
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported): August 1, 2006

PARKER-HANNIFIN CORPORATION

(Exact Name of Registrant as Specified in Charter)

Ohio
(State or Other Jurisdiction
of Incorporation)

1-4982
(Commission
File Number)

34-0451060
(IRS Employer
Identification No.)

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

44124-4141
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition**Item 7.01 Regulation FD Disclosure**

The following information is furnished pursuant to Item 2.02, "Results of Operations and Financial Condition" and Item 7.01, "Regulation FD Disclosure"

On August 1, 2006, Parker-Hannifin Corporation issued a press release and presented a Webcast announcing earnings for the quarter ended June 30, 2006. A copy of the press release is furnished as Exhibit 99.1 to this report. The press release contains references to earnings per share amounts excluding the effect of a loss recognized on the sale of a division. The removal of the loss on the sale of a division allows investors and the company to meaningfully evaluate performance on a comparable basis with the prior period, which was not impacted the sale of a division. A copy of the Webcast presentation is furnished as Exhibit 99.2 to this report.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits:

- 99.1 Press release issued by Parker-Hannifin Corporation, dated August 1, 2006.
- 99.2 Webcast presentation by Parker-Hannifin Corporation, dated August 1, 2006.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

PARKER-HANNIFIN CORPORATION

By: /s/ Timothy K. Pistell
Timothy K. Pistell
Executive Vice President - Finance and Administration and
Chief Financial Officer

Date: August 1, 2006



For Release: Immediately

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Stock Symbol: PH – NYSE

Parker Reports Another Record Year of Sales, Earnings and Cash Flow from Operations; Double Digit Growth in Revenue and EPS

CLEVELAND, August 1, 2006 — Parker Hannifin Corporation (NYSE: PH) today reported record year end results in sales, earnings and cash flow from operations. The company delivered strong growth in revenues for the year and the quarter as annual sales topped \$9 billion for the first time in Parker's 88-year history. Earnings per diluted share for the year and the quarter also reached all time highs, while cash flow from operations reached a record \$954.6 million, or 10.2 percent of sales, surpassing last year's record of \$853.5 million.

For the full year, revenue reached a record \$9.4 billion, an increase of 16.3 percent over the previous year, with organic growth driving nearly half of the increase. Income from continuing operations increased 19.7 percent to \$638.3 million, and earnings per diluted share from continuing operations increased to \$5.28. Earnings per diluted share from continuing operations were \$5.36 for the year before the impact of an 8 cents loss on the divestiture of the company's Thermoplastics division in December 2005. In fiscal year 2005, the company had income from continuing operations of \$533.2 million, or \$4.43 per diluted share, on sales of \$8.1 billion.

The following table is a summary of earnings per diluted share for the fourth quarter and full year fiscal 2006. Within the table, fourth quarter fiscal 2006 includes an expense of 3 cents per diluted share, and total fiscal year 2006 includes an expense of 18 cents per diluted share, both associated with FAS 123R.

| | Fourth Quarter | | Total Year | |
|--|----------------|---------|------------|---------|
| | FY 2006 | FY 2005 | FY 2006 | FY 2005 |
| EPS as Reported | \$ 1.59 | \$ 1.34 | \$ 5.57 | \$ 5.02 |
| Discontinued Operations | \$ 0.04 | \$ 0.04 | \$ 0.29 | \$ 0.59 |
| EPS from Continuing Operations as Reported | \$ 1.55 | \$ 1.30 | \$ 5.28 | \$ 4.43 |
| Loss on Sale of Thermoplastics | | | \$ 0.08 | |
| EPS from Continuing Operations Adjusted | \$ 1.55 | \$ 1.30 | \$ 5.36 | \$ 4.43 |

Fourth quarter sales increased 20.4 percent from the prior year, with almost half of the increase coming through organic growth. Sales in the fourth quarter reached \$2.6 billion, compared to \$2.2 billion in the same period last year. Fourth-quarter income from continuing operations increased 20.4 percent to \$187.9 million and fourth quarter earnings per diluted share from continuing operations increased to \$1.55. This compares to income from continuing operations of \$156.1 million and earnings per diluted share from continuing operations of \$1.30 in the same period last year.

“By continuing to execute Parker’s Win Strategy, our employees delivered another outstanding year of record results for our shareholders,” said Chairman and CEO Don Washkewicz. “We have demonstrated our ability to grow our business year after year after year. In 2006, the company grew by more than 16 percent, nearly half of which was organic. This is the 2nd year in a row in which we’ve achieved organic growth of more than 8 percent. All segments contributed strongly to this growth, reflecting continued demand around the world for our motion and control technologies. We continue to rank our return on invested capital (ROIC) near the top quartile among our peers. In addition, our ability to generate record levels of cash flow enabled us to continue investing in strategic acquisitions during the year. Our focused and disciplined use of our cash flow allowed us to add nearly \$1.0 billion in annualized revenues through 13 acquisitions this year, furthering our reputation as the motion and control industry consolidator of choice.”

Segment Results

In the North American Industrial segment, fourth-quarter operating income improved 28.6 percent to \$165.2 million on sales of \$1.1 billion. For the full year, North American Industrial operating income was up 27.5 percent to \$597.2 million on sales of \$4.0 billion.

In the International Industrial segment fourth-quarter operating income increased 39.8 percent to \$106.3 million on sales of \$831.2 million. For the full year, International Industrial operating income was up 32.4 percent to \$353.8 million on sales of \$2.9 billion.

In the Climate & Industrial Controls segment, fourth-quarter operating income increased 31.2 percent to \$31.0 million on sales of \$293.9 million. For the full year, Climate & Industrial Controls operating income was up 11.2 percent to \$83.3 million on sales of \$985.1 million.

In the Aerospace segment, fourth-quarter operating income increased 18.4 percent to \$64.4 million on sales of \$419.9 million. For the full year, Aerospace reported operating income up 11 percent to \$221.0 million on sales of \$1.5 billion.

Outlook

The company projects earnings from continuing operations for fiscal year 2007 to range from \$5.80 to \$6.30 per diluted share.

“Our proven mix of organic and acquisitive growth, our balance of OEM and MRO sales, and our past, present and future execution of the Parker Win Strategy lead us to project another year of strong sales and earnings in fiscal 2007,” added Washkewicz. “We will continue to use our strong cash flow to grow our business through both internal initiatives and strategic acquisitions. In addition, the diversity of the many markets we serve in the motion and control industry helps

mitigate market risk, counter business cyclicalities and create ever widening opportunities for profitable growth.”

“Going forward, we will continue to rely on the dedication of our talented employees, the expertise of our global distribution network, and the opportunities provided by our customers to deliver value to shareholders.”

In addition to the information provided herein, Parker advises shareholders to note order trends, for which the company makes a disclosure several business days after the conclusion of each month. This information is available on the company’s investor information web site, at <http://www.phstock.com>.

NOTICE OF CONFERENCE CALL: Parker Hannifin’s conference call and slide presentation to discuss its fiscal fourth-quarter results is available to all interested parties via live webcast today at 10:00 a.m. ET, on the company’s investor information web site, <http://www.phstock.com>. To access the call, click on the “Live Webcast” link. From this link, users also may complete a pre-call system test and register for e-mail notification of future events and information available from Parker.

With annual sales exceeding \$9 billion, Parker Hannifin is the world’s leading diversified manufacturer of motion and control technologies and systems, providing precision-engineered solutions for a wide variety of commercial, mobile, industrial and aerospace markets. The company employs more than 57,000 people in 46 countries around the world. Parker has increased its annual dividends paid to shareholders for 50 consecutive years, among the top five longest-running

dividend-increase records in the S&P 500 index. For more information, visit the company's web site at <http://www.parker.com>, or its investor information site at <http://www.phstock.com>.

Forward-Looking Statements:

Forward-looking statements contained in this and other written and oral reports are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the company and individual segments 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 and innovation initiatives. A change in economic conditions in individual markets may have a particularly volatile effect on segment results. Among the 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; the company's ability to manage costs related to employee retirement and health care benefits and insurance; and global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation and interest rates. The company makes these statements as of the date of this disclosure, and undertakes no obligation to update them.

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PARKER HANNIFIN CORPORATION - JUNE 30, 2006
CONSOLIDATED STATEMENT OF INCOME

| (Dollars in thousands except per share amounts) | Three Months Ended June 30, | | Year Ended June 30, | |
|---|-----------------------------|---------------------|---------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net sales | \$ 2,616,732 | \$ 2,172,497 | \$ 9,385,888 | \$ 8,068,805 |
| Cost of sales | <u>2,053,991</u> | <u>1,708,074</u> | <u>7,367,618</u> | <u>6,391,477</u> |
| Gross profit | 562,741 | 464,423 | 2,018,270 | 1,677,328 |
| Selling, general and administrative expenses | <u>277,087</u> | <u>232,795</u> | <u>1,036,646</u> | <u>860,278</u> |
| Interest expense | <u>18,667</u> | <u>16,375</u> | <u>75,763</u> | <u>66,869</u> |
| Other expense, net | <u>1,661</u> | <u>342</u> | <u>5,903</u> | <u>11,910</u> |
| Income from continuing operations before income taxes | 265,326 | 214,911 | 899,958 | 738,271 |
| Income taxes | <u>77,445</u> | <u>58,840</u> | <u>261,682</u> | <u>205,105</u> |
| Income from continuing operations | 187,881 | 156,071 | 638,276 | 533,166 |
| Discontinued operations | <u>6,007</u> | <u>5,341</u> | <u>34,891</u> | <u>71,526</u> |
| Net income | \$ 193,888 | \$ 161,412 | \$ 673,167 | \$ 604,692 |
| Earnings per share: | | | | |
| Basic earnings per share from continuing operations | <u>\$ 1.57</u> | <u>\$ 1.32</u> | <u>\$ 5.35</u> | <u>\$ 4.49</u> |
| Discontinued operations | <u>.05</u> | <u>.04</u> | <u>.30</u> | <u>.60</u> |
| Basic earnings per share | \$ 1.62 | \$ 1.36 | \$ 5.65 | \$ 5.09 |
| Diluted earnings per share from continuing operations | <u>\$ 1.55</u> | <u>\$ 1.30</u> | <u>\$ 5.28</u> | <u>\$ 4.43</u> |
| Discontinued operations | <u>.04</u> | <u>.04</u> | <u>.29</u> | <u>.59</u> |
| Diluted earnings per share | \$ 1.59 | \$ 1.34 | \$ 5.57 | \$ 5.02 |
| Average shares outstanding during period - Basic | <u>119,687,216</u> | <u>118,816,542</u> | <u>119,211,192</u> | <u>118,794,564</u> |
| Average shares outstanding during period - Diluted | <u>121,572,305</u> | <u>120,191,274</u> | <u>120,884,182</u> | <u>120,449,006</u> |
| Cash dividends per common share | <u>\$.23</u> | <u>\$.20</u> | <u>\$.92</u> | <u>\$.78</u> |

Note: Certain prior period amounts have been reclassified to conform to the current year presentation.

BUSINESS SEGMENT INFORMATION BY INDUSTRY

| (Dollars in thousands) | Three Months Ended June 30, | | Year Ended June 30, | |
|--|-----------------------------|---------------------|---------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net sales | | | | |
| Industrial: | | | | |
| North America | <u>\$ 1,071,719</u> | <u>\$ 940,071</u> | <u>\$ 3,993,370</u> | <u>\$ 3,516,627</u> |
| International | <u>831,200</u> | <u>642,902</u> | <u>2,902,508</u> | <u>2,398,439</u> |
| Aerospace | <u>419,875</u> | <u>364,023</u> | <u>1,504,922</u> | <u>1,359,431</u> |
| Climate & Industrial Controls | <u>293,938</u> | <u>225,501</u> | <u>985,088</u> | <u>794,308</u> |
| Total | \$ 2,616,732 | \$ 2,172,497 | \$ 9,385,888 | \$ 8,068,805 |
| Segment operating income | | | | |
| Industrial: | | | | |
| North America | <u>\$ 165,185</u> | <u>\$ 128,409</u> | <u>\$ 597,204</u> | <u>\$ 468,213</u> |
| International | <u>106,318</u> | <u>76,040</u> | <u>353,760</u> | <u>267,207</u> |
| Aerospace | <u>64,430</u> | <u>54,408</u> | <u>221,005</u> | <u>199,187</u> |
| Climate & Industrial Controls | <u>30,974</u> | <u>23,602</u> | <u>83,256</u> | <u>74,843</u> |
| Total segment operating income | \$ 366,907 | \$ 282,459 | \$ 1,255,225 | \$ 1,009,450 |
| Corporate general and administrative expenses | <u>40,220</u> | <u>32,351</u> | <u>133,695</u> | <u>111,615</u> |
| Income from continuing operations before interest expense and other | 326,687 | 250,108 | 1,121,530 | 897,835 |
| Interest expense | <u>18,667</u> | <u>16,375</u> | <u>75,763</u> | <u>66,869</u> |
| Other expense | <u>42,694</u> | <u>18,822</u> | <u>145,809</u> | <u>92,695</u> |
| Income from continuing operations before income taxes | \$ 265,326 | \$ 214,911 | \$ 899,958 | \$ 738,271 |

Note: Certain prior period amounts have been reclassified to conform to the current year presentation.

PARKER HANNIFIN CORPORATION - JUNE 30, 2006

CONSOLIDATED BALANCE SHEET

| (Dollars in thousands) June 30, | 2006 | 2005 |
|---|--------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 171,553 | \$ 336,080 |
| Accounts receivable, net | 1,592,323 | 1,225,423 |
| Inventories | 1,182,878 | 1,017,045 |
| Prepaid expenses | 64,238 | 49,669 |
| Deferred income taxes | 127,986 | 127,490 |
| Total current assets | 3,138,978 | 2,755,707 |
| Plant and equipment, net | 1,693,794 | 1,581,348 |
| Goodwill | 2,010,458 | 1,371,024 |
| Intangible assets, net | 471,095 | 239,891 |
| Other assets | 859,107 | 831,595 |
| Net assets of discontinued operations | | 81,138 |
| Total assets | \$8,173,432 | \$6,860,703 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Notes payable | \$ 72,039 | \$ 31,962 |
| Accounts payable | 770,665 | 569,047 |
| Accrued liabilities | 698,014 | 601,962 |
| Accrued domestic and foreign taxes | 140,387 | 97,853 |
| Total current liabilities | 1,681,105 | 1,300,824 |
| Long-term debt | 1,059,461 | 938,424 |
| Pensions and other postretirement benefits | 811,479 | 1,056,230 |
| Deferred income taxes | 118,544 | 35,340 |
| Other liabilities | 261,640 | 189,738 |
| Shareholders' equity | 4,241,203 | 3,340,147 |
| Total liabilities and shareholders' equity | \$8,173,432 | \$6,860,703 |

Note: Certain prior period amounts have been reclassified to conform to the current year presentation.

CONSOLIDATED STATEMENT OF CASH FLOWS

| (Dollars in thousands) | Year Ended June 30, | |
|---|---------------------|-------------------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 673,167 | \$ 604,692 |
| Net (income) from discontinued operations | (34,891) | (71,526) |
| Depreciation and amortization | 280,971 | 262,690 |
| Stock-based compensation | 33,448 | — |
| Net change in receivables, inventories, and trade payables | (36,278) | 48,154 |
| Net change in other assets and liabilities | 68,517 | (8,710) |
| Other, net | (27,036) | 29,064 |
| Discontinued operations | (3,259) | (10,858) |
| Net cash provided by operating activities | 954,639 | 853,506 |
| Cash flows from investing activities: | | |
| Acquisitions (net of cash of \$42,429 in 2006 and \$21,720 in 2005) | (835,981) | (558,569) |
| Capital expenditures | (198,113) | (154,905) |
| Proceeds from sale of businesses | 92,715 | 120,000 |
| Other, net | 20,236 | 30,507 |
| Discontinued operations | (100) | (2,416) |
| Net cash (used in) investing activities | (921,243) | (565,383) |
| Cash flows from financing activities: | | |
| Net proceeds from (payments for) common share activity | 16,931 | (23,724) |
| Net (payments of) debt | (101,480) | (21,202) |
| Dividends | (109,643) | (92,612) |
| Net cash (used in) financing activities | (194,192) | (137,538) |
| Effect of exchange rate changes on cash | (3,731) | 1,648 |
| Net (decrease) increase in cash and cash equivalents | (164,527) | 152,233 |
| Cash and cash equivalents at beginning of period | 336,080 | 183,847 |
| Cash and cash equivalents at end of period | \$ 171,553 | \$ 336,080 |

Note: Certain prior period amounts have been reclassified to conform to the current year presentation.

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Parker Hannifin Corporation

Quarterly Earnings Release
4th Quarter FY 2006

August 1, 2006

anything  Possible.™

Forward-Looking Statements

Forward-Looking Statements:

Forward-looking statements contained in this and other written and oral reports are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the company and individual segments 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 and innovation initiatives. A change in economic conditions in individual markets may have a particularly volatile effect on segment results. Among the 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; the company's ability to manage costs related to employee retirement and health care benefits and insurance; and global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation and interest rates. The company makes these statements as of the date of this disclosure, and undertakes no obligation to update them.

Non-GAAP Financial Measure

This presentation reconciles sales amounts reported in accordance with U.S. GAAP to sales amounts adjusted to remove the effects of acquisitions and divestitures made within the prior four quarters as well as the effects of currency exchange rates on sales. The effects of acquisitions and currency exchange rates are removed to allow investors and the company to meaningfully evaluate changes in sales on a comparable basis from period to period.

This presentation contains references to earnings per share amounts excluding the effect of the adoption of FAS 123R, and a loss recognized on the sale of a division. The removal of these items allows investors and the company to meaningfully evaluate performance on a comparable basis with the prior period, which was not impacted by FAS123R or the sale of a division.

Discussion Agenda

- CEO 4th quarter and fiscal 2006 comments
- Key performance measures & outlook
- Questions & answers
- CEO closing comments

Fiscal Year Highlights

- ◆ Sales increased 16% to \$9.4 billion for the year
 - ❖ 8% organic growth
- ◆ Record year of acquisitions - nearly \$1 billion in annual revenues
- ◆ Segment operating income margins improved from 12.5% last year to 13.4%, including the effects of acquisitions
- ◆ Record cash flow from operations of \$955 million
 - ❖ 10.2% of Sales

Financial Highlights

EPS – 4th Quarter and Total Year

| | 4th Quarter | | Total Year | |
|--|----------------|----------------|----------------|----------------|
| | <u>FY2006</u> | <u>FY2005</u> | <u>FY2006</u> | <u>FY2005</u> |
| EPS as reported | \$ 1.59 | \$ 1.34 | \$ 5.57 | \$ 5.02 |
| Discontinued operations | <u>(.04)</u> | <u>(.04)</u> | <u>(.29)</u> | <u>(.59)</u> |
| EPS from continuing operations as reported | 1.55 | 1.30 | 5.28 | 4.43 |
| Loss on sale of Thermoplastics | | | <u>.08</u> | |
| EPS from continuing operations excluding loss from Thermoplastics divestiture | | | 5.36 | 4.43 |
| FAS 123R expense | <u>.03</u> | | <u>.18</u> | |
| EPS from continuing operations adjusted | <u>\$ 1.58</u> | <u>\$ 1.30</u> | <u>\$ 5.54</u> | <u>\$ 4.43</u> |

Influences on Earnings

- ◆ Increased volume
- ◆ Win Strategy
- ◆ Restructuring costs
- ◆ Increased effective tax rate
- ◆ Aerospace sales mix
- ◆ Aerospace product development costs

Sales

4th Quarter and Total Year

| Dollars in millions | 4th Quarter | | Total Year | |
|---------------------------------------|-------------|----------|------------|----------|
| | FY2006 | FY2005 | FY2006 | FY2005 |
| Sales | \$ 2,617 | \$ 2,172 | \$ 9,386 | \$ 8,069 |
| % change | 20% | | 16% | |
| Sales from acquisitions | 199 | | 699 | |
| Sales w/o acquisitions | 2,418 | 2,172 | 8,687 | 8,069 |
| % change | 11% | | 8% | |
| Currency effects | 28 | | (38) | |
| Sales without acquisitions & currency | \$ 2,390 | \$ 2,172 | \$ 8,725 | \$ 8,069 |
| % change | 10% | | 8% | |

Influences on Sales

- ◆ Continued Industrial end market strength
 - ❖ Distributors
 - ❖ OEM
- ◆ Emerging markets
- ◆ Acquisitions
- ◆ Aerospace
 - ❖ Commercial

Segment Reporting

Industrial North America

| Dollars in millions | 4th Quarter | | Total Year | |
|---------------------------------|-------------|--------|------------|----------|
| | FY2006 | FY2005 | FY2006 | FY2005 |
| <u>Sales</u> | | | | |
| As reported | \$ 1,072 | \$ 940 | \$ 3,993 | \$ 3,517 |
| % change | 14 % | | 14 % | |
| Acquisitions | 56 | | 233 | |
| Without Acquisitions | 1,016 | 940 | 3,760 | 3,517 |
| % change | 8 % | | 7 % | |
| Currency effects | 5 | | 18 | |
| Without Acquisitions & Currency | \$ 1,011 | \$ 940 | \$ 3,742 | \$ 3,517 |
| % change | 8 % | | 6 % | |
| <u>Operating Margin</u> | | | | |
| As reported | \$ 165 | \$ 128 | \$ 597 | \$ 468 |
| % of Sales | 15.4 % | 14.6 % | 15.0 % | 13.3 % |

Slide 10

anything  Possible.

Segment Reporting

Industrial International

| Dollars in millions | 4th Quarter | | Total Year | |
|---------------------------------|-------------|--------|------------|----------|
| | FY2006 | FY2005 | FY2006 | FY2005 |
| Sales | | | | |
| As reported | \$ 831 | \$ 643 | \$ 2,903 | \$ 2,398 |
| % change | 29 % | | 21 % | |
| Acquisitions | 114 | | 365 | |
| Without Acquisitions | 717 | 643 | 2,538 | 2,398 |
| % change | 12 % | | 6 % | |
| Currency effects | 20 | | (54) | |
| Without Acquisitions & Currency | \$ 697 | \$ 643 | \$ 2,592 | \$ 2,398 |
| % change | 8 % | | 8 % | |
| Operating Margin | | | | |
| As reported | \$ 106 | \$ 76 | \$ 354 | \$ 267 |
| % of Sales | 12.8 % | 11.8 % | 12.2 % | 11.1 % |

Slide 11

anything  Possible.

Segment Reporting

Aerospace

| Dollars in millions | 4th Quarter | | Total Year | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | <u>FY2006</u> | <u>FY2005</u> | <u>FY2006</u> | <u>FY2005</u> |
| <u>Sales</u> | | | | |
| As reported | \$ 420 | \$ 364 | \$ 1,505 | \$ 1,359 |
| % change | 15 % | | 11 % | |
| Acquisitions | 3 | | 3 | |
| Without Acquisitions | 417 | 364 | 1,502 | 1,359 |
| % change | 15 % | | 11 % | |
| Currency effects | 0 | | (4) | |
| Without Acquisitions & Currency | \$ 417 | \$ 364 | \$ 1,506 | \$ 1,359 |
| % change | 15 % | | 11 % | |
| <u>Operating Margin</u> | | | | |
| As reported | \$ 64 | \$ 54 | \$ 221 | \$ 199 |
| % of Sales | 15.2 % | 14.8 % | 14.7 % | 14.6 % |

Segment Reporting

Climate & Industrial Controls

| Dollars in millions | 4th Quarter | | Total Year | |
|---------------------------------|-------------|--------|------------|--------|
| | FY2006 | FY2005 | FY2006 | FY2005 |
| Sales | | | | |
| As reported | \$ 294 | \$ 226 | \$ 985 | \$ 794 |
| % change | 30 % | | 24 % | |
| Acquisitions | 27 | | 99 | |
| Without Acquisitions | 267 | 226 | 886 | 794 |
| % change | 18 % | | 12 % | |
| Currency effects | 2 | | 2 | |
| Without Acquisitions & Currency | \$ 265 | \$ 226 | \$ 884 | \$ 794 |
| % change | 17 % | | 11 % | |
| Operating Margin | | | | |
| As reported | \$ 31 | \$ 24 | \$ 83 | \$ 75 |
| % of Sales | 10.5 % | 10.6 % | 8.4 % | 9.4 % |

Parker New Order rates

| | June | | |
|--|---------------|--------------|---------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Industrial North America | + 7 % | + 5 % | + 24 % |
| Industrial International | + 8 % | + 7 % | + 21 % |
| Aerospace | + 15 % | + 7 % | + 15 % |
| Climate & Industrial Controls | + 30 % | - 4 % | - 2 % |

Excludes Acquisitions & Currency
Year over year comparisons
Aerospace is calculated using a 12-month moving average

Balance Sheet Summary

- ◆ Cash

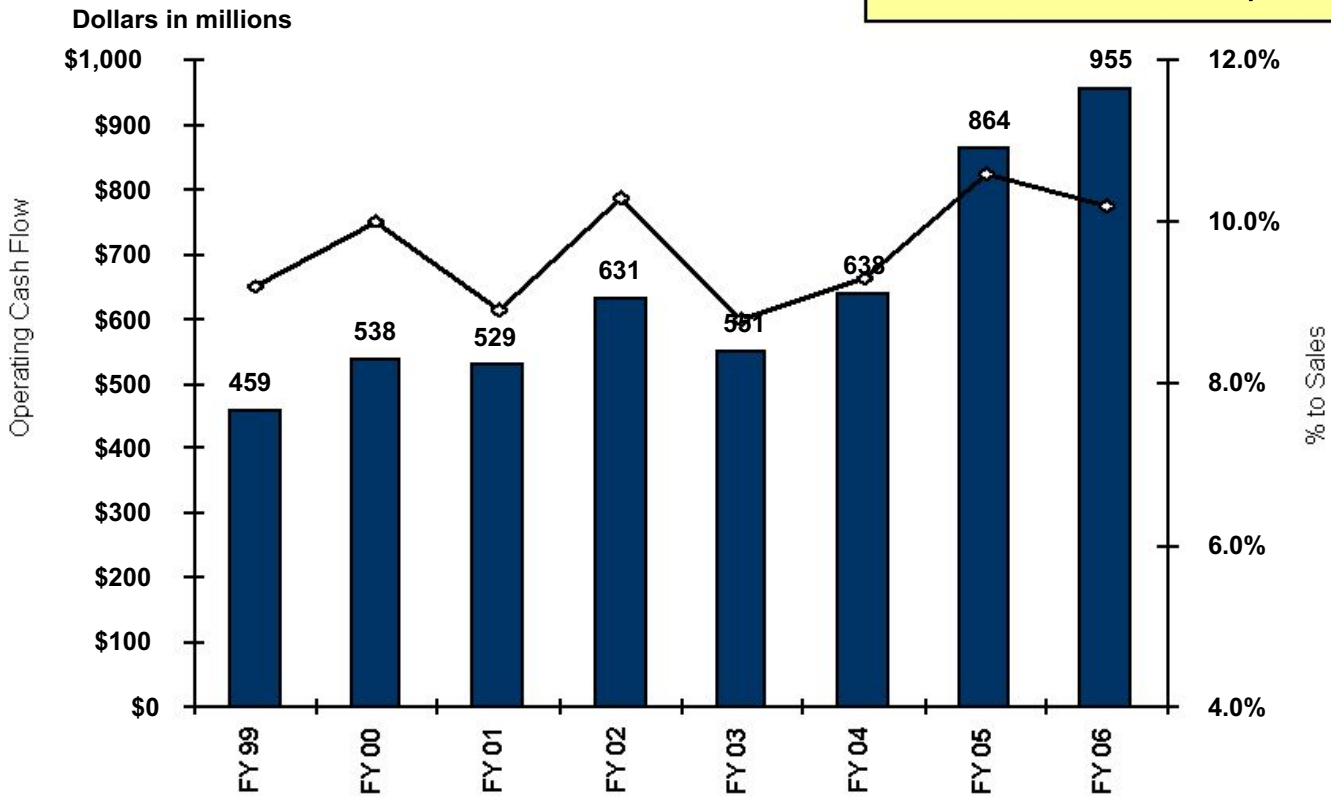
- ◆ Working capital
 - ❖ Inventory
 - ❖ Accounts receivable

- ◆ Capital expenditures

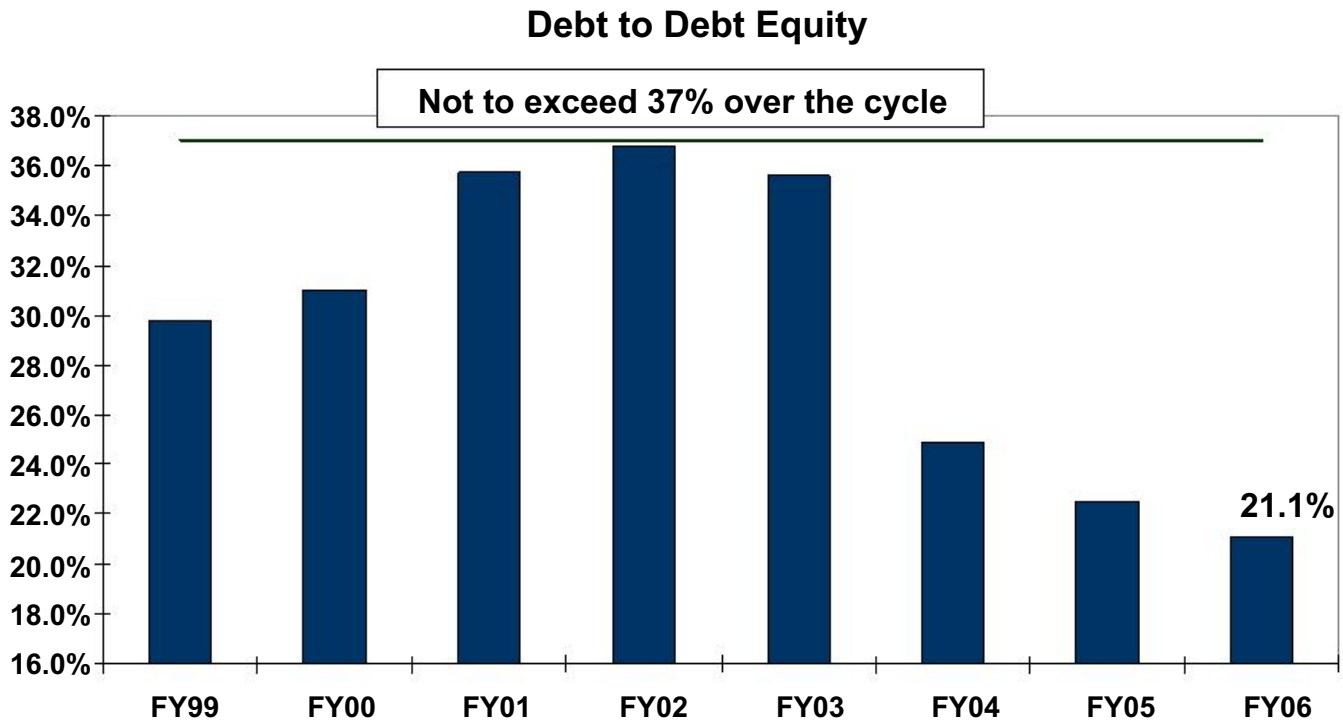
- ◆ Shareholders equity

Strong Cash Flow – Cash From Operations

Fiscal 2006 - \$955



Financial Leverage



FY 2007 Earnings Outlook Assumptions Segment Sales & Operating Income

| FY 2007 Sales change versus FY 2006 | |
|--|------------------|
| Industrial North America | 4.6 % -- 5.4 % |
| Industrial International | 17.7 % -- 18.6 % |
| Aerospace | 5.9 % -- 6.6 % |
| Climate & Industrial Controls | 5.3 % -- 6.2 % |

| FY 2007 Operating margin percentages | |
|---|------------------|
| Industrial North America | 14.8 % -- 15.6 % |
| Industrial International | 11.9 % -- 12.7 % |
| Aerospace | 14.3 % -- 15.2 % |
| Climate & Industrial Controls | 10.3 % -- 11.2 % |

FY 2007 Earnings Outlook Assumptions below Operating Margin

- Corporate Admin + 4.0% to + 6.0% vs. FY 2006
- Interest Expense - 10.0% to - 7.0% vs. FY 2006
- Other Exp. (Income) - 4.0% to - 1.0% vs. FY 2006
- Tax Rate 30.0%

Earnings Outlook – FY07

| | <u>Low</u> | <u>High</u> |
|--|----------------|----------------|
| Income from continuing operations | \$ 5.80 | \$ 6.30 |

Questions & Answers...

anything  Parker
Possible.™

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Appendix

Income Statements



Income Statement – 4th Quarter

| Dollars in millions | FY 2006 | | FY 2005 | |
|--|------------|------------|------------|------------|
| | | % of Sales | | % of Sales |
| Net Sales | \$ 2,616.7 | 100.0 % | \$ 2,172.5 | 100.0 % |
| Cost of sales | 2,054.0 | 78.5 % | 1,708.1 | 78.6 % |
| Gross profit | 562.7 | 21.5 % | 464.4 | 21.4 % |
| S, G & A | 277.1 | 10.6 % | 232.8 | 10.7 % |
| Interest expense | 18.7 | .7 % | 16.4 | .8 % |
| Other expense | 1.7 | .1 % | .3 | .0 % |
| Income from cont'g operations before taxes | 265.2 | 10.1 % | 214.9 | 9.9 % |
| Income taxes | 77.4 | 3.0 % | 58.8 | 2.7 % |
| Income from cont'g operations | 187.8 | 7.2 % | 156.1 | 7.2 % |
| Discontinued operations | 6.0 | .2 % | 5.3 | .2 % |
| Net income | \$ 193.8 | 7.4 % | \$ 161.4 | 7.4 % |

Income Statement – Total Year

| Dollars in millions | FY 2006 | | FY 2005 | |
|--|-----------------|--------------|-----------------|--------------|
| | | % of Sales | | % of Sales |
| Net Sales | \$ 9,385.9 | 100.0 % | \$ 8,068.8 | 100.0 % |
| Cost of sales | 7,367.6 | 78.5 % | 6,391.5 | 79.2 % |
| Gross profit | 2,018.3 | 21.5 % | 1,677.3 | 20.8 % |
| S, G & A | 1,036.6 | 11.0 % | 860.3 | 10.7 % |
| Interest expense | 75.8 | .8 % | 66.9 | .8 % |
| Other expense | 5.9 | .1 % | 11.9 | .1 % |
| Income from cont'g operations before taxes | 900.0 | 9.6 % | 738.2 | 9.1 % |
| Income taxes | 261.7 | 2.8 % | 205.1 | 2.5 % |
| Income from cont'g operations | 638.3 | 6.8 % | 533.1 | 6.6 % |
| Discontinued operations | 34.9 | .4 % | 71.5 | .9 % |
| Net income | \$ 673.2 | 7.2 % | \$ 604.6 | 7.5 % |