends earned by the suspense shares and interest income within the ESOP totaled \$1,245 in 2004, \$1,580 in 2003 and \$1,965 in 2002.

In addition to shares within the ESOP, as of June 30, 2004 employees have elected to invest in 2,196,871 shares of common stock within the Company Stock Fund of the Parker Retirement Savings Plan.

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 or eliminate these benefit plans.

Postretirement benefit cost included the following components:

	2004	2003	2002
Service cost	\$1,633	\$1,289	\$1,286
Interest cost	6,270	5,957	5,494
Net amortization and deferral	409	2,323	(849)
Net periodic benefit cost	\$8,312	\$9,569	\$5,931

<u>Change in benefit obligation</u>	2004	2003
Benefit obligation at beginning of year	\$ 101,488	\$ 76,222
Service cost	1,633	1,289
Interest cost	6,270	5,957
Actuarial loss	744	20,571
Benefits paid	(5,010)	(6,340)
Acquisitions and other	(230)	3,789
Benefit obligation at end of year	\$ 104,895	\$ 101,488

Funded status

Benefit obligation in excess of plan assets	\$ (104,895)	\$ (101,488)
Unrecognized net actuarial loss	17,521	17,806
Unrecognized prior service cost	(3,267)	(3,657)
Net amount recognized	\$ (90,641)	\$ (87,339)

Amounts recognized on the Consolidated Balance Sheet:

Accrued benefit liability	\$ (90,641)	\$ (87,339)
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The assumptions used to measure the net periodic benefit cost for postretirement benefit obligations are:

	2004	2003	2002
Discount rate	6.25%	7.25%	7.25%
Current medical cost trend rate	8.9%	9.9%	8%
Ultimate medical cost trend rate	5%	5%	5.5%
Medical cost trend rate decreases to ultimate in year	2010	2010	2007

The discount rate assumption used to measure the benefit obligation was 6.25% in 2004 and 2003.

Estimated future benefit payments for other postretirement benefits in the five years ending June 30, 2005 through 2009 are \$6,750, \$6,837, \$7,011, \$7,135 and \$7,121, respectively and \$37,270 in the aggregate for the five years ending June 30, 2010 through June 30, 2014.

A one percentage point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 991	\$ (796)
Effect on postretirement benefit obligation	\$ 11,189	\$ (9,223)

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 match, and earnings on the deferrals. Deferred compensation expense was \$20,006, \$7,127 and \$1,585 in 2004, 2003 and 2002, respectively.

The Company has invested in corporate-owned life insurance policies to assist in meeting the obligation under these programs, including a \$55 million cash contribution in 2004. The policies are held in a rabbi trust and are recorded as assets of the Company.

11. Shareholders' Equity

Common Shares	2004	2003	2002
Balance July 1	\$ 59,143	\$ 59,062	\$ 58,705
Shares issued under stock incentive plans (2004 – 1,425,321; 2003 – 168,442; 2002 – 450,314)	713	81	225
Shares issued for purchase acquisition			132
Balance June 30	<u>\$ 59,856</u>	<u>\$ 59,143</u>	<u>\$ 59,062</u>
Additional Capital			
Balance July 1	\$ 389,021	\$ 378,918	\$ 346,228
Shares issued under stock option plans	34,825	1,393	9,200
Tax benefit of stock option plans	13,627	1,675	(81)
Shares issued for purchase acquisition			12,949
Restricted stock issued	2,088	852	761
Shares related to ESOP	12,330	6,183	9,861
Balance June 30	<u>\$ 451,891</u>	<u>\$ 389,021</u>	<u>\$ 378,918</u>
Retained Earnings			
Balance July 1	\$ 2,584,268	\$ 2,473,808	\$ 2,426,496
Net income	345,783	196,272	130,150
Cash dividends paid on common shares, net of tax benefits	(89,264)	(85,812)	(82,838)
Balance June 30	<u>\$ 2,840,787</u>	<u>\$ 2,584,268</u>	<u>\$ 2,473,808</u>
Unearned Compensation Related to ESOP			
Balance July 1	\$ (63,418)	\$ (79,474)	\$ (96,398)
Unearned compensation related to ESOP debt guarantee	14,550	16,056	16,924
Balance June 30	<u>\$ (48,868)</u>	<u>\$ (63,418)</u>	<u>\$ (79,474)</u>
Deferred Compensation Related to Stock Options			
Balance July 1 and June 30	<u>\$ 2,347</u>	<u>\$ 2,347</u>	<u>\$ 2,347</u>
Accumulated Other Comprehensive (Loss)			
Balance July 1	\$ (445,982)	\$ (247,497)	\$ (204,531)
Foreign currency translation	34,487	99,029	69,673
Unrealized gain (loss) on marketable securities (net of tax of: 2004 - \$4,979; 2003 - \$16; 2002 - \$3,059)	8,262	(27)	(5,076)
Realized (gain) on marketable securities (net of tax of: 2004 - \$1,802)	(2,990)		
Minimum pension liability (net of tax of: 2004 - \$44,464; 2003 - \$127,558; 2002 - \$64,814)	94,513	(297,487)	(107,563)
Balance June 30	<u>\$ (311,710)</u>	<u>\$ (445,982)</u>	<u>\$ (247,497)</u>

Common Stock in Treasury	2004	2003	2002
Balance July 1	\$ (4,468)	\$ (3,648)	\$ (3,932)
Shares purchased at cost (2004 – 224,891; 2003 – 45,000; 2002 – 230,000)	(12,691)	(1,696)	(8,054)
Shares issued under stock option plans (2004 – 135,291; 2003 – 14,522; 2002 – 233,244)	6,021	538	8,498
Restricted stock (surrendered) issued	(711)	338	(160)
Balance June 30	\$ (11,849)	\$ (4,468)	\$ (3,648)

Shares surrendered upon exercise of stock options: 2004 – 737,594; 2003 – 111,538; 2002 – 381,779.

Share Repurchases - The Board of Directors has authorized the repurchase of a total of 5.05 million of the Company's common shares. At June 30, 2004, the remaining authorization to repurchase was 2.78 million shares. Repurchases are made on the open market, when the strike price is within a specific range, and the systematic repurchase of up to \$10 million in common shares each fiscal quarter. Repurchases are primarily funded from operating cash flows, and the shares are initially held as treasury stock.

12. Stock Incentive Plans

Employees' Stock Options - The Company's incentive plan provides for the granting of nonqualified options to officers and key employees to purchase shares of common stock at a price not less than 100 percent of the fair market value of the stock on the dates options are granted. Outstanding options generally are exercisable either one or two years after the date of grant and expire no more than ten years after grant.

The Company derives a tax deduction measured by the excess of the market value over the option price at the date nonqualified options are exercised. The related tax benefit is credited to Additional capital.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company continues to account for its stock option and stock incentive plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and makes no charges against capital with respect to options granted. See Note 1 on page 13-21 for disclosure of pro forma information regarding Net income and Earnings per share determined as if the Company had accounted for its stock options under the fair value method.

The fair values for the significant options granted in 2004, 2003 and 2002 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Aug/03	Aug/02	Aug/01
Risk-free interest rate	3.4%	3.3%	4.6%
Expected life of option	4.4 yrs	4.6 yrs	4.8 yrs
Expected dividend yield of stock	1.7%	1.6%	1.6%
Expected volatility of stock	36.8%	38.0%	36.6%

Options exercisable and shares available for future grant on June 30:

	2004	2003	2002
Options exercisable	4,957,612	4,898,070	3,440,843
Weighted-average option price per share of options exercisable	\$ 39.95	\$ 37.57	\$ 34.75
Weighted-average fair value of options granted during the year	\$ 14.38	\$ 12.68	\$ 14.94
Shares available for grant	9,594,980	525,951	785,797

A summary of the status and changes of shares subject to options and the related average price per share follows:

	Shares Subject To Options	Average Option Price Per Share
Outstanding June 30, 2002	6,221,910	\$ 38.29
Granted	2,433,950	39.90
Exercised	(283,071)	27.44
Canceled	(55,532)	
Outstanding June 30, 2003	8,317,257	\$ 39.08
Granted	2,347,725	47.43
Exercised	(2,270,221)	36.75
Canceled	(95,392)	
Outstanding June 30, 2004	8,299,369	\$ 42.03

The range of exercise prices and the remaining contractual life of options as of June 30, 2004 were:

Range of exercise prices	\$20-\$32	\$33-\$43	\$44-\$58
Options outstanding:			
Outstanding as of June 30, 2004	661,850	3,120,870	4,516,649
Weighted-average remaining contractual life	3.3 yrs	7.3 yrs	7.8 yrs
Weighted-average exercise price	\$ 28.60	\$ 38.96	\$ 46.12
Options exercisable:			
Outstanding as of June 30, 2004	661,850	2,085,317	2,210,445
Weighted-average remaining contractual life	3.3 yrs	6.9 yrs	6.4 yrs
Weighted-average exercise price	\$ 28.60	\$ 38.50	\$ 44.73

Restricted Stock - Restricted stock was issued under the Company's 1993 Stock Incentive Program to certain key employees under the Company's 2001-02-03, 2000-01-02 and 1999-00-01 Long Term Incentive Plans (LTIP). Value of the payments was set at the market value of the Company's common stock on the date of issuance. Shares were earned and awarded, and an estimated value was accrued, based upon attainment of criteria specified in the LTIP over the cumulative years of each 3-year Plan. Plan participants are entitled to cash dividends and to vote their respective shares, but the shares are restricted as to transferability for three years following issuance.

Restricted Shares for LTIP Plan	2004	2003	2002
Number of shares issued	19,566	18,953	17,206
Per share value on date of issuance	\$ 47.29	\$ 41.20	\$ 44.55
Total value	\$ 925	\$ 781	\$ 767

Under the Company's 2002-03-04 LTIP, a payout of 30,727 shares of restricted stock, from the Company's 2003 Stock Incentive Program, will be issued to certain key employees in 2005. The balance of the 2002-03-04 LTIP payout will be made as deferred cash compensation (if elected by the participant) or in cash. The total payout, valued at \$5,378, has been accrued over the three years of the plan.

In addition, non-employee members of the Board of Directors have been given the opportunity to receive all or a portion of their fees in the form of restricted stock. These shares vest ratably, on an annual basis, over the term of office of the director. In 2004, 2003 and 2002, 9,382, 12,679 and 3,167 shares, respectively, were issued in lieu of directors' fees.

Non-employee Directors' Stock Options - In August 1996, the Company adopted a stock option plan for non-employee directors 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 the options are granted. Outstanding options are exercisable either one or two years after the date of grant and expire no more than ten years after grant.

A summary of the status and changes of shares subject to options and the related average price per share follows:

	Shares Subject To Options	Average Option Price Per Share
Outstanding June 30, 2002	46,013	\$ 38.32
Granted	12,000	39.84
Exercised	(3,000)	24.67
Outstanding June 30, 2003	55,013	\$ 39.40
Granted	16,965	48.94
Exercised	(9,500)	32.38
Outstanding June 30, 2004	62,478	\$ 43.06

As of June 30, 2004, 39,513 options were exercisable and 286,822 shares were available for grant.

At June 30, 2004, the Company had 18,291,368 common shares reserved for issuance in connection with its stock incentive plans.

13. Shareholders' Protection Rights Agreement

The Board of Directors of the Company declared a dividend of one Right for each share of Common Stock outstanding on February 17, 1997 in relation to the Company's Shareholder Protection Rights Agreement. As of June 30, 2004, 119,483,990 shares of Common Stock 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 Stock, all holders of Rights, except an acquiring entity, would be entitled to purchase, at an exercise price of \$100, a value of \$200 of Common Stock of the Company or an acquiring entity, or at the option of the Board, to exchange each Right for one share of Common Stock. The Rights remain in existence until February 17, 2007, unless earlier redeemed (at one cent per Right), exercised or exchanged under the terms of the agreement. In the event of an unfriendly business combination attempt, the Rights will cause substantial dilution to the person attempting the business combination. The 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 Rights may be redeemed.

14. Research and Development

Research and development costs amounted to \$143,096 in 2004, \$122,710 in 2003 and \$109,090 in 2002. Customer reimbursements included in the total cost for each of the respective years were \$48,435, \$29,561 and \$13,517. Costs include those costs related to independent research and development as well as customer reimbursed and unreimbursed development programs.

15. Contingencies

The Company is involved in various litigation 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 U.S. for health care, workers' compensation, general liability and product liability up to predetermined amounts, above which third party insurance applies. The Company purchases third party product liability insurance for products manufactured by its international operations and for products that are used in aerospace applications. 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 28 manufacturing facilities presently or formerly operated by the Company and has been named as a "potentially responsible party," along with other companies, at two off-site waste disposal facilities and three regional sites.

As of June 30, 2004, the Company has a reserve of \$20,361 for environmental matters, which are probable and reasonably estimable. This reserve 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. This reserve is net of \$3,025 for discounting, primarily at a 4.5 percent discount rate, a portion of the costs at 26 locations to operate and maintain remediation treatment systems as well as gauge treatment system effectiveness through monitoring and sampling over periods up to 30 years. The significant increase in the environmental reserve from June 30, 2003 is a result of the addition of the environmental liabilities and corresponding environmental reserves from the Denison acquisition.

The Company's estimated total liability for the above mentioned sites ranges from a minimum of \$20,361 to a maximum of \$60,439. The actual costs to be incurred by the Company will be dependent on final determination of remedial action required, negotiations with federal and state agencies, changes in regulatory requirements and technology innovation, the effectiveness of remedial technologies employed, the ability of other responsible parties to pay, and any insurance or third party recoveries.

16. Quarterly Information (Unaudited)

2004 (a)	1 st	2 nd	3 rd	4 th	Total
Net sales	\$ 1,586,918	\$ 1,621,021	\$ 1,906,041	\$ 1,992,927	\$ 7,106,907
Gross profit	288,142	289,377	361,891	425,444	1,364,854
Net income	56,691	55,771	107,848	125,473	345,783
Diluted earnings per share	.48	.47	.90	1.05	2.91

2003 (b)	1 st	2 nd	3 rd	4 th	Total
Net sales	\$ 1,585,904	\$ 1,517,201	\$ 1,646,844	\$ 1,660,661	\$ 6,410,610
Gross profit	286,014	258,374	278,414	278,033	1,100,835
Net income	60,975	37,552	48,663	49,082	196,272
Diluted earnings per share	.52	.32	.42	.42	1.68

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

- (a) Results for the first quarter include a \$6,940 charge (\$4,650 after-tax or \$.04 per share) related to business realignment costs. Results for the second quarter include a \$3,654 charge (\$2,448 after-tax or \$.02 per share) related to business realignment costs. Results for the third quarter include a \$1,542 charge (\$1,025 after-tax or \$.01 per share) related to business realignment costs. Results for the fourth quarter include a \$3,010 charge (\$2,017 after-tax or \$.02 per share) related to business realignment costs, a \$1,033 goodwill impairment charge (\$682 after-tax or \$.01 per share) and a gain of \$9,973 (\$6,223 after-tax or \$.05 per share) related to the divestiture of a business.
- (b) Results for the first quarter include a \$2,075 charge (\$1,380 after-tax or \$.01 per share) related to business realignment costs. Results for the second quarter include a \$5,057 charge (\$3,363 after-tax or \$.03 per share) related to business realignment costs and a \$2,246 charge (\$2,246 after-tax or \$.02 per share) related to an equity investment adjustment. Results for the third quarter include a \$7,453 charge (\$4,956 after-tax or \$.04 per share) related to business realignment costs. Results for the fourth quarter include a \$10,039 charge (\$6,576 after-tax or \$.06 per share) related to business realignment costs and a gain of \$7,400 (\$4,618 after-tax or \$.04 per share) related to the divestiture of a business.

17. Stock Prices and Dividends (Unaudited)

(In dollars)		1 st	2 nd	3 rd	4 th	Full Year
2004	High	\$ 50.85	\$ 59.80	\$ 61.00	\$ 59.96	\$ 61.00
	Low	40.76	44.57	53.50	51.73	40.76
	Dividends	.190	.190	.190	.190	.760
2003	High	\$ 47.30	\$ 48.20	\$ 48.93	\$ 45.84	\$ 48.93
	Low	35.95	34.52	35.82	38.00	34.52
	Dividends	.180	.180	.190	.190	.740
2002	High	\$ 46.35	\$ 47.31	\$ 54.88	\$ 51.89	\$ 54.88
	Low	30.40	33.60	43.65	44.27	30.40
	Dividends	.180	.180	.180	.180	.720

Common Stock Listing: New York Stock Exchange, Stock Symbol PH

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
of Parker Hannifin Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Parker Hannifin Corporation and its subsidiaries at June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements 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. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Cleveland, Ohio
July 28, 2004

Report of Management

The Company's management is responsible for the integrity and accuracy of the financial information contained in this annual report. Management believes that the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances and that the other information in this annual report is consistent with those statements. In preparing the financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed.

Management is also responsible for maintaining an internal control system designed to provide reasonable assurance at reasonable cost that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with accounting principles generally accepted in the United States of America. The system is supported by written policies and guidelines, by careful selection and training of financial management personnel and by an internal audit staff which coordinates its activities with the Company's independent registered public accounting firm. To foster a strong ethical climate, the Parker Hannifin Code of Ethics, which is publicized throughout the Company, addresses, among other things, compliance with all laws and accuracy and integrity of books and records. The Company maintains a systematic program to assess compliance.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, is retained to conduct an audit of Parker Hannifin's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and to provide an independent assessment that helps ensure fair presentation of the Company's consolidated financial position, results of operations and cash flows.

The Audit Committee of the Board of Directors is composed entirely of independent outside directors. The Committee meets periodically with management, internal auditors and the independent registered public accounting firm to discuss internal accounting controls and the quality of financial reporting. Financial management, as well as the internal auditors and the independent registered public accounting firm, have full and free access to the Audit Committee.

/s/ Donald E. Washkewicz

President and
Chief Executive Officer

/s/ Timothy K. Pistell

Vice President – Finance and
and Administration and
Chief Financial Officer

Five-Year Financial Summary

(Amounts in thousands, except per share information)

	2004	2003	2002	2001	2000
Net sales	\$ 7,106,907	\$ 6,410,610	\$ 6,149,122	\$ 5,979,604	\$ 5,385,618
Cost of sales	5,742,053	5,309,775	5,116,570	4,728,156	4,186,850
Selling, general and administrative expenses	800,204	721,065	686,485	679,963	575,906
Goodwill impairment loss	1,033		39,516		
Interest expense	73,396	81,561	82,484	95,775	59,183
Income taxes	148,285	101,110	87,886	187,391	193,955
Net income	345,783	196,272	130,150	340,792	368,232
Basic earnings per share	2.94	1.69	1.13	2.98	3.34
Diluted earnings per share	\$ 2.91	\$ 1.68	\$ 1.12	\$ 2.96	\$ 3.31
Average number of shares outstanding - Basic	117,708	116,382	115,409	114,305	110,331
Average number of shares outstanding - Diluted	119,006	116,895	116,061	115,064	111,245
Cash dividends per share	\$.760	\$.740	\$.720	\$.700	\$.680
Net income as a percent of net sales	4.9%	3.1%	2.1%	5.7%	6.8%
Return on average assets	5.6%	3.3%	2.3%	6.8%	15.9%
Return on average equity	12.6%	7.7%	5.1%	14.1%	31.9%
Book value per share	\$ 25.24	\$ 21.63	\$ 22.26	\$ 21.99	\$ 20.31
Working capital	\$ 1,277,192	\$ 973,080	\$ 875,781	\$ 783,233	\$ 966,810
Ratio of current assets to current liabilities	2.0	1.7	1.6	1.6	1.8
Plant and equipment, net	\$ 1,591,853	\$ 1,657,425	\$ 1,696,965	\$ 1,548,688	\$ 1,340,915
Total assets	6,256,904	5,985,633	5,752,583	5,337,661	4,646,299
Long-term debt	953,804	966,332	1,088,883	857,078	701,762
Shareholders' equity	\$ 2,982,454	\$ 2,520,911	\$ 2,583,516	\$ 2,528,915	\$ 2,309,458
Debt to debt-equity percent	24.9%	35.6%	36.8%	35.7%	31.0%
Depreciation	\$ 242,191	\$ 248,481	\$ 231,235	\$ 200,270	\$ 167,356
Capital expenditures	\$ 141,546	\$ 158,260	\$ 206,564	\$ 334,748	\$ 230,482
Number of employees	48,447	46,787	48,176	46,302	43,895
Number of shareholders	54,683	51,154	53,001	50,731	47,671
Number of shares outstanding at year-end	118,168	116,526	116,051	114,989	113,707

Exhibit (21)* to Report
on Form 10-K for Fiscal
Year Ended June 30, 2004
by Parker-Hannifin Corporation

Listed below, are the subsidiaries of the Company and their jurisdictions of organization. Except where otherwise noted, all of such subsidiaries are either directly or indirectly wholly-owned by the Company. Ownership of subsidiaries indirectly owned by the Company is indicated by indentations.

Name	Incorporated	Percentage Owned(1)
265 Warwick LLC	Ohio	100
Acadia International Insurance Limited	Ireland	100
Alkid Corporation	California	100
Dynamic Seals, Inc.	Delaware	100
Parker-Hannifin (Africa) Proprietary Limited	South Africa	100
Parker Hannifin Argentina SAIC	Argentina	100
Parker Hannifin Climate & Industrial Controls, Ltd.	Korea	100
Parker Hannifin Connectors Ltd.	Korea	100
Parker Hannifin Corp. Chile Limitada	Chile	100
Parker Hannifin Customer Support Inc.	Delaware	100
Parker Hannifin Denmark A/S	Denmark	100
Denison Hydraulik Danmark ApS	Denmark	100
Parker Hannifin Fluid Power Systems & Components (Shanghai) Co., Ltd.	China	100
Parker Hannifin Holding, S. de R.L. de C.V.	Mexico	100
Parker Hannifin Cartera Industrial, S.L.	Spain	100
Parker Industrial S de RL de CV	Mexico	100
Parker Hannifin Hong Kong Limited	Hong Kong	100
Denison Hydraulics Limited	Hong Kong	100
Shanghai Denison Hydraulics EnGG. Ltd.	China	85
Shanghai Denison Hydraulics Components Limited	China	100
Parker-Hannifin India Private Ltd.	India	100
Parker-Hannifin International Corp.	Delaware	100
Parker Hannifin (N.Z.) Limited	New Zealand	100
Parker Hannifin A/S	Norway	100
Parker Hannifin (Australia) Pty. Ltd.	Australia	100
Denison Hydraulics Pty. Ltd.	Australia	100
Parker Hannifin B.V.	Netherlands	100
Denison Hydraulics Benelux BV	Netherlands	100
European Distribution Centre Denison BV	Netherlands	100
Parker Filtration B.V.	Netherlands	100
Parker Gas Separation BV	Netherlands	100
Parker Hannifin Finance B.V.	Netherlands	100
Parker-Hannifin N.V. S.A.	Belgium	100
Parker Hose BV	Netherlands	100
Parker Pneumatic BV	Netherlands	100
Parker Polyflex BV	Netherlands	100
Parker Hannifin France Finance SAS	France	100

Name	Incorporated	Percentage Owned(1)
<i>Parker-Hannifin International Corp. (Continued)</i>		
Parker Hannifin France Holding SAS	France	100
Denison Hydraulics France SAS	France	100
Parker Hannifin France SAS	France	100
Wynn's Automotive SAS	France	100
Wynn's France SNC	France	100
Parker Hannifin Holding GmbH	Germany	100
Parker Hannifin GesmbH	Austria	100
Parker Hannifin GmbH	Germany	100
Denison Hydraulik GmbH	Germany	100
Rander & Co. Hydraulic Systeme Und Anlagenbau GmbH	Germany	100
Parker Hannifin Industrial s.r.o.	Czech Republic	100
Parker Hannifin Sp. z.o.o.	Poland	100
Parker-Hannifin s.r.o.	Czech Republic	100
Parker Hannifin (Holdings) Ltd.	United Kingdom	79(2)
Alenco (Holdings) Ltd.	United Kingdom	100
Parker Hannifin GB Ltd.	United Kingdom	100
Parker Hannifin plc	United Kingdom	100
Parker Hannifin (2004) Limited	United Kingdom	100
Denison International Ltd.	United Kingdom	100
Denison Financial Holdings Ltd.	United Kingdom	100
Denison Hydraulics UK Ltd.	United Kingdom	100
Commercial Intertech Holdings Limited	United Kingdom	100
Commercial Hydraulics Pensions Limited	United Kingdom	100
Parker Hannifin (UK) Ltd.	United Kingdom	100
PH Trading Ltd.	United Kingdom	100
Parker Hannifin de Venezuela, S.A.	Venezuela	100
Parker Hannifin Indústria e Comércio Ltda.	Brazil	100
Parker Atenas Indústria e Exportação Ltda.	Brazil	100
Parker Italy Holding Co.	Delaware	100
Parker Hannifin Italy Holdings S.r.l.	Italy	100
Astron Buildings S.A.	Luxembourg	100
Astron Buildings GmbH	Germany	100
Astron Buildings Sp. zoo	Poland	100
Astron Buildings S.r.o.	Czech Republic	100
Astron S.A.S.	France	100
Denison Hydraulics Italy Srl	Italy	100
Riva Calzoni Oleodinamica Srl	Italy	100
Parker Hannifin Oy	Finland	100
Denison Lokomec Oy	Finland	100
Parker Hannifin S.p.A.	Italy	100
Parker Seals S.p.A.	Italy	100
Parker ITR Srl	Italy	100

Name	Incorporated	Percentage Owned(1)
<i>Parker-Hannifin International Corp.</i>		
<i>Parker Italy Holding Co.</i>		
<i>Parker Hannifin Italy Holdings S.r.l. (Continued)</i>		
PH España Holding Co.	Delaware	100
Parker Hannifin Industries and Assets Holding SL	Spain	100
Parker Hannifin (Espana) SA	Spain	100
Parker Hannifin Portugal,Lda.	Portugal	100
Denison Hydraulics SL	Spain	100
Wynn's Italia SpA	Italy	100
Parker International Capital Management Hungary Ltd.	Hungary	100
Parker Korea Ltd.	Korea	100
Parker Sales (Ireland) Limited	Ireland	100
PH Canada Holding Co.	Delaware	100
Parker Canada (Limited Partner) Co.	Canada	100
Parker Canada Management Inc.	Canada	100
Parker Ontario Limited Partnership	Canada	100(3)
Parker Canada Holding Co.	Canada	100
Parker Hannifin AB	Sweden	100
Denison Hydraulik Svenska Ab	Sweden	100
Parker Canada Investment Co.	Canada	100
Parker Hannifin Canada	Canada	100(4)
Parker Hannifin Japan Ltd.	Japan	100
Denison Hydraulics Inc.	Japan	100
Parker Hannifin (Malaysia) Sdn Bhd	Malaysia	100
Parker Hannifin Motion & Control (Shanghai) Co. Ltd.	China	100
Parker Hannifin Russia LLC	Russia	100
Parker-Hannifin Singapore Pte. Ltd.	Singapore	100
Denison Hydraulics SEA Pte Limited	Singapore	100
Parker Hannifin Taiwan Ltd.	Taiwan	100
Parker Hannifin (Thailand) Co., Ltd.	Thailand	100
Parker Intangibles LLC	Delaware	100
Parker Lucifer S.A.	Switzerland	100
Parker Royalty Partnership	Ohio	100(5)
Parker Shenyang Rubber Products Co. Ltd.	China	51
PH Spain LLC	Delaware	100
Parker Sistemas de Automatizacion S.A. de C.V.	Mexico	100
Parker Baja Servicios S.A. de C.V.	Mexico	100
Parker Brownsville Servicios S.A. de C.V.	Mexico	100
Parker Hannifin de Mexico S.A. de C.V.	Mexico	100
Parker Servicios de Mexico S.A. de C.V.	Mexico	100
Travel 17325 Inc.	Delaware	100

Name	Incorporated	Percentage Owned(1)
Wynn Oil Company	California	100
Wynn Oil Holdings B.V.	Netherlands	100
Wynn Oil (South Africa) (Pty.) Limited	South Africa	100
Wynn's Australia Pty. Limited	Australia	100
Wynn's Belgium N.V.	Belgium	100
Wynn's Mekuba India Private Limited	India	51
Wynn's Nederland B.V.	Netherlands	100
Wynn Oil (N.Z.) Limited	New Zealand	100
Wynn Oil (UK) Limited	United Kingdom	100
Wynn Oil Venezuela, S.A.	Venezuela	51
Wynn's Canada, Ltd.	Canada	100
Wynn's Deutschland GmbH	Germany	100
Wynn's Friction Proofing Mexico, S. A. de C.V.	Mexico	100

- (1) Excludes directors' qualifying shares
- (2) Parker Canada (Limited Partner) Co. owns the remaining 21% interest.
- (3) Ontario limited partnership
- (4) Ontario general partnership
- (5) Ohio general partnership

All of the foregoing subsidiaries are included in the Company's consolidated financial statements. In addition to the foregoing, the Company owns fifteen inactive or name holding companies.

* Numbered in accordance with Item 601 of Regulation S-K.

Exhibit (23) * to Report
On Form 10-K for Fiscal
Year Ended June 30, 2004
By Parker-Hannifin Corporation

Consent of Independent Registered Public Accounting Firm

*Numbered in accordance with Item 601 of Regulation S-K

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-3 (Nos. 333-02761, 333-96453, 333-88206 and 333-82806) and S-8 (Nos. 33-53193, 33-43938, 2-66732, 333-95477, 333-34542, 333-103181, 333-103633, 333-107691 and 333-117761) of Parker-Hannifin Corporation of our report dated July 28, 2004 relating to the financial statements and financial statement schedule, respectively, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Cleveland, Ohio
September 3, 2004

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

Donald E. Washkewicz
Timothy K. Pistell
Thomas A. Piraino, Jr.

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>
/s/ D.E. Washkewicz _____ Donald E. Washkewicz, Principal Executive Officer and Director	8/25/04
/s/ T.K. Pistell _____ Timothy K. Pistell, Principal Financial Officer	8/25/04
/s/ Dana A. Dennis _____ Dana A. Dennis Principal Accounting Officer	8/25/04
/s/ Duane E. Collins _____ Duane E. Collins, Chairman of the Board of Directors	8/25/04
/s/ John G. Breen _____ John G. Breen, Director	8/17/04
/s/ W.E. Kassling _____ William E. Kassling, Director	8/16/04
/s/ R.J. Kohlhepp _____ Robert J. Kohlhepp, Director	8/17/04
/s/ Peter W. Likins _____ Peter W. Likins, Director	8/16/04
/s/ Giulio Mazzalupi _____ Giulio Mazzalupi, Director	8/30/04
/s/ K.P. Müller _____ Klaus-Peter Müller, Director	8/17/04
/s/ Candy M. Obourn _____ Candy M. Obourn, Director	8/17/04
/s/ Hector R. Ortino _____ Hector R. Ortino, Director	8/17/04

/s/ Allan L. Rayfield

8/16/04

Allan L. Rayfield, Director

/s/ Wolfgang R. Schmitt

8/26/04

Wolfgang R. Schmitt, Director

/s/ Debra L. Starnes

8/24/04

Debra L. Starnes, Director

/s/ N.W. Vande Steeg

8/25/04

Nickolas W. Vande Steeg, Director

CERTIFICATIONS

I, Donald E. Washkewicz, 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)) 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) 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
 - c) 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: September 3, 2004

/s/ Donald E. Washkewicz

Donald E. Washkewicz
President and Chief Executive Officer

CERTIFICATIONS

I, Timothy K. Pistell, 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)) 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) 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
 - c) 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: September 3, 2004

/s/ Timothy K. Pistell

Timothy K. Pistell
Vice President – Finance and
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. § 1350, as adopted pursuant to § 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, 2004, 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: September 3, 2004

/s/ Donald E. Washkewicz

Name: Donald E. Washkewicz
Title: President and Chief Executive Officer

/s/ Timothy K. Pistell

Name: Timothy K. Pistell
Title: Vice President-Finance and
Administration and Chief Financial Officer

VIA EDGAR

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Parker-Hannifin Corporation
Commission File No. 1-4982
Annual Report on Form 10-K for
Fiscal Year Ended June 30, 2004

September 3, 2004

Gentlemen:

In accordance with Rule 13a-1 of the General Rules and Regulations under the Securities Exchange Act of 1934, enclosed is Parker-Hannifin Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 2004.

There was no material change by the Company from the preceding fiscal year in accounting principles or practices or in the method of applying any such principles or practices.

Very truly yours,

/s/ Thomas A. Piraino, Jr.

Thomas A. Piraino, Jr.
Vice President and Secretary

cc: D. J. Dailey
D. A. Dennis
N. A. Haydoo
T. L. Meyer