

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

FORM 10-Q

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

For the quarterly period ended December 31, 2018

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 number 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 Blvd., Cleveland, Ohio

(Address of principal executive offices)

34-0451060

(IRS Employer
Identification No.)

44124-4141

(Zip Code)

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of Common Shares outstanding at December 31, 2018: 129,365,355

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net sales	\$ 3,472,045	\$ 3,370,673	\$ 6,951,339	\$ 6,735,324
Cost of sales	2,602,339	2,564,449	5,197,162	5,087,743
Selling, general and administrative expenses	397,259	408,338	791,581	805,322
Interest expense	47,518	53,133	91,857	106,688
Other (income) expense, net	(6,225)	(15,468)	(20,138)	1,048
Income before income taxes	431,154	360,221	890,877	734,523
Income taxes	119,241	303,899	203,065	392,666
Net income	311,913	56,322	687,812	341,857
Less: Noncontrolling interest in subsidiaries' earnings	176	163	364	301
Net income attributable to common shareholders	\$ 311,737	\$ 56,159	\$ 687,448	\$ 341,556
Earnings per share attributable to common shareholders:				
Basic	\$ 2.39	\$ 0.42	\$ 5.23	\$ 2.57
Diluted	\$ 2.36	\$ 0.41	\$ 5.15	\$ 2.51

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net income	\$ 311,913	\$ 56,322	\$ 687,812	\$ 341,857
Less: Noncontrolling interests in subsidiaries' earnings	176	163	364	301
Net income attributable to common shareholders	311,737	56,159	687,448	341,556
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustment and other	(43,986)	28,390	(79,111)	101,269
Retirement benefits plan activity	24,527	28,312	48,400	55,047
Other comprehensive (loss) income	(19,459)	56,702	(30,711)	156,316
Less: Other comprehensive income (loss) for noncontrolling interests	55	(73)	(34)	(160)
Other comprehensive (loss) income attributable to common shareholders	(19,514)	56,775	(30,677)	156,476
Total comprehensive income attributable to common shareholders	\$ 292,223	\$ 112,934	\$ 656,771	\$ 498,032

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)
(Unaudited)

	December 31, 2018	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,047,385	\$ 822,137
Marketable securities and other investments	30,956	32,995
Trade accounts receivable, net	1,938,709	2,145,517
Non-trade and notes receivable	324,254	328,399
Inventories	1,804,564	1,621,304
Prepaid expenses and other	188,868	134,886
Total current assets	5,334,736	5,085,238
Plant and equipment	5,192,144	5,215,253
Less: Accumulated depreciation	3,398,339	3,359,016
Plant and equipment, net	1,793,805	1,856,237
Deferred income taxes	98,779	57,623
Investments and other assets	733,987	801,049
Intangible assets, net	1,883,825	2,015,520
Goodwill	5,462,555	5,504,420
Total assets	\$ 15,307,687	\$ 15,320,087
LIABILITIES		
Current liabilities:		
Notes payable and long-term debt payable within one year	\$ 1,144,347	\$ 638,466
Accounts payable, trade	1,307,178	1,430,306
Accrued payrolls and other compensation	319,787	427,500
Accrued domestic and foreign taxes	182,617	198,878
Other accrued liabilities	555,005	502,333
Total current liabilities	3,508,934	3,197,483
Long-term debt	4,303,331	4,318,559
Pensions and other postretirement benefits	937,938	1,177,605
Deferred income taxes	286,622	234,858
Other liabilities	449,696	526,089
Total liabilities	9,486,521	9,454,594
EQUITY		
Shareholders' equity:		
Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued	—	—
Common stock, \$.50 par value; authorized 600,000,000 shares; issued 181,046,128 shares at December 31 and June 30	90,523	90,523
Additional capital	521,854	496,592
Retained earnings	12,114,448	11,625,975
Accumulated other comprehensive (loss)	(1,795,497)	(1,763,086)
Treasury shares, at cost; 51,680,773 shares at December 31 and 48,632,105 shares at June 30	(5,116,119)	(4,590,138)
Total shareholders' equity	5,815,209	5,859,866
Noncontrolling interests	5,957	5,627
Total equity	5,821,166	5,865,493
Total liabilities and equity	\$ 15,307,687	\$ 15,320,087

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended December 31,	
	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income	\$ 687,812	\$ 341,857
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	115,000	120,335
Amortization	107,543	113,881
Share incentive plan compensation	64,615	64,267
Deferred income tax expense	47,401	(74,101)
Foreign currency transaction loss	2,526	12,620
Loss (gain) on plant and equipment and intangible assets	3,428	(26,529)
Loss on sale of businesses	623	—
Loss (gain) on marketable securities	5,701	(1)
(Gain) loss on investments	(3,213)	33,759
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	185,638	49,986
Inventories	(176,094)	(207,334)
Prepaid expenses	(40,555)	(81,168)
Other assets	14,214	(45,710)
Accounts payable, trade	(120,253)	(92,267)
Accrued payrolls and other compensation	(104,726)	(111,687)
Accrued domestic and foreign taxes	(14,758)	5,796
Other accrued liabilities	18,960	59,003
Pensions and other postretirement benefits	(173,040)	25,379
Other liabilities	(79,782)	268,688
Net cash provided by operating activities	541,040	456,774
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Acquisitions (net of cash acquired of \$690 in 2018)	(2,042)	—
Capital expenditures	(94,426)	(144,781)
Proceeds from sale of plant and equipment	34,121	59,848
Proceeds from sale of businesses	19,540	—
Purchases of marketable securities and other investments	(2,845)	(78,309)
Maturities and sales of marketable securities and other investments	14,432	12,710
Other	(90)	8,706
Net cash (used in) investing activities	(31,310)	(141,826)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from exercise of stock options	635	2,076
Payments for common shares	(565,970)	(136,436)
Proceeds from notes payable, net	606,019	138,900
Proceeds from long-term borrowings	1	1,718
Payments for long-term borrowings	(100,209)	(12,895)
Dividends	(200,459)	(176,187)
Net cash (used in) financing activities	(259,983)	(182,824)
Effect of exchange rate changes on cash	(24,499)	7,760
Net increase in cash and cash equivalents	225,248	139,884
Cash and cash equivalents at beginning of year	822,137	884,886
Cash and cash equivalents at end of period	\$ 1,047,385	\$ 1,024,770

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
BUSINESS SEGMENT INFORMATION
(Dollars in thousands)
(Unaudited)

The Company operates in two reportable business segments: Diversified Industrial and Aerospace Systems.

Diversified Industrial - This segment produces a broad range of motion-control and fluid systems and components used in all kinds of manufacturing, packaging, processing, transportation, mobile construction, refrigeration and air conditioning, agricultural and military machinery and equipment and has a significant portion of international operations. Sales are made directly to major original equipment manufacturers (OEMs) and through a broad distribution network to smaller OEMs and the aftermarket.

Aerospace Systems - This segment designs and manufactures products and provides aftermarket support for commercial, business jet, military and general aviation aircraft, missile and spacecraft markets. The Aerospace Systems Segment provides a full range of systems and components for hydraulic, pneumatic and fuel applications.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net sales				
Diversified Industrial:				
North America	\$ 1,632,059	\$ 1,565,416	\$ 3,313,103	\$ 3,160,107
International	1,223,679	1,255,569	2,457,445	2,494,343
Aerospace Systems	616,307	549,688	1,180,791	1,080,874
Total net sales	<u>\$ 3,472,045</u>	<u>\$ 3,370,673</u>	<u>\$ 6,951,339</u>	<u>\$ 6,735,324</u>
Segment operating income				
Diversified Industrial:				
North America	\$ 257,774	\$ 225,807	\$ 532,885	\$ 481,834
International	189,085	164,806	395,179	356,597
Aerospace Systems	121,463	87,148	231,318	164,582
Total segment operating income	568,322	477,761	1,159,382	1,003,013
Corporate general and administrative expenses	63,890	46,942	114,215	88,292
Income before interest expense and other expense	504,432	430,819	1,045,167	914,721
Interest expense	47,518	53,133	91,857	106,688
Other expense	25,760	17,465	62,433	73,510
Income before income taxes	<u>\$ 431,154</u>	<u>\$ 360,221</u>	<u>\$ 890,877</u>	<u>\$ 734,523</u>

PARKER-HANNIFIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands, except per share amounts

1. Management representation

In the opinion of the management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position as of December 31, 2018, the results of operations for the three and six months ended December 31, 2018 and 2017 and cash flows for the six months then ended. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2018 Annual Report on Form 10-K. Interim period results are not necessarily indicative of the results to be expected for the full fiscal year. Certain prior-year amounts have been reclassified to conform to current-year presentation.

The Company has evaluated subsequent events that have occurred through the date these financial statements were issued. No subsequent events have occurred that required adjustment to these financial statements.

2. New accounting pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-14, "Compensation--Retirement Benefits--Defined Benefit Plans--General." ASU 2018-14 aims to improve disclosure effectiveness by adding, removing or clarifying certain disclosure requirements related to defined benefit pension or other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company has not yet determined the effect that ASU 2018-14 will have on its financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement." ASU 2018-13 aims to improve disclosure effectiveness by adding, modifying or removing certain disclosure requirements for both recurring and nonrecurring fair value measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted upon issuance of the ASU for any removed or modified disclosure. Adoption of additional disclosures may be delayed until their effective dates. The Company has not yet determined the effect that ASU 2018-13 will have on its financial statements.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (TCJ Act) reduction of the U.S. federal corporate income tax rate. The amendments also require certain disclosures about stranded tax effects. ASU 2018-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted in any period after the issuance of the update. The amendments in this update should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJ Act is recognized. The Company has not yet determined the effect that ASU 2018-02 will have on its financial statements.

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 provides targeted improvements to Topic 815 accounting for hedging activities by expanding an entity's ability to hedge non-financial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. ASU 2017-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early application is permitted in any interim period after issuance of the update. ASU 2017-12 should be applied using a modified retrospective approach for cash flow and net investment hedge relationships that exist on the date of adoption and prospectively for presentation and disclosure requirements. The Company has not yet determined the effect that ASU 2017-12 will have on its financial statements.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. ASU 2017-07 also provides that only the service cost component is eligible for capitalization, when applicable. ASU 2017-07 should be applied retrospectively for the income

statement presentation of net periodic pension cost and net periodic postretirement benefit cost and prospectively, on or after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit cost. On July 1, 2018, the Company retrospectively adopted ASU 2017-07 and reclassified prior-year amounts using a practical expedient that permits the usage of amounts previously disclosed in the retirement benefits note. As a result, \$4,621 and \$4,125 of expense was reclassified from cost of sales and selling, general and administrative expenses, respectively, to other (income) expense, net for the prior-year quarter. Expense of \$14,205 and \$8,812 was reclassified from cost of sales and selling, general and administrative expenses, respectively, to other (income) expense, net for the first six months of fiscal 2018.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory." ASU 2016-16 provides that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in ASU 2016-16 eliminate the exception for an intra-entity transfer of an asset other than inventory. The Company adopted ASU 2016-16 on July 1, 2018 and recorded a cumulative effect adjustment of approximately \$19 million to reduce retained earnings.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provides specific guidance on several cash flow classification issues to reduce diversity in practice in how certain transactions are classified within the statement of cash flows. On July 1, 2018, the Company adopted ASU 2016-15 and retrospectively adjusted its Statement of Cash Flows. These retrospective adjustments were not material.

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

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires lessees to put most leases with terms greater than 12 months on their balance sheet by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. ASU 2016-02 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. Adoption of this ASU is planned for the beginning of the first quarter of fiscal 2020. The Company has not yet determined the effect that ASU 2016-02 will have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities." ASU 2016-01 requires equity investments (excluding equity method investments and investments that are consolidated) to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have a readily determinable fair value may be measured at cost, adjusted for impairment and observable price changes. ASU 2016-01 also simplifies the impairment assessment of equity investments, eliminates the disclosure of the assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at cost on the balance sheet and requires the exit price to be used when measuring fair value of financial instruments for disclosure purposes. Under ASU 2016-01, changes in fair value (resulting from instrument-specific credit risk) are presented separately in other comprehensive income for liabilities measured using the fair value option. Financial assets and liabilities are presented separately by measurement category and type, either on the balance sheet or in the financial statement disclosures. The Company adopted ASU 2016-01 on July 1, 2018 and reclassified approximately \$2 million of unrealized gains from accumulated other comprehensive (loss) to retained earnings.

In May 2014, the FASB issued ASU 2014-09, "Revenues with Contracts with Customers." ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration that a company expects to be entitled to in exchange for the goods or services. To achieve this principle, a company must apply five steps including identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) the company satisfies the performance obligation. The Company adopted ASU 2014-09 on July 1, 2018 using the modified retrospective method and recorded a cumulative effect adjustment to increase retained earnings by approximately \$5 million. See Note 3 for further discussion.

3. Revenue recognition

Revenue is derived primarily from the sale of products in a variety of mobile, industrial and aerospace markets. Revenues are recognized when control of the promised goods or services in a contract (i.e., performance obligations) are transferred to the customer. Control is transferred when the customer has the ability to direct the use of and obtain the benefits from the goods or services. A majority of the Company's revenues are recognized at a point in time when control is transferred to the customer, which is generally at the time of shipment. However, a portion of the Company's revenues are recognized over time if the customer simultaneously receives control as the Company performs work under a contract, if the customer controls the asset as it is being produced, or if the product being produced for the customer has no alternative use and the Company has a contractual right to payment. For contracts recognized over time, the Company uses the cost-to-cost, efforts expended or units of delivery method depending on the nature of the contract, including length of production time.

A contract's transaction price is allocated to each distinct performance obligation. When there are multiple performance obligations within a contract, the transaction price is allocated to each performance obligation based on its standalone selling price. The primary method used to estimate a standalone selling price is the price observed in standalone sales to customers of the same product or service. Revenue is recognized when the appropriate revenue recognition criteria for the individual performance obligations have been satisfied.

The Company considers the contractual consideration payable by the customer and assesses variable consideration that may affect the total transaction price. Variable consideration primarily includes prompt pay discounts, rebates and volume discounts and is included in the estimated transaction price when there is a basis to reasonably estimate the amount, including whether the estimate should be constrained in order to avoid a significant reversal of revenue in a future period. These estimates are based on historical experience, anticipated performance under the terms of the contract and the Company's best judgment at the time.

Payment terms vary by customer and the geographical location of the customer. The time between when revenue is recognized and payment is due is not significant. The Company's contracts with customers generally do not include significant financing components or noncash consideration.

Taxes collected from customers and remitted to governmental authorities are excluded from revenue. Shipping and handling costs are treated as fulfillment costs and are included in cost of sales. The costs to obtain a contract where the amortization period for the related asset is one year or less are expensed as incurred.

There is generally no unilateral right to return products. The Company primarily offers an assurance-type standard warranty that the product will conform to certain specifications for a defined period of time or period of usage after delivery. This type of warranty does not represent a separate performance obligation.

Disaggregation of revenue

Revenue from contracts with customers is disaggregated by technology platforms for the Diversified Industrial Segment, by product platforms for the Aerospace Systems Segment and by geographic location for the total Company.

The Diversified Industrial Segment is an aggregation of several business units, which manufacture motion-control and fluid power system components for builders and users of various type of manufacturing, packaging, processing, transportation, agricultural, construction, and military vehicles and equipment. Contracts consist of individual purchase orders for standard product, blanket purchase orders and production contracts. Blanket purchase orders are often associated with individual purchase orders and have terms and conditions which are subject to a master supply or distributor agreement. Individual production contracts, some of which may include multiple performance obligations, are typically for products to be manufactured to the customer's specifications. Revenue in the Diversified Industrial Segment is typically recognized at the time of product shipment, but a portion of revenue may be recognized over time for installation services or in situations where the product being manufactured has no alternative use and the Company has an enforceable right to payment.

Diversified Industrial Segment revenues by technology platform:

	Three Months Ended	Six Months Ended
	December 31, 2018	December 31, 2018
Motion Systems	\$ 856,357	\$ 1,715,930
Flow and Process Control	1,015,200	2,076,264
Filtration and Engineered Materials	984,181	1,978,354
Total	<u>\$ 2,855,738</u>	<u>\$ 5,770,548</u>

The Aerospace Systems Segment produces hydraulic, fuel, pneumatic and electro-mechanical systems and components, which are utilized on virtually every domestic commercial, military and general aviation aircraft and which also perform a vital role in naval vessels and land-based weapon systems. Contracts generally consist of blanket purchase orders and individual long-term production contracts. Blanket purchase orders, which have terms and conditions subject to long-term supply agreements, are typically associated with individual purchase orders. Revenue in the Aerospace Systems Segment is typically recognized at the time of product shipment, but a portion of revenue may be recognized over time in situations where the customer controls the asset as it is being produced or the product being manufactured has no alternative use and the Company has an enforceable right to payment.

Aerospace Systems Segment revenues by product platform:

	Three Months Ended	Six Months Ended
	December 31, 2018	December 31, 2018
Flight Control Actuation	\$ 189,670	\$ 352,606
Fuel and Inerting	157,262	301,308
Hydraulics	108,893	211,390
Engines	71,647	136,033
Fluid Conveyance	68,868	139,072
Other	19,967	40,382
Total	\$ 616,307	\$ 1,180,791

Total Company revenues by geographic region based on the Company's selling operation's location:

	Three Months Ended	Six Months Ended
	December 31, 2018	December 31, 2018
North America	\$ 2,248,806	\$ 4,494,897
Europe	714,550	1,440,860
Asia Pacific	465,974	927,614
Latin America	42,715	87,968
Total	\$ 3,472,045	\$ 6,951,339

The majority of revenues from the Aerospace Systems Segment is generated from sales to customers within North America.

Contract balances

Contract assets and contract liabilities are reported on a contract-by-contract basis. Contract assets reflect revenue recognized and performance obligations satisfied in advance of customer billing. Contract liabilities relate to payments received in advance of the satisfaction of performance under the contract. Payments from customers are received based on the terms established in the contract with the customer.

Total contract assets and contract liabilities are as follows:

	December 31, 2018
Contract assets, current (included within Prepaid expenses and other)	\$ 19,263
Contract assets, noncurrent (included within Investments and other assets)	2,328
Total contract assets	21,591
Contract liabilities, current (included within Other accrued liabilities)	(65,320)
Contract liabilities, noncurrent (included within Other liabilities)	(468)
Total contract liabilities	(65,788)
Net contract (liabilities)	\$ (44,197)

During the six months ended December 31, 2018, net contract liabilities increased \$6 million from the July 1, 2018 net contract liabilities amount of \$38 million. The increase in net contract liabilities was primarily due to advance payments from customers exceeding revenue recognized during the period. During the six months ended December 31, 2018, approximately \$20 million of revenue was recognized that was included in the contract liabilities at July 1, 2018.

Remaining performance obligations

The Company's backlog represents written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release has been agreed to with the customer. The Company believes its backlog represents its unsatisfied or partially unsatisfied performance obligations. Backlog at December 31, 2018 was \$4,209 million, of which approximately 92 percent is expected to be recognized as revenue within the next 12 months and the balance thereafter.

Adoption of ASU 2014-09

On July 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective approach. The provisions of ASU 2014-09 were applied only to contracts that were not completed as of July 1, 2018. Comparative prior-period financial information has not been restated and continues to be reported under the accounting standards in effect for the comparative prior-year period.

The cumulative effect of the changes made to the Company's Consolidated Balance Sheet as of July 1, 2018 related to the adoption of ASU 2014-09 is as follows:

	Balance as of		Cumulative Effect		Balance as of
	June 30, 2018		of Adjustments		July 1, 2018
Assets:					
Trade accounts receivable, net	\$ 2,145,517	\$	(11)	\$	2,145,506
Inventories	1,621,304		23,205		1,644,509
Prepaid expenses and other	134,886		14,575		149,461
Investments and other assets	801,049		2,020		803,069
Liabilities:					
Other accrued liabilities	\$ 502,333	\$	28,288	\$	530,621
Other liabilities	526,089		5,160		531,249
Deferred income taxes	234,858		1,560		236,418
Equity:					
Retained earnings	\$ 11,625,975	\$	4,781	\$	11,630,756

The adoption of ASU 2014-09 had an immaterial impact on the Company's net sales, results of operations and financial position for the three and six months ended December 31, 2018.

4. Earnings per share

The following table presents a reconciliation of the numerator and denominator of basic and diluted earnings per share for the three and six months ended December 31, 2018 and 2017.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to common shareholders	\$ 311,737	\$ 56,159	\$ 687,448	\$ 341,556
Denominator:				
Basic - weighted average common shares	130,361,273	133,112,568	131,361,464	133,144,766
Increase in weighted average common shares from dilutive effect of equity-based awards	1,949,937	3,082,351	2,088,210	2,729,764
Diluted - weighted average common shares, assuming exercise of equity-based awards	132,311,210	136,194,919	133,449,674	135,874,530
Basic earnings per share	\$ 2.39	\$ 0.42	\$ 5.23	\$ 2.57
Diluted earnings per share	\$ 2.36	\$ 0.41	\$ 5.15	\$ 2.51

For the three months ended December 31, 2018 and 2017, 1,335,187 and 3,245 common shares subject to equity-based awards, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive. For the six months ended December 31, 2018 and 2017, 836,099 and 706,512 common shares subject to equity-based awards, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

5. Share repurchase program

The Company has a program to repurchase its common shares. On October 22, 2014, the Board of Directors of the Company approved an increase in the overall number of shares authorized for repurchase under the program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 35 million. There is no limitation on the number of shares that can be repurchased in a fiscal year. There is no expiration date for this program. Repurchases may be funded primarily from operating cash flows and commercial paper borrowings and the shares are initially held as treasury shares. During the three-month period ended December 31, 2018, the Company repurchased 3,008,512 shares at an average price, including commissions, of \$166.20 per share. During the six-month period ended December 31, 2018, the Company repurchased 3,302,453 shares at an average price, including commissions, of \$166.54 per share.

6. Trade accounts receivable, net

Trade accounts receivable are initially recorded at their net collectible amount and are generally recorded at the time the revenue from the sales transaction is recorded. Receivables are written off to bad debt primarily when, in the judgment of the Company, the receivable is deemed to be uncollectible due to the insolvency of the debtor. Allowance for doubtful accounts was \$8,178 and \$9,672 at December 31, 2018 and June 30, 2018, respectively.

7. Non-trade and notes receivable

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

	December 31, 2018	June 30, 2018
Notes receivable	\$ 160,380	\$ 149,254
Accounts receivable, other	163,874	179,145
Total	\$ 324,254	\$ 328,399

8. Inventories

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

	December 31, 2018	June 30, 2018
Finished products	\$ 737,243	\$ 673,323
Work in process	866,357	765,835
Raw materials	200,964	182,146
Total	<u>\$ 1,804,564</u>	<u>\$ 1,621,304</u>

9. Business realignment charges

The Company incurred business realignment charges and acquisition integration costs in fiscal 2019 and fiscal 2018. The acquisition integration costs related to the fiscal 2017 acquisition of CLARCOR, Inc.

Business realignment charges and acquisition integration costs presented in the Business Segment Information are as follows:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Diversified Industrial	\$ 7,382	\$ 24,684	\$ 15,940	\$ 37,947
Aerospace Systems	—	692	—	1,455
Other expense	220	—	275	—

Work force reductions in connection with such business realignment charges and acquisition integration costs in the Business Segment Information are as follows:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Diversified Industrial	164	723	365	1,265
Aerospace Systems	—	19	—	56

The business realignment charges primarily consist of severance costs related to actions taken under the Company's simplification initiative aimed at reducing organizational and process complexity, as well as plant closures, with the majority of the charges incurred in Europe and North America. The Company believes the realignment actions will positively impact future results of operations but will not have a material effect on liquidity and sources and uses of capital.

The business realignment charges and acquisition integration costs are presented in the Consolidated Statement of Income as follows:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Cost of sales	\$ 3,669	\$ 13,657	\$ 8,068	\$ 22,772
Selling, general and administrative expenses	3,713	11,719	7,872	16,630
Other (income) expense, net	220	—	275	—

As of December 31, 2018, approximately \$7 million in severance payments had been made relating to business realignment charges and acquisition integration charges incurred during fiscal 2019, the remainder of which are expected to be paid by December 31, 2019. Severance payments relating to prior-year business realignment and acquisition integration actions are being made as required. Remaining severance payments related to current-year and prior-year business realignment actions of approximately \$18 million are primarily reflected within the other accrued liabilities caption in the Consolidated Balance Sheet. Additional charges may be recognized in future periods related to the business realignment and acquisition integration actions described above, the timing and amount of which are not known at this time.

10. Equity

Changes in equity for the three months ended December 31, 2018 and 2017 are as follows:

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Shares	Noncontrolling Interests	Total Equity
Balance at September 30, 2018	\$ 90,523	\$ 503,052	\$ 11,902,300	\$ (1,775,983)	\$ (4,618,512)	\$ 5,726	\$ 6,107,106
Net income			311,737			176	311,913
Other comprehensive income (loss)				(19,514)		55	(19,459)
Dividends paid (\$0.76 per share)			(99,589)				(99,589)
Stock incentive plan activity		18,802			2,393		21,195
Shares purchased at cost					(500,000)		(500,000)
Balance at December 31, 2018	\$ 90,523	\$ 521,854	\$ 12,114,448	\$ (1,795,497)	\$ (5,116,119)	\$ 5,957	\$ 5,821,166

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Shares	Noncontrolling Interests	Total Equity
Balance at September 30, 2017	\$ 90,523	\$ 528,956	\$ 11,127,641	\$ (1,824,503)	\$ (4,397,677)	\$ 5,719	\$ 5,530,659
Net income			56,159			163	56,322
Other comprehensive income (loss)				56,775		(73)	56,702
Dividends paid (\$0.66 per share)			(88,083)				(88,083)
Stock incentive plan activity		5,047			8,563		13,610
Shares purchased at cost					(50,000)		(50,000)
Balance at December 31, 2017	\$ 90,523	\$ 534,003	\$ 11,095,717	\$ (1,767,728)	\$ (4,439,114)	\$ 5,809	\$ 5,519,210

Changes in equity for the six months ended December 31, 2018 and 2017 are as follows:

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Shares	Noncontrolling Interests	Total Equity
Balance at June 30, 2018	\$ 90,523	\$ 496,592	\$ 11,625,975	\$ (1,763,086)	\$ (4,590,138)	\$ 5,627	\$ 5,865,493
Impact of adoption of accounting standards			1,483	(1,734)			(251)
Net income			687,448			364	687,812
Other comprehensive (loss)				(30,677)		(34)	(30,711)
Dividends paid (\$1.52 per share)			(200,458)				(200,458)
Stock incentive plan activity		25,262			24,019		49,281
Shares purchased at cost					(550,000)		(550,000)
Balance at December 31, 2018	\$ 90,523	\$ 521,854	\$ 12,114,448	\$ (1,795,497)	\$ (5,116,119)	\$ 5,957	\$ 5,821,166

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Shares	Noncontrolling Interests	Total Equity
Balance at June 30, 2017	\$ 90,523	\$ 543,879	\$ 10,930,348	\$ (1,924,204)	\$ (4,378,897)	\$ 5,697	\$ 5,267,346
Net income			341,556			301	341,857
Other comprehensive income (loss)				156,476		(160)	156,316
Dividends paid (\$1.32 per share)			(176,187)				(176,187)
Stock incentive plan activity		(9,876)			39,783		29,907
Acquisition activity						(29)	(29)
Shares purchased at cost					(100,000)		(100,000)
Balance at December 31, 2017	\$ 90,523	\$ 534,003	\$ 11,095,717	\$ (1,767,728)	\$ (4,439,114)	\$ 5,809	\$ 5,519,210

Changes in accumulated other comprehensive (loss) in shareholders' equity by component for the six months ended December 31, 2018 and 2017 are as follows:

	Foreign Currency Translation Adjustment and Other	Retirement Benefit Plans	Total
Balance at June 30, 2018	\$ (943,477)	\$ (819,609)	\$ (1,763,086)
Impact of adoption of ASU 2016-01	(1,734)	—	(1,734)
Other comprehensive loss before reclassifications	(82,655)	—	(82,655)
Amounts reclassified from accumulated other comprehensive (loss)	3,578	48,400	51,978
Balance at December 31, 2018	<u>\$ (1,024,288)</u>	<u>\$ (771,209)</u>	<u>\$ (1,795,497)</u>

	Foreign Currency Translation Adjustment and Other	Retirement Benefit Plans	Total
Balance at June 30, 2017	\$ (925,342)	\$ (998,862)	\$ (1,924,204)
Other comprehensive income before reclassifications	101,429	—	101,429
Amounts reclassified from accumulated other comprehensive (loss)	—	55,047	55,047
Balance at December 31, 2017	<u>\$ (823,913)</u>	<u>\$ (943,815)</u>	<u>\$ (1,767,728)</u>

Significant reclassifications out of accumulated other comprehensive (loss) in shareholders' equity for the three and six months ended December 31, 2018 and 2017 are as follows:

Details about Accumulated Other Comprehensive (Loss) Components	Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss)		Consolidated Statement of Income Classification
	Three Months Ended	Six Months Ended	
	December 31, 2018	December 31, 2018	
Retirement benefit plans			
Amortization of prior service cost and initial net obligation	\$ (1,652)	\$ (3,293)	Other (income) expense, net
Recognized actuarial loss	(30,696)	(59,993)	Other (income) expense, net
Total before tax	(32,348)	(63,286)	
Tax benefit	7,821	14,886	
Net of tax	<u>\$ (24,527)</u>	<u>\$ (48,400)</u>	

Details about Accumulated Other Comprehensive (Loss) Components	Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss)		Consolidated Statement of Income Classification
	Three Months Ended	Six Months Ended	
	December 31, 2017	December 31, 2017	
Retirement benefit plans			
Amortization of prior service cost and initial net obligation	\$ (1,545)	\$ (3,683)	Other (income) expense, net
Recognized actuarial loss	(35,929)	(74,960)	Other (income) expense, net
Total before tax	(37,474)	(78,643)	
Tax benefit	9,162	23,596	
Net of tax	<u>\$ (28,312)</u>	<u>\$ (55,047)</u>	

11. Goodwill and intangible assets

The changes in the carrying amount of goodwill for the six months ended December 31, 2018 are as follows:

	Diversified Industrial Segment	Aerospace Systems Segment	Total
Balance at June 30, 2018	\$ 5,405,771	\$ 98,649	\$ 5,504,420
Acquisition	2,940	—	2,940
Foreign currency translation and other	(44,799)	(6)	(44,805)
Balance at December 31, 2018	\$ 5,363,912	\$ 98,643	\$ 5,462,555

The acquisition line represents the goodwill allocation during the measurement period subsequent to the applicable acquisition date.

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

	December 31, 2018		June 30, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 261,548	\$ 123,194	\$ 265,423	\$ 117,440
Trademarks	542,931	238,962	546,905	227,580
Customer lists and other	2,440,534	999,032	2,482,079	933,867
Total	\$ 3,245,013	\$ 1,361,188	\$ 3,294,407	\$ 1,278,887

Total intangible amortization expense for the six months ended December 31, 2018 was \$105,090. The estimated amortization expense for the five years ending June 30, 2019 through 2023 is \$196,130, \$185,468, \$180,870, \$175,010 and \$167,513, respectively.

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their net carrying value. No material intangible asset impairments occurred during the six months ended December 31, 2018.

12. Retirement benefits

Net pension benefit cost recognized included the following components:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Service cost	\$ 17,983	\$ 18,242	\$ 38,492	\$ 41,300
Interest cost	40,551	36,138	80,417	71,824
Expected return on plan assets	(62,701)	(65,350)	(125,578)	(128,526)
Amortization of prior service cost	1,677	1,511	3,325	3,615
Amortization of net actuarial loss	30,692	35,468	59,985	74,150
Amortization of initial net obligation	4	5	9	10
Net pension benefit cost	\$ 28,206	\$ 26,014	\$ 56,650	\$ 62,373

During the three months ended December 31, 2018 and 2017, the Company recognized \$631 and \$1,091, respectively, in expense related to other postretirement benefits. During the six months ended December 31, 2018 and 2017, the Company recognized \$1,281 and \$2,180, respectively, in expense related to other postretirement benefits. Components of net pension benefit cost and other postretirement benefit cost, other than service cost, are included in other (income) expense, net in the Consolidated Statement of Income.

In September 2018, the Company made a discretionary \$200 million cash contribution to its domestic qualified defined benefit plan.

13. Income taxes

On December 22, 2017, the TCJ Act was enacted into law. The TCJ Act significantly reforms the Internal Revenue Code of 1986, as amended, by among other things, establishing a flat corporate income tax rate of 21 percent and creating a territorial tax system (with a one-time transition tax imposed on previously undistributed foreign earnings and profits).

The Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) 118, which provided guidance on accounting for the tax effects of the TCJ Act. SAB 118 provided a measurement period that should not extend beyond one year from the TCJ Act's enactment date for companies to complete the applicable accounting under Topic 740. In accordance with SAB 118, and based on the information available, the Company recorded additional tax expense of \$14,485 related to the estimated one-time transition tax during the three months ended December 31, 2018. This adjustment is a result of the Company's analysis of related proposed regulations that were issued subsequent to the recording of the previous provisional amount. The company now considers its provisional accounting for the effects of the TCJ Act, which includes the remeasurement of deferred tax balances and related valuation allowances, the one-time transition tax and the repatriation of undistributed foreign earnings, as being complete and as meeting the recognition guidance under Topic 740. The Company is in the process of evaluating the final transition tax regulations that were published on January 16, 2019.

During the period ended September 30, 2018, the Company made the accounting policy election to treat taxes related to Global Intangible Low-Taxed Income as a current period expense when incurred.

The Company and its subsidiaries file income tax returns in the United States and in various foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is open to assessment of its federal income tax returns by the U.S. Internal Revenue Service for fiscal years after 2011, and its state and local returns for fiscal years after 2012. The Company is also open to assessment for foreign jurisdictions for fiscal years after 2009. Unrecognized tax benefits reflect the difference between positions taken or expected to be taken on income tax returns and the amounts reflected in the financial statements.

As of December 31, 2018, the Company had gross unrecognized tax benefits of \$146,632, all of which, if recognized, would affect the effective tax rate. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, is \$23,411. It is reasonably possible that within the next 12 months the amount of gross unrecognized tax benefits could be reduced by up to approximately \$110,000 as a result of the revaluation of existing uncertain tax positions arising from developments in the examination process or the closure of tax statutes. Any increase in the amount of gross unrecognized tax benefits within the next 12 months is expected to be insignificant.

14. Financial instruments

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

Marketable securities and other investments include deposits, equity investments and available-for-sale debt securities. Deposits are recorded at cost, and equity investments and available-for-sale debt securities are recorded at fair value. Changes in fair value related to available-for-sale debt securities are recorded in accumulated other comprehensive (loss). Upon the adoption of ASU 2016-01 on July 1, 2018, changes in fair value of equity investments are recognized in net income. Prior to the adoption of ASU 2016-01, these changes in fair value were recognized in accumulated other comprehensive (loss).

Gross unrealized gains and losses related to both equity investments and available-for-sale debt securities were not material as of December 31, 2018 and June 30, 2018. There were no facts or circumstances that indicated the unrealized losses were other than temporary.

The contractual maturities of available-for-sale debt securities were predominantly one to three years at December 31, 2018 and June 30, 2018. Actual maturities of available-for-sale debt securities may differ from their contractual maturities as the Company has the ability to liquidate the available-for-sale debt securities after giving appropriate notice to the issuer.

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

	December 31, 2018	June 30, 2018
Carrying value of long-term debt	\$ 4,343,138	\$ 4,460,402
Estimated fair value of long-term debt	4,383,759	4,548,796

The fair value of long-term debt is classified within level 2 of the fair value hierarchy.

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

The Company's €700 million aggregate principal amount of Senior Notes due 2025 have been designated as a hedge of the Company's net investment in certain foreign subsidiaries. The translation of the Senior Notes due 2025 into U.S. dollars is recorded in accumulated other comprehensive (loss) and remains there until the underlying net investment is sold or substantially liquidated.

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

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

Balance Sheet Caption	December 31, 2018	June 30, 2018
Net investment hedges		
Cross-currency swap contracts	Other assets \$ 17,126	\$ 7,614
Cash flow hedges		
Costless collar contracts	Non-trade and notes receivable 278	932
Costless collar contracts	Other accrued liabilities 4,553	236

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

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

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

Gains or losses on derivative financial instruments that were recorded in the Consolidated Statement of Income for the three and six months ended December 31, 2018 and 2017 were not material.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Cross-currency swap contracts	\$ 5,700	\$ (2,725)	\$ 7,619	\$ (9,298)
Foreign denominated debt	7,144	(10,893)	11,271	(27,727)

There was no ineffectiveness of the cross-currency swap contracts or foreign denominated debt, nor was any portion of these financial instruments excluded from the effectiveness testing, during the six months ended December 31, 2018 and 2017.

A summary of financial assets and liabilities that were measured at fair value on a recurring basis at December 31, 2018 and June 30, 2018 are as follows:

	Fair Value at December 31, 2018	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity securities	\$ 12,988	\$ 12,988	\$ —	\$ —
Corporate bonds	4,859	4,859	—	—
Asset-backed and mortgage-backed securities	6,046	—	6,046	—
Derivatives	21,377	—	21,377	—
Investments measured at net asset value	7,064			
Liabilities:				
Derivatives	15,856	—	15,856	—
Assets:				
	Fair Value at June 30, 2018	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 2,956	\$ 2,956	\$ —	\$ —
Corporate bonds	5,331	5,331	—	—
Asset-backed and mortgage-backed securities	3,911	—	3,911	—
Derivatives	14,110	—	14,110	—
Investments measured at net asset value	7,208			
Liabilities:				
Derivatives	5,315	—	5,315	—

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

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

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

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

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

PARKER-HANNIFIN CORPORATION
FORM 10-Q
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2018
AND COMPARABLE PERIODS ENDED DECEMBER 31, 2017

OVERVIEW

The Company is a leading worldwide diversified manufacturer of motion and control technologies and systems, providing precision engineered solutions for a wide variety of mobile, industrial and aerospace markets.

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

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

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

	December 31, 2018	June 30, 2018	December 31, 2017
United States	54.1	60.2	59.7
Eurozone countries	51.4	54.9	60.6
China	49.7	51.0	51.5
Brazil	52.6	49.8	52.4

Global aircraft miles flown increased by approximately six percent, and available revenue passenger miles increased by approximately seven percent from their comparable fiscal 2018 levels. The Company anticipates that U.S. Department of Defense spending with regard to appropriations and operations and maintenance for the U.S. Government's fiscal year 2019 will be approximately nine percent higher than the comparable fiscal 2018 level.

Housing starts in November 2018 were approximately five percent higher than housing starts in December 2017 and approximately seven percent higher than housing starts in June 2018. United States Census Bureau housing starts data for November 2018 was used as the December 2018 data was unavailable.

The Company believes many opportunities for profitable growth are available. The Company intends to focus primarily on business opportunities in the areas of energy, water, food, environment, defense, life sciences, infrastructure and transportation. The Company believes it can meet its strategic objectives by:

- Serving the customer and continuously enhancing its experience with the Company;
- Successfully executing its Win Strategy initiatives relating to engaged people, premier customer experience, profitable growth and financial performance;
- Maintaining its decentralized division and sales company structure;
- Fostering a safety first and entrepreneurial culture;
- Engineering innovative systems and products to provide superior customer value through improved service, efficiency and productivity;
- Delivering products, systems and services that have demonstrable savings to customers and are priced by the value they deliver;
- Acquiring strategic businesses;
- Organizing around targeted regions, technologies and markets;
- Driving efficiency by implementing lean enterprise principles; and
- Creating a culture of empowerment through its values, inclusion and diversity, accountability and teamwork.

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

The discussion below is structured to separately discuss the Consolidated Statement of Income, Results by Business Segment, Consolidated Balance Sheet and Consolidated Statement of Cash Flows.

CONSOLIDATED STATEMENT OF INCOME

(dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net sales	\$ 3,472.0	\$ 3,370.7	\$ 6,951.3	\$ 6,735.3
Gross profit margin	25.0%	23.9%	25.2%	24.5%
Selling, general and administrative expenses	\$ 397.3	\$ 408.3	\$ 791.6	\$ 805.3
Selling, general and administrative expenses, as a percent of sales	11.4%	12.1%	11.4%	12.0%
Interest expense	\$ 47.5	\$ 53.1	\$ 91.9	\$ 106.7
Other (income) expense, net	\$ (6.2)	\$ (15.5)	\$ (20.1)	\$ 1.0
Effective tax rate	27.7%	84.4%	22.8%	53.5%
Net income	\$ 311.9	\$ 56.3	\$ 687.8	\$ 341.9
Net income, as a percent of sales	9.0%	1.7%	9.9%	5.1%

Net sales for the current-year quarter and first six months of fiscal 2019 increased compared to the comparable prior-year periods primarily due to higher sales in the Diversified Industrial North American businesses and the Aerospace Systems Segment. The effect of currency rate changes decreased net sales by approximately \$73 million in the current-year quarter (\$67 million of which was attributable to the Diversified Industrial International businesses) and \$130 million for the first six months of fiscal 2019 (\$118 million of which was attributable to the Diversified Industrial International businesses).

Gross profit margin (calculated as net sales minus cost of sales, divided by net sales) increased in the current-year quarter and the first six months of fiscal 2019 primarily due to higher margins in the Aerospace Systems Segment driven by increased aftermarket and original equipment manufacturer (OEM) volume and profitability. Diversified Industrial Segment margins remained relatively flat for the current-year quarter and first six months of fiscal 2019. Cost of sales for the current-year quarter and prior-year quarter also included business realignment charges and acquisition integration costs of \$3.7 million and \$13.7 million, respectively, and \$8.1 million and \$22.8 million for the first six months of fiscal 2019 and 2018, respectively.

Selling, general and administrative expenses decreased for the current-year quarter and the first six months of fiscal 2019 primarily due to the benefits from prior-year restructuring activities and the Company's simplification initiative. These benefits were partially offset by higher net expense associated with the Company's deferred compensation programs due to unfavorable market fluctuations related to investments associated with these programs more than offsetting favorable changes in the related liabilities. Selling, general and administrative expenses for the current-year quarter and prior-year quarter also included business realignment charges and acquisition integration costs of \$3.7 million and \$11.7 million, respectively, and \$7.9 million and \$16.6 million for the first six months of fiscal 2019 and 2018, respectively.

Interest expense for the current-year quarter and first six months of fiscal 2019 decreased from the comparable prior-year periods due to lower average debt outstanding.

Other (income) expense, net included the following:

(dollars in millions) Expense (income)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Income related to equity method investments	\$ (23.0)	\$ (11.5)	\$ (45.8)	\$ (18.5)
Non-service components of retirement benefit cost	10.8	8.7	19.3	23.0
Divestitures and asset sales and writedowns	5.4	(26.0)	4.5	(26.2)
Sale and writedown of investments	—	20.0	—	33.8
Other items, net	0.6	(6.7)	1.9	(11.1)
	<u>\$ (6.2)</u>	<u>\$ (15.5)</u>	<u>\$ (20.1)</u>	<u>\$ 1.0</u>

Effective tax rate for the current-year quarter and the first six months of fiscal 2019 was lower than the comparable prior-year periods primarily due to a net decrease in discrete tax costs resulting from the enactment of the U.S Tax Cuts and Jobs Act (TCJ Act) that were recorded in the prior year periods. The Company expects the fiscal 2019 effective tax rate will be approximately 23.5 percent.

RESULTS BY BUSINESS SEGMENT

Diversified Industrial Segment

(dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net sales				
North America	\$ 1,632.1	\$ 1,565.4	\$ 3,313.1	\$ 3,160.1
International	1,223.7	1,255.6	2,457.4	2,494.3
Operating income				
North America	257.8	225.8	532.9	481.8
International	\$ 189.1	\$ 164.8	\$ 395.2	\$ 356.6
Operating margin				
North America	15.8%	14.4%	16.1%	15.2%
International	15.5%	13.1%	16.1%	14.3%
Backlog	\$ 2,161.2	\$ 2,140.9	\$ 2,161.2	\$ 2,140.9

The Diversified Industrial Segment operations experienced the following percentage changes in net sales in the current-year period versus the comparable prior-year period:

	Period Ending December 31, 2018	
	Three Months	Six Months
Diversified Industrial North America – as reported	4.3 %	4.8 %
Divestitures	(0.4)%	(0.4)%
Currency	(0.3)%	(0.4)%
Diversified Industrial North America – without divestitures and currency	5.0 %	5.6 %
Diversified Industrial International – as reported	(2.5)%	(1.5)%
Divestitures	(0.8)%	(0.9)%
Currency	(5.3)%	(4.7)%
Diversified Industrial International – without divestitures and currency	3.6 %	4.1 %
Total Diversified Industrial Segment – as reported	1.2 %	2.1 %
Divestitures	(0.6)%	(0.6)%
Currency	(2.6)%	(2.3)%
Total Diversified Industrial Segment – without divestitures and currency	4.4 %	5.0 %

The above presentation reconciles the percentage changes in net sales of the Diversified Industrial Segment reported in accordance with U.S. GAAP to percentage changes in net sales adjusted to remove the effects of divestitures made within the prior four fiscal quarters as well as the effects of currency exchange rates (a non-GAAP measure). The effects of divestitures and currency exchange rates are removed to allow investors and the Company to meaningfully evaluate the percentage changes in net sales on a comparable basis from period to period.

Excluding the effects of divestitures and changes in currency exchange rates, Diversified Industrial North American sales increased for the current-year quarter and first six months of fiscal 2019 primarily due to higher demand from distributors and end-users in the heavy-duty truck, engines, construction equipment, cars and light truck, farm and agricultural equipment, refrigeration and general industrial machinery markets, partially offset by lower demand from end users in the semiconductor, machine tool, oil and gas and power generation markets.

Excluding the effects of divestitures and changes in currency exchange rates, Diversified Industrial International sales for the current-year quarter and first six months of fiscal 2019 increased primarily due to higher demand from distributors and end users in the mobile markets. The increase in sales for the current year quarter is primarily due to a 45 percent increase in both Europe and the Asia Pacific region. The Asia Pacific region accounted for 50 percent of the increase in sales for the first six months of fiscal 2019, while Europe and Latin America contributed 30 percent and 20 percent, respectively. Within the Asia Pacific region, the increase in sales in the current-year quarter and first six months of fiscal 2019 was primarily experienced from distributors and end users in the construction equipment and oil and gas markets, partially offset by lower end-user demand in the general industrial machinery and semiconductor markets. Within Europe, distributors and end users in the construction equipment, heavy-duty truck, industrial trucks and material handling, and telecommunications markets experienced the largest increase in demand during both the current-year quarter and first six months of fiscal 2019, which was partially offset by lower end-user demand in the cars and light truck and general industrial machinery markets. The increase in sales in Latin America for the current-year quarter and first six months of fiscal 2019 was primarily due to higher demand from distributors and end users in the construction equipment and farm and agricultural equipment markets, partially offset by lower end-user demand in the industrial machinery market.

Operating margins in both the Diversified Industrial North American and International businesses for the current-year quarter and first six months of fiscal 2019 increased due to higher sales volume, lower operating expenses resulting from prior-year business realignment and acquisition integration activities and the Company's simplification initiative, and lower restructuring expenses in the current year. In both businesses these benefits were partially offset by increased manufacturing expenses associated with higher sales volume.

The following business realignment expenses and acquisition integration costs are included in Diversified Industrial North American and Diversified Industrial International operating income:

(dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Diversified Industrial North America	\$ 3.8	\$ 11.0	\$ 8.5	\$ 20.8
Diversified Industrial International	3.6	13.7	7.4	17.2

The business realignment charges primarily consist of severance costs related to actions taken under the Company's simplification initiative implemented by operating units throughout the world as well as plant closures. The majority of the Diversified Industrial International business realignment charges were incurred in Europe. The Company anticipates that cost savings realized from the work force reduction measures taken in the first six months of fiscal 2019 will not materially impact operating income in fiscal 2019 or fiscal 2020. Acquisition integration costs primarily relate to the integration of the fiscal 2017 acquisition of CLARCOR Inc. and are primarily incurred in the Diversified Industrial North American businesses. The Company expects to continue to take the actions necessary to structure appropriately the operations of the Diversified Industrial Segment. Such actions are expected to result in approximately \$19 million of additional business realignment charges and acquisition integration costs in the remainder of fiscal 2019.

Diversified Industrial Segment backlog as of December 31, 2018 increased slightly from the prior-year quarter primarily due to orders exceeding shipments in the Diversified Industrial North American businesses, partially offset by shipments exceeding orders in the Diversified Industrial International businesses. Within the International businesses, backlog in Europe represented 95 percent of the decrease from the prior-year quarter.

As of December 31, 2018, Diversified Industrial Segment backlog remained relatively flat compared to the June 30, 2018 amount of \$2,167.2 million due to orders exceeding shipments in the International businesses offset by shipments exceeding orders in the North American businesses. Within the International businesses, orders exceeding shipments in Europe and Latin America were partially offset by shipments exceeding orders in the Asia Pacific region.

Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale.

The Company anticipates Diversified Industrial North American sales for fiscal 2019 will increase between 1.4 percent and 3.9 percent from their fiscal 2018 level, and Diversified Industrial International sales for fiscal 2019 will decrease between 4.9 percent and 2.5 percent from their fiscal 2018 level. Diversified Industrial North American operating margins in fiscal 2019 are expected to range from 16.6 percent to 17.2 percent, and Diversified Industrial International operating margins in fiscal 2019 are expected to range from 15.7 percent to 16.1 percent.

Aerospace Systems Segment

(dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net sales	\$ 616.3	\$ 549.7	\$ 1,180.8	\$ 1,080.9
Operating income	\$ 121.5	\$ 87.1	\$ 231.3	\$ 164.6
Operating margin	19.7%	15.9%	19.6%	15.2%
Backlog	\$ 2,047.9	\$ 1,820.9	\$ 2,047.9	\$ 1,820.9

The increase in net sales in the Aerospace Systems Segment for the current-year quarter and first six months of fiscal 2019 was primarily due to higher volume in the commercial and military aftermarket businesses as well as the commercial and military OEM businesses. The higher operating margin for the current-year quarter and first six months was primarily due to higher aftermarket and OEM volume and profitability, higher joint venture earnings, lower engineering and development costs, and lower operating costs. Operating margins in the first six months of fiscal 2019 also benefited from the absence of unfavorable contract settlements that occurred in the comparable prior-year period.

The increase in backlog from the prior-year quarter is due to orders exceeding shipments within the commercial and military OEM and commercial and military aftermarket businesses. The increase in backlog from the June 30, 2018 amount of \$1,954.0 million is primarily due to orders exceeding shipments within the military OEM and commercial and military aftermarket businesses, partially offset by shipments exceeding orders in the commercial OEM business. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale.

For fiscal 2019, sales are expected to increase between 4.5 percent and 6.6 percent from the fiscal 2018 level and operating margins are expected to range from 18.9 percent to 19.3 percent. A higher concentration of commercial OEM volume in future product mix and higher than expected new product development costs could result in lower margins.

Corporate general and administrative expenses

Corporate general and administrative expenses were \$63.9 million in the current-year quarter compared to \$46.9 million in the comparable prior-year quarter and were \$114.2 million for the first six months of fiscal 2019 compared to \$88.3 million for the first six months of fiscal 2018. As a percent of sales, corporate general and administrative expenses were 1.8 percent and 1.4 percent in the current-year and prior-year quarter, respectively. During the first six months of fiscal 2019 and 2018, Corporate general and administrative expenses were 1.6 percent and 1.3 percent of sales, respectively. Corporate general and administrative expenses increased during the current-year quarter and first six months of fiscal 2019 from the respective prior-year periods primarily due to unfavorable market fluctuations related to investments associated with the Company's deferred compensation program more than offsetting favorable changes in the related liabilities.

Other expense (in the Results By Business Segment) included the following:

(dollars in millions)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Expense (income)				
Foreign currency transaction	\$ (1.0)	\$ 9.0	\$ 2.5	\$ 12.6
Stock-based compensation	8.2	9.5	36.7	35.4
Pensions	4.9	4.4	10.2	12.9
Divestitures and asset sales and writedowns	5.4	(26.0)	4.5	(26.2)
Sale and writedown of investments	—	20.0	—	33.8
Other items, net	8.3	0.6	8.5	5.0
	<u>\$ 25.8</u>	<u>\$ 17.5</u>	<u>\$ 62.4</u>	<u>\$ 73.5</u>

Foreign currency transaction primarily relates to the impact of changes in foreign exchange rates on cash, marketable securities and other investments and intercompany transactions.

CONSOLIDATED BALANCE SHEET

(dollars in millions)	December 31, 2018	June 30, 2018
Cash	\$ 1,078.3	\$ 855.1
Trade accounts receivable, net	1,938.7	2,145.5
Inventories	1,804.6	1,621.3
Shareholders' equity	5,815.2	5,859.9
Working capital	1,825.8	1,887.8
Current ratio	1.52	1.59

Cash (comprised of cash and cash equivalents and marketable securities and other investments) includes \$994 million and \$836 million held by the Company's foreign subsidiaries at December 31, 2018 and June 30, 2018, respectively. As a result of the TCJ Act, the prior worldwide tax system was replaced by a territorial tax system, which generally allows companies to repatriate future foreign source earnings without incurring additional U.S. federal taxes. However, other U.S. or foreign taxes may be incurred should cash be distributed between the Company's subsidiaries. The Company has determined it will no longer permanently reinvest certain foreign earnings. All other undistributed foreign earnings remain permanently reinvested.

Trade accounts receivable, net are receivables due from customers for sales of product. Days sales outstanding relating to trade accounts receivable was 52 days at December 31, 2018, and 51 days at June 30, 2018. The Company believes that its receivables are collectible and appropriate allowances for doubtful accounts have been recorded.

Inventories as of December 31, 2018 increased \$183 million due to an increase in inventories in both the Diversified Industrial and Aerospace Systems Segments, partially offset by a decrease of \$13 million related to the effect of foreign currency translation. Within the Diversified Industrial Segment, approximately 65 percent of the increase in inventories occurred in the Diversified Industrial North American businesses, and approximately 35 percent of the increase occurred in the Diversified Industrial International businesses. Days supply of inventory was 77 days at December 31, 2018, 64 days at June 30, 2018 and 78 days at December 31, 2017.

Shareholders' equity activity during the first six months of fiscal 2019 included a decrease of approximately \$550 million as a result of share repurchases and a decrease of approximately \$79 million as a result of foreign currency translation.

CONSOLIDATED STATEMENT OF CASH FLOWS

(dollars in millions)	Six Months Ended December 31,	
	2018	2017
Cash provided by (used in):		
Operating activities	\$ 541.0	\$ 456.8
Investing activities	(31.3)	(141.8)
Financing activities	(260.0)	(182.8)
Effect of exchange rates	(24.5)	7.8
Net increase in cash and cash equivalents	\$ 225.2	\$ 140.0

Cash flows from operating activities for the first six months of fiscal 2019 was higher than the first six months of fiscal 2018 primarily due to an increase in net income and cash provided by working capital items, partially offset by a \$200 million discretionary cash contribution to the Company's domestic qualified defined benefit plan. The Company continues to focus on managing its inventory and other working capital requirements.

Cash flows from investing activities includes net maturities (purchases) of marketable securities and other investments of \$12 million and \$(66) million in the first six months of fiscal 2019 and 2018, respectively. Cash flows from investing activities also includes \$94 million of capital expenditures during the first six months of fiscal 2019 compared to \$145 million of capital expenditures during first six months of fiscal 2018.

Cash flows from financing activities for the first six months of fiscal 2019 includes net commercial paper borrowings of \$606 million compared to net borrowings of \$139 million in the first six months of fiscal 2018. During the first six months of fiscal 2019, the Company also repaid \$100 million of long-term debt. Cash flows from financing activities includes repurchase activity under the Company's share repurchase program. The Company repurchased 3.3 million common shares for \$550 million in the first six months of fiscal 2019 compared to the repurchase of 0.6 million common shares for \$100 million in the first six months of fiscal 2018.

The Company's goal is to have no less than an "A" rating on senior debt to ensure availability and reasonable cost of external funds. In periods following significant capital deployment, including for share repurchases or acquisitions, certain of the ratings assigned to the Company's senior debt may be, and at December 31, 2018 was, lower than the stated goal. The Company does not presently believe that its ability to borrow funds in the future at desirable tenors and affordable interest rates will be impacted if certain of its ratings are temporarily below an "A" level at the time of such borrowings. At December 31, 2018, the long-term credit ratings assigned to the Company's senior debt securities by the credit rating agencies engaged by the Company were as follows:

Fitch Ratings	A-
Moody's Investor Services, Inc.	Baa1
Standard & Poor's	A

At December 31, 2018, the Company had a line of credit totaling \$2,000 million through a multi-currency revolving credit agreement with a group of banks, \$859 million of which was available. The credit agreement expires in October 2021; however, the Company has the right to request a one-year extension of the expiration date on an annual basis, which request may result in changes to the current terms and conditions of the credit agreement. Advances from the credit agreement can be used for general corporate purposes, including acquisitions, and for the refinancing of existing indebtedness. The credit agreement requires the payment of an annual facility fee, the amount of which may increase in the event the Company's credit ratings are lowered. Although a lowering of the Company's credit ratings would likely increase the cost of future debt, it would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

As of December 31, 2018, the Company was authorized to sell up to \$2,000 million of short-term commercial paper notes. As of December 31, 2018, \$1,141 million of commercial paper notes were outstanding, and the largest amount of commercial paper notes outstanding during the current-year quarter was \$1,233 million.

The Company's credit agreements and indentures governing certain debt securities contain various covenants, the violation of which would limit or preclude the use of the credit agreements for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. Based on the Company's rating level at December 31, 2018, the most restrictive financial covenant provides that the ratio of debt to debt-shareholders' equity cannot exceed .60 to 1.0. At December 31, 2018, the Company's debt to debt-shareholders' equity ratio was .49 to 1.0. The Company is in compliance with all covenants and expects to remain in compliance during the term of the credit agreements and indentures.

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. These statements may be identified from the use of forward-looking terminology such as “anticipates,” “believes,” “may,” “should,” “could,” “potential,” “continues,” “plans,” “forecasts,” “estimates,” “projects,” “predicts,” “would,” “intends,” “anticipates,” “expects,” “targets,” “is likely,” “will,” or the negative of these terms and similar expressions, and include all statements regarding future performance, earnings projections, events or developments. It is possible that the future performance and earnings projections of the Company, including its individual segments, may differ materially from current expectations, depending on economic conditions within its mobile, industrial and aerospace markets, and the Company’s ability to maintain and achieve anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins, actions taken to combat the effects of the current economic environment, and growth, innovation and global diversification initiatives. Additionally, the actual impact of the TCJ Act on future performance and earnings projections may change based on subsequent judicial or regulatory interpretations of the TCJ Act that impact the Company’s tax calculations. A change in the economic conditions in individual markets may have a particularly volatile effect on segment performance.

Among other factors which may affect future performance are:

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

The Company makes these statements as of the date of this disclosure, and undertakes no obligation to update them unless otherwise required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value. Further information on the fair value of these contracts is provided in Note 14 to the Consolidated Financial Statements. Gains or losses on derivatives that are not hedges are adjusted to fair value through the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings. The translation of the foreign denominated debt that has been designated as a net investment hedge is recorded in accumulated other comprehensive (loss) and remains there until the underlying net investment is sold or substantially liquidated.

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company's objective is to maintain a 60/40 mix between fixed rate and variable rate debt thereby limiting its exposure to changes in near-term interest rates.

ITEM 4. 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 December 31, 2018. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of December 31, 2018, the Company's disclosure controls and procedures were effective.

There was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2018 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (a) **Unregistered Sales of Equity Securities.** Not applicable.
 (b) **Use of Proceeds.** Not applicable.
 (c) **Issuer Purchases of Equity Securities.**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1, 2018 through October 31, 2018	107,400	\$ 167.35	107,400	15,200,752
November 1, 2018 through November 30, 2018	2,801,208	\$ 166.53	2,801,208	12,399,544
December 1, 2018 through December 31, 2018	99,904	\$ 155.00	99,904	12,299,640
Total:	<u>3,008,512</u>		<u>3,008,512</u>	

- (1) On October 22, 2014, the Company publicly announced that the Board of Directors increased the overall maximum number of shares authorized for repurchase under the Company's share repurchase program, first announced on August 16, 1990, so that, beginning on October 22, 2014, the maximum aggregate number of shares authorized for repurchase was 35 million shares. There is no limitation on the amount of shares that can be repurchased in a fiscal year. There is no expiration date for this program.

ITEM 6. Exhibits.

The following documents are furnished as exhibits and are numbered pursuant to Item 601 of Regulation S-K:

Exhibit No.	Description of Exhibit
3(a)	<u>Regulations, Amended and Restated as of January 24, 2019.*</u>
10(a)	<u>Form of 2017 Parker-Hannifin Corporation Restricted Stock Unit Award Agreement.*</u>
10(b)	<u>Form of 2017 Parker-Hannifin Corporation Restricted Stock Unit Award Agreement.*</u>
10(c)	<u>Form of 2017 Parker-Hannifin Corporation Restricted Stock Unit Terms and Conditions for Awards Granted.*</u>
10(d)	<u>Form of 2018 Parker-Hannifin Corporation Stock Appreciation Rights Award Agreement.*</u>
10(e)	<u>2018 Parker-Hannifin Corporation Stock Appreciation Rights Terms and Conditions.*</u>
10(f)	<u>Form of Notice of Award under the Parker-Hannifin Corporation Long-Term Incentive Plan Under the Performance Bonus Plan, as Amended and Restated, effective as of January 1, 2019.*</u>
10(g)	<u>Parker-Hannifin Corporation Long-Term Incentive Performance Plan Under the Performance Bonus Plan, as Amended and Restated, effective as of January 1, 2019.*</u>
31(a)	<u>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.*</u>
31(b)	<u>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.*</u>
32	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. *</u>
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income for the three months ended December 31, 2018 and 2017, (ii) Consolidated Statement of Income for the six months ended December 31, 2018 and 2017, (iii) Consolidated Statement of Comprehensive Income for the three months ended December 31, 2018 and 2017, (iv) Consolidated Statement of Comprehensive Income for the six months ended December 31, 2018 and 2017, (v) Consolidated Balance Sheet at December 31, 2018 and June 30, 2018, (vi) Consolidated Statement of Cash Flows for the six months ended December 31, 2018 and 2017, and (vii) Notes to Consolidated Financial Statements for the six months ended December 31, 2018.

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 thereunto duly authorized.

PARKER-HANNIFIN CORPORATION
(Registrant)

/s/ Catherine A. Suever

Catherine A. Suever

Executive Vice President - Finance & Administration and
Chief Financial Officer

Date: February 7, 2019

Parker-Hannifin Corporation
Cleveland, Ohio
(An Ohio Corporation)

Regulations
Amended and Restated January 24,
2019



Article I.
MEETINGS OF SHAREHOLDERS

Section 1. Annual Meeting.

The annual meeting of shareholders for the election of Directors and the transaction of such other business as may properly be brought before the meeting shall be held on the fourth Wednesday in October of each year or on such other day during the fourth month following the end of the fiscal year of the Corporation, at such time during business hours and at such place, either within or without the State of Ohio, as may be designated by the Board of Directors and specified in the notice of such meeting.

Section 2. Special Meetings.

Special meetings of shareholders may be held on any business day, when called by the Chairman of the Board, the Chief Executive Officer, the President, or, in case of the President's absence, death or disability, the Vice President authorized to exercise the authority of the President, the Board of Directors acting at a meeting, a majority of the Directors acting without a meeting, or the persons who hold at least twenty-five percent of all the shares outstanding and entitled to vote thereat. Upon request in writing delivered either in person or by registered mail to the President or the Secretary by any persons entitled to call a meeting of shareholders, such officer shall forthwith cause to be given to the shareholders entitled thereto notice of a meeting to be held on a date not less than ten nor more than sixty days after receipt of the request, as such officer may fix. If such notice is not given within thirty days after the delivery or mailing, the persons calling the meeting may fix the time of the meeting and give notice thereof in the manner provided by law or as provided in these Regulations, or cause such notice to be given by any designated representative. Each special meeting shall be called to convene between 10:00 A.M. and 2:30 P.M. and shall be held at the principal office of the Corporation, unless the meeting is called by the Directors, acting with or without a meeting, in which case such meeting may be held at any place either within or without the State of Ohio, designated by the Board of Directors and specified in the notice of such meeting.

Section 3. Notice of Meeting.

Not less than ten nor more than sixty days before the date fixed for a meeting of shareholders, written notice stating the time, place and purposes of such meeting shall be given by or at the direction of the Secretary, or an Assistant Secretary, or any other person or persons required or permitted by these Regulations to give such notice. The notice shall be given by personal delivery, mail, or any other means of communication authorized by the applicable shareholder, to each shareholder entitled to notice of the meeting who is of record as of the day next preceding the day on which notice is given or, if a record date therefore is duly fixed, of record as of said date. If mailed, such notice shall be addressed to the shareholders at their respective addresses as they appear on the records of the Corporation.

Section 4. Quorum; Adjournment.



Except as may be otherwise provided by law or the Articles of Incorporation, at any meeting of shareholders, the shareholders present in person or by proxy shall constitute a quorum for such meeting, but no action required by law, the Articles of Incorporation, or these Regulations to be authorized or taken by the holders of a designated proportion of the shares of any particular class or of each class may be authorized or taken by a lesser proportion. The holders of a majority of the voting shares represented at a meeting, whether or not a quorum is present, may adjourn such meeting from time to time. If any meeting is adjourned, notice of such adjournment need not be given if the time and place to which such meeting is adjourned are fixed and announced at such meeting.

Section 5. Notice of Shareholder Proposals.

(a) Business to Be Conducted at Meetings. At an annual meeting of shareholders, only such business may be conducted as has been properly brought before the meeting. To be properly brought before an annual meeting of shareholders, business (other than the nomination of a person for election as a Director, which is governed by Article I, Section 6, and, to the extent applicable, Article I, Section 7 and Section 8) must be (i) brought before the meeting by or at the direction of the Board of Directors or (ii) otherwise properly brought before the meeting by a shareholder who (A) has complied with all applicable requirements of this Article I, Section 5 and Article I, Section 7 in relation to such business, (B) was a shareholder of record of the Corporation at the time of giving the notice and is a shareholder of record of the Corporation at the time of the meeting, and (C) is entitled to vote at the meeting. For the avoidance of doubt, the foregoing clause (ii) will be the exclusive means for a shareholder to submit business before an annual meeting of shareholders (other than proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934 (such act, and the rules and regulations promulgated thereunder, the “**Exchange Act**”), or any successor provision, and included in the notice of meeting given by or at the direction of the Board of Directors). Shareholders shall not be permitted to propose business to be brought before a special meeting of shareholders pursuant to this Article I, Section 5(a). Only the person or persons calling a special meeting of shareholders pursuant to Article I, Section 2 may properly bring business before a special meeting of shareholders; *provided* that business may be brought before a special meeting of shareholders by or at the direction of the Board of Directors, whether or not the Board of Directors has called the special meeting pursuant Article I, Section 2.

(b) Required Form for Shareholder Proposals. To properly bring business before an annual meeting of shareholders in accordance with this Article I, Section 5, a shareholder must deliver written notice to the Secretary of the Corporation that sets forth the following information, which must be updated and supplemented, if necessary, so that the information provided or required to be provided will be true and correct on the record date of the annual meeting and as of such date that is ten business days prior to the annual meeting or any adjournment or postponement thereof; which update shall be delivered to the Secretary of the Corporation promptly and, in no event, later than eight business days prior to the date of the meeting.

(i) Information Regarding the Proposing Person. As to each Proposing Person (as such term is defined in Article I, Section 7(d)(ii)):

(A) the name and address of such Proposing Person (provided that if the Proposing Person is a holder of record of shares of the Corporation, such Proposing Person shall provide its name as it appears on the Corporation's share transfer book);

(B) the class, series and number of shares of the Corporation directly or indirectly beneficially owned by such Proposing Person (including any shares of any class or series of the Corporation as to which such Proposing Person has a right to acquire beneficial ownership, whether such right is exercisable immediately or only after the passage of time) and which shares of the Corporation are held of record by the Proposing Person, if any;

(C) a representation (1) that the Proposing Person is a holder of record or beneficial owner of shares of the Corporation entitled to vote at the annual meeting of shareholders (provided that if the Proposing Person is not a holder of record of shares of the Corporation, such Proposing Person shall submit to the Corporation a written statement from the holder of record of its shares of the Corporation verifying that, at the time it delivered written notice pursuant to Article I, Section 5(b), it had continually held such shares for at least one year) and intends to appear at the annual meeting (either in person or by agent) to bring such business before the annual meeting and (2) as to whether the Proposing Person intends to deliver a proxy statement and form of proxy related to an applicable proposal to holders of at least the percentage of shares of the Corporation entitled to vote and required to approve the proposal and, if so, identifying such person;

(D) a description of any (1) option, warrant, convertible security, stock appreciation right or similar right or interest (including any derivative securities, as defined under Rule 16a-1 under the Exchange Act, or any successor provision, or other synthetic arrangement having characterization of a long position), either exercisable immediately or only after the passage of time, with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of securities of the Corporation or with a value derived in whole or in part from the value of any class or series of securities of the Corporation, whether or not such instrument or right is subject to settlement in whole or in part in the underlying class or series of securities of the Corporation or otherwise, directly or indirectly held of record or owned beneficially by such Proposing Person and whether or not such Proposing Person may have entered into transactions that hedge or mitigate the economic effects of such security or instrument and (2) each other direct or indirect right or interest that may enable such Proposing Person to profit or share in any profit derived from, or to manage the risk or benefit from, any increase or decrease in the value of the Corporation's securities, in each case regardless of whether (w) such right

or interest is exercisable immediately or only after the passage of time, (x) such right or interest conveys any voting rights in such security to such Proposing Person, (y) such right or interest is required to be, or is capable of being, settled through delivery of such security, or (z) such Proposing Person may have entered into other transactions that hedge the economic effect of any such right or interest (any such right or interest referred to in this clause (D) being a “**Derivative Interest**”);

(E) any proxy, contract, agreement, arrangement, understanding or relationship pursuant to which the Proposing Person has a right to vote any shares of the Corporation or that has the effect of increasing or decreasing the voting power of such Proposing Person;

(F) any contract, agreement, arrangement, understanding or relationship including any repurchase or similar so called “stock borrowing” agreement or arrangement, the purpose or effect of which is to mitigate loss, reduce economic risk or increase or decrease voting power with respect to any capital stock of the Corporation or that provides any party, directly or indirectly, the opportunity to profit from any decrease in the price or value of the capital stock of the Corporation;

(G) any material pending or threatened legal proceeding involving the Corporation, any affiliate of the Corporation or any of their respective directors or officers, to which such Proposing Person or its affiliates is a party;

(H) any rights directly or indirectly held of record or beneficially by the Proposing Person to dividends on the shares of the Corporation that are separated or separable from the underlying shares of the Corporation;

(I) any equity interests, including any convertible, derivative or short interests, in any principal competitor of the Corporation;

(J) any performance-related fees (other than an asset-based fee) to which the Proposing Person or any affiliate or immediate family member of the Proposing Person may be entitled as a result of any increase or decrease in the value of shares of the Corporation or Derivative Interests; and

(K) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required pursuant to Section 14(a) of the Exchange Act, or any successor provision, to be made in connection with a general solicitation of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting.

(ii) Information Regarding the Proposal: As to each item of business that the shareholder giving the notice proposes to bring before an annual meeting of shareholders:

(A) a description in reasonable detail of the business desired to be brought before the annual meeting of shareholders and the reasons why such shareholder or any other Proposing Person believes that the taking of the action or actions proposed to be taken would be in the best interests of the Corporation and its shareholders;

(B) a description in reasonable detail of any material interest of any Proposing Person in such business and a description in reasonable detail of all agreements, arrangements and understandings among Proposing Persons or between any Proposing Person and any other person or entity (including their names) in connection with such business; and

(C) the text of any proposal (including the text of any resolutions proposed for consideration) that the shareholder intends to present at the annual meeting.

(c) No Right to Have Proposal Included. A shareholder is not entitled to have a proposal included in the Corporation's proxy statement and form of proxy solely as a result of such shareholder's compliance with the provisions of this Article I, Section 5.

(d) Requirement to Attend Annual Meeting. If a shareholder does not appear at the annual meeting of shareholders to present its proposal (either in person or by agent), the Board of Directors may direct that the proposal not be presented (notwithstanding that proxies in respect of such proposal may have been solicited, obtained or delivered).

Section 6. Notice of Director Nominations.

(a) General Nomination of Directors. Subject to the rights, if any, of any series of Serial Preferred Stock to nominate or elect Directors, only persons who are nominated by or at the direction of the Board of Directors or in accordance with the procedures set forth in this Article I, Section 6 or in Article I, Section 8 will be eligible to serve as Directors. Excluding nominations by or at the direction of the Board of Directors or nominations made pursuant to Article I, Section 8 (which governs nominations to be included in the Corporation's Proxy Materials (as defined in Article I, Section 8(a) below)), all nominations of persons for election as Directors may be made only at an annual meeting of shareholders or a special meeting of shareholders called for the purpose of electing Directors, and, if by a shareholder, only by a shareholder who (i) has complied with all applicable requirements of this Article I, Section 6 and Article I, Section 7 in relation to such nomination, (ii) was a shareholder of record of the Corporation at the time of giving the notice required by Article I, Section 7(b) and is a shareholder of record of the Corporation at the time of the meeting, and (iii) is entitled to vote at the meeting.

(b) Required Form for Director Nominations. To properly nominate a person for election as Director, a shareholder must deliver written notice to the Secretary of the Corporation that sets forth the following information:

(i) Information Regarding the Nominating Person. As to each Nominating Person (as such term is defined in Article I, Section 7(d)(iii)), the information set forth in Article I, Section 5(b)(i) (except that for purposes of this Section 6, the term “Nominating Person” will be substituted for the term “Proposing Person” in all places where it appears in Article I, Section 5(b)(i) and any reference to “business” or “proposal” therein will be deemed to be a reference to the nomination contemplated by this Article I, Section 6).

(ii) Information Regarding the Nominee: As to each person whom the Nominating Person proposes to nominate for election as a Director:

(A) all information with respect to such proposed nominee that would be required to be set forth in a shareholder’s notice pursuant to Article I, Section 5(b)(i) if such proposed nominee were a Nominating Person;

(B) all information relating to such proposed nominee that would be required to be disclosed in a proxy statement or other filing required pursuant to Section 14(a) under the Exchange Act, or any successor provision, to be made in connection with a general solicitation of proxies for an election of Directors in a contested election (including such proposed nominee’s written consent to be named in the proxy statement as a nominee and to serve as a Director if elected);

(C) a reasonably detailed description of all direct and indirect compensation and other material monetary agreements, arrangements or understandings during the past three years, any other material relationships, between or among any Nominating Person and its affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee and his or her affiliates, associates or others acting in concert therewith, on the other hand, including all information that would be required to be disclosed pursuant to Items 403 and 404 under Regulation S-K, or any successor provision, if the shareholder giving the notice or any other Nominating Person were the “registrant” for purposes of such rule and the proposed nominee were a director or executive officer of such registrant;

(D) a completed questionnaire (in the form provided by the Secretary of the Corporation upon written request) with respect to the identity, background and qualification of the proposed nominee and the background of any other person or entity on whose behalf the nomination is being made;

(E) a written representation and agreement (in the form provided by the Secretary of the Corporation upon written request) that the proposed nominee

(1) is not and will not become a party to (x) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how the proposed nominee, if elected as a Director, will act or vote on any issue or question (a “**Voting Commitment**”) that has not been disclosed to the Corporation or (y) any Voting Commitment that could limit or interfere with the proposed nominee’s ability to comply, if elected as a Director, with the proposed nominee’s fiduciary duties under applicable law, (2) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a Director that has not been disclosed therein, and (3) if elected as a Director, the proposed nominee would be in compliance and will comply, with all applicable publicly disclosed corporate governance, ethics, conflict of interest, confidentiality and share ownership and trading policies and guidelines of the Corporation.

The Corporation may require any proposed nominee to furnish such other information as may be reasonably required by the Corporation to determine the qualifications and eligibility of such proposed nominee to serve as a Director.

(c) No Right to Have Nominees Included. Except as provided by, and subject to compliance with Article I, Section 8, a shareholder is not entitled to have nominees included in the Corporation’s proxy statement solely as a result of such shareholder’s compliance with the foregoing provisions of this Article I, Section 6.

(d) Requirement to Attend Meeting. If a shareholder does not appear at the meeting of shareholders to present its nomination, the Board of Directors may direct that such nominee will not stand for election at such meeting (notwithstanding that proxies in respect of such nomination may have been solicited, obtained or delivered).

Section 7. Additional Provisions Relating to the Notice of Shareholder Business and Director Nominations.

(a) Timely Notice.

(i) If it relates to an annual meeting of shareholders, to be timely, a shareholder’s notice required by Article I, Section 5(b) or Article I, Section 6(b) must be delivered to or mailed and received by the Secretary of the Corporation at the principal executive offices of the Corporation not less than 30 nor more than 60 calendar days prior to the first anniversary of the date on which the Corporation held the preceding year’s annual meeting of shareholders; provided that if the date of the annual meeting of shareholders is scheduled for a date more than 30 calendar days prior to or more than 60 calendar days after the anniversary of the preceding year’s annual meeting of shareholders, notice by the shareholder to be timely must be so delivered not later than the close of business on the later of the 30th calendar day prior to such annual meeting and the tenth calendar day following the day on which public disclosure of the date of

such meeting is first made. In no event will a recess or adjournment of an annual meeting of shareholders (or any announcement of any such recess or adjournment) commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. Notwithstanding the foregoing, in the event the number of Directors to be elected at the annual meeting of shareholders is increased by the Board of Directors, and there is no public announcement by the Corporation naming the nominees for the additional Directors at least 60 calendar days prior to the first anniversary of the date on which the Corporation held the preceding year's annual meeting of shareholders, a shareholder's notice pursuant to Article I, Section 6(b) will be considered timely, but only with respect to nominees for the additional directorships, if it is delivered to or mailed and received by the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the tenth calendar day following the day on which such public announcement is first made by the Corporation.

(ii) If it relates to a special meeting of shareholders that is called for the purpose of electing Directors, to be timely, a shareholder's notice required by Article I, Section 6(b) must be delivered to or mailed and received by the Secretary of the Corporation at the principal executive offices of the Corporation promptly after the public disclosure of the date of the meeting and in no event later than five business days after the date of any such public disclosure.

(b) Updating Information in Notice. A shareholder providing notice of business proposed to be brought before a meeting of shareholders pursuant to Article I, Section 5 or notice of any nomination to be made at a meeting of shareholders pursuant to Article I, Section 6 must further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to Article I, Section 5 or Article I, Section 6, as applicable, is true and correct at all times up to and including the date of the meeting (including any date to which the meeting is recessed, adjourned or postponed). Any such update and supplement must be delivered to, or mailed and received by, the Secretary of the Corporation at the principal executive offices of the Corporation, as promptly as practicable.

(c) Determinations of Form, Etc. The presiding officer of any meeting of shareholders will, if the facts warrant, determine that business was not brought in accordance with the procedures prescribed by Article I, Section 5 and this Article I, Section 7 or that a nomination was not made in accordance with the procedures prescribed by Article I, Section 6 and this Article I, Section 7, and if he or she should so determine, he or she will so declare to the meeting and the business or nomination, as applicable, will be disregarded.

(d) Certain Definitions.

(i) For purposes of Article I, Sections 6 and 7, "**public disclosure**" or "**publicly disclosed**" means disclosure in a press release reported by the Dow Jones News Service, Bloomberg, Associated Press or comparable national news service or in a document filed by the Corporation with the Securities and Exchange Commission pursuant to Exchange Act or furnished by the Corporation to shareholders.

(ii) For purposes of Article I, Section 5, “**Proposing Person**” means (A) the shareholder providing the notice of business proposed to be brought before an annual meeting of shareholders, (B) the beneficial owner or beneficial owners of shares of the Corporation, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting of shareholders is given and (C) any “affiliate” or “associate” (each within the meaning of Rule 12b-2 under the Exchange Act, or any successor provision) of such shareholder or beneficial owner.

(iii) For purposes of Section Article I, Section 6, “**Nominating Person**” means (A) the shareholder providing the notice of the nomination proposed to be made at an annual meeting of shareholders or at a special meeting of shareholders called for the purpose of electing Directors, (B) the beneficial owner or beneficial owners of shares of the Corporation, if different, on whose behalf the notice of nomination proposed to be made at the annual meeting of shareholders or at a special meeting of shareholders called for the purpose of electing Directors is given and (C) any “affiliate” or “associate” (each within the meaning of Rule 12b-2 under the Exchange Act, or any successor provision) of such shareholder or beneficial owner.

Section 8. Inclusion of Director Nominations by Shareholders in the Corporation’s Proxy Materials.

(a) Subject to the terms and conditions set forth in these Regulations (including the provisions of Article I, Section 6 concerning the general nomination of Directors by shareholders), the Corporation shall include in its proxy statement and form of proxy (hereinafter, the “**Proxy Materials**”) for an annual meeting of shareholders for the election of Directors, in addition to the persons selected and recommended for election by the Board of Directors or any committee thereof, the name, together with the Required Information (as defined Article I, Section 8(c) below), of any person nominated for election (the “**Proxy Access Shareholder Nominee**”) to the Board of Directors by one or more shareholders that satisfies the notice, ownership and other requirements of this Article I, Section 8 (such shareholder or group of shareholders, the “**Eligible Shareholder**”).

(b) To nominate a Proxy Access Shareholder Nominee, the Eligible Shareholder must provide a written notice that expressly elects to have its Proxy Access Shareholder Nominee included in the Proxy Materials pursuant to this Article I, Section 8 (the “**Notice of Proxy Access Nomination**”). To be timely, the Notice of Proxy Access Nomination must be delivered to the Secretary of the Corporation at the principal executive office of the Corporation not less than 120, nor more than 150, calendar days prior to the anniversary of the date that the Corporation mailed its proxy statement for the prior year’s annual meeting of shareholders (the last day on which a Notice of Proxy Access Nomination may be delivered, the “**Final Proxy Access Nomination Date**”); provided, however, that if (and only if) there was no annual meeting in the preceding year or the date of the annual meeting is advanced more than 30 calendar days prior to, or delayed by more than 30 calendar days after the anniversary of the preceding year’s annual meeting, to be timely, notice by the Eligible Shareholder must be so delivered not less than 120, nor more than 150, calendar days prior to the date of such annual meeting or, if the first public announcement of the date is less than 130 calendar days prior to the date of such annual meeting, by the 10th calendar



day following the day on which such public announcement is made. In addition to the other requirements set forth in this Article I, Section 8, the Notice of Proxy Access Nomination must include the name and address of the Eligible Shareholder (including each shareholder and beneficial owner whose share ownership is counted for the purposes of qualifying as an Eligible Shareholder).

(c) For purposes of this Article I, Section 8, the “**Required Information**” that the Corporation will include in the Proxy Materials is (i) the information concerning the Proxy Access Shareholder Nominee and the Eligible Shareholder that the Corporation determines is required to be disclosed in the Proxy Materials under the Exchange Act; and (ii) if the Eligible Shareholder so elects, a Statement (as defined in Article I, Section 8(h) below). Nothing in this Article I, Section 8 shall limit the Corporation’s ability to solicit against and include in the Proxy Materials its own statements relating to any Proxy Access Shareholder Nominee.

(d) The maximum number of Proxy Access Shareholder Nominees (including Proxy Access Shareholder Nominees that were submitted by Eligible Shareholders for inclusion in the Proxy Materials pursuant to this Article I, Section 8 but either are subsequently withdrawn or that the Board of Directors decides to select and recommend as Director nominees under Article I, Section 6 of these Regulations) that may appear in the Proxy Materials with respect to an annual meeting of shareholders shall not exceed the greater of (i) two or (ii) 20% of the number of Directors in office as of the Final Proxy Access Nomination Date (or if such number is not a whole number, the closest whole number below 20%) (the “**Permitted Number**”); provided, however, that the Permitted Number shall be reduced by the number of incumbent Directors who had been a Proxy Access Shareholder Nominee with respect to any of the preceding two annual meetings of shareholders and whose reelection at the upcoming annual meeting is being recommended by the Board of Directors; provided, further, that in the event that one or more vacancies for any reason occurs on the Board of Directors at any time after the Final Proxy Access Nomination Date and before the date of the applicable annual meeting of shareholders and the Board of Directors reduces the size of the Board of Directors in connection therewith, the Permitted Number shall be calculated based on the number of Directors in office as so reduced. In the event that the number of Proxy Access Shareholder Nominees submitted by Eligible Shareholders pursuant to this Article I, Section 8 exceeds the Permitted Number, each Eligible Shareholder will select one Proxy Access Shareholder Nominee for inclusion in the Proxy Materials until the Permitted Number is reached, with preference provided based on the number (largest to smallest) of shares owned by each Eligible Shareholder as disclosed in each Notice of Proxy Access Nomination. If the Permitted Number is not reached after each Eligible Shareholder has selected one Proxy Access Shareholder Nominee, this selection process will continue as many times as necessary, following the same order each time, until the Permitted Number is reached.

(e) An Eligible Shareholder is one or more shareholders who owns and has owned, or is or are acting on behalf of one or more beneficial owners who own and have owned (as defined in Article I, Section 8(f) below), for at least three years as of the date the Notice of Proxy Access Nomination is received by the Corporation, shares representing at least 3% of the shares of the Corporation outstanding as of the most recent date for which such number is disclosed by the Corporation in any filing by the Corporation with the Securities and Exchange Commission prior to submission of the Notice of Proxy Access Nomination (the “**Required Shares**”), and who continue to own the Required Shares at all times between the date the Notice of Proxy Access

Nomination is received by the Corporation and the date of the applicable annual meeting of shareholders, provided that the aggregate number of such shareholders and beneficial owners shall not exceed 20. Two or more funds that are (i) under common management and investment control, (ii) under common management and funded primarily by a single employer or (iii) a “group of investment companies,” as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940, as amended (such funds together under each of (i), (ii) or (iii) comprising a “**Qualifying Fund**”) shall be treated as one shareholder for the purpose of determining the aggregate number of shareholders in this Article I, Section 8(e), and treated as one person for the purpose of determining ownership in Article I, Section 8(f), provided that each fund comprising a Qualifying Fund otherwise meets the requirements set forth in this Article I, Section 8. No shareholder or beneficial owner may be a member of more than one group constituting an Eligible Shareholder under this Article I, Section 8. Should any shareholder or beneficial owner withdraw from a group of Eligible Shareholders at any time prior to the annual meeting of shareholders, the group of Eligible Shareholders shall only be deemed to own the shares held by the remaining members of the group.

(f) For purposes of calculating the Required Shares, “**ownership**” shall be deemed to consist of and include only the outstanding shares as to which a person possesses both (i) the full voting and investment rights pertaining to the shares and (ii) the full economic interest in (including the opportunity for profit and risk of loss on) such shares; provided that the ownership of shares calculated in accordance with clauses (i) and (ii) shall not include any shares (A) that a person has sold in any transaction that has not been settled or closed, (B) that a person has borrowed or purchased pursuant to an agreement to resell or (C) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by a person, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of shares, in any such case which instrument or agreement has, or is intended to have, the purpose or effect of (1) reducing in any manner, to any extent or at any time in the future, the person’s full right to vote or direct the voting of any such shares, or (2) hedging, offsetting or altering to any degree gain or loss arising from the full economic ownership of such person’s shares. Ownership shall include shares held in the name of a nominee or other intermediary so long as the person claiming ownership of such shares retains the right to instruct how the shares are voted with respect to the election of Directors and possesses the full economic interest in the shares, provided that this provision shall not alter the obligations of any shareholder to provide the Notice of Proxy Access Nomination. Ownership of shares shall be deemed to continue during any period in which shares have been loaned if the person claiming ownership has the power to recall such loaned shares on five business days’ notice and the person recalls the loaned shares within five business days of being notified that its Proxy Access Shareholder Nominee will be included in the Proxy Materials for the applicable annual meeting, and the person holds the recalled shares through such annual meeting. Ownership of shares shall be deemed to continue during any period in which any voting power has been delegated by means of a proxy, power of attorney or other instrument or arrangement which is revocable at any time without condition. For purposes of this Article I, Section 8, the determination of the extent of ownership of shares shall be made in good faith by the Board of Directors, which determination shall be conclusive and binding on the Corporation and the shareholders. An Eligible Shareholder shall include in its Notice of Proxy Access Nomination the number of shares it is deemed to own for the purposes of this Article I, Section 8.

(g) No later than the Final Proxy Access Nomination Date, an Eligible Shareholder (including each shareholder, Qualifying Fund and beneficial owner whose share ownership is counted for the purposes of qualifying as an Eligible Shareholder) must provide the following information in writing to the Secretary of the Corporation:

(i) all of the information required pursuant to Article I, Section 6(b) as if the Notice of Proxy Access Nomination were a shareholder's notice with respect to nominations of persons for election of Directors pursuant to Article I, Section 6(b);

(ii) one or more written statements from the record holder of the shares (and from each intermediary through which the shares are or have been held during the requisite three-year holding period) verifying that, as of a date within seven calendar days prior to the date the Notice of Proxy Access Nomination is sent to the Corporation, the Eligible Shareholder owns, and has owned continuously for the preceding three years, the Required Shares, and the Eligible Shareholder's agreement to provide (A) within five business days after (1) the record date for the applicable annual meeting (if, prior to such record date, the Corporation (x) disclosed such record date by press release or any filing with the Securities and Exchange Commission or (y) delivered a written notice of the record date (including by electronic mail) to the Eligible Shareholder) or (2) the date on which the Corporation disclosed such record date by press release or any filing with the Securities and Exchange Commission (if such record date is a date that precedes such disclosure), written statements from the record holder and intermediaries verifying the Eligible Shareholder's continuous ownership of the Required Shares through the record date, and (B) immediate notice if the Eligible Shareholder ceases to own any of the Required Shares prior to the date of the applicable annual meeting of shareholders (for purposes of this clause (ii), "record holder" shall mean the applicable Depository Trust Company ("DTC") participant for shares that are deposited at DTC);

(iii) the written consent of each Proxy Access Shareholder Nominee to being named in the Proxy Materials as a nominee and to serving as a Director if elected; and

(iv) a copy of the Schedule 14N that has been filed with the Securities and Exchange Commission as required by Rule 14a-18 under the Exchange Act.

In addition, no later than the Final Proxy Access Nomination Date, an Eligible Shareholder (including each shareholder, Qualifying Fund and beneficial owner whose share ownership is counted for purposes of qualifying as an Eligible Shareholder) must provide to the Secretary of the Corporation a signed and written:

(i) representation of the Eligible Shareholder that such Eligible Shareholder (A) acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control of the Corporation, and does not presently have such intent, (B) intends to maintain qualifying ownership of the Required Shares through the date of the applicable annual meeting of shareholders, (C) has not nominated and will not nominate for election to the Board of Directors at the applicable annual meeting of shareholders any person other than its Proxy Access Shareholder Nominee, (D) has not engaged and will not

engage in, and has not and will not be a “participant” in another person’s, “solicitation” within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a Director at the applicable annual meeting of shareholders other than its Proxy Access Shareholder Nominee(s) or a nominee of the Board of Directors, (E) will not distribute to any shareholder any form of proxy for the applicable annual meeting of shareholders other than the form distributed by the Corporation, and (F) will provide facts, statements and other information in all communications with the Corporation and its shareholders that are or will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading and otherwise will comply with all applicable laws, rules and regulations in connection with any actions taken pursuant to this Article I, Section 8;

(ii) in the case of a nomination by a group of shareholders that together constitutes an Eligible Shareholder, designation by all such group members of one group member that is authorized to act on behalf of all members of the nominating shareholder group with respect to the nomination and matters related thereto, including withdrawal of the nomination; and

(iii) undertaking that the Eligible Shareholder agrees to (A) assume all liability stemming from any legal or regulatory violation arising out of the Eligible Shareholder’s communications with the shareholders of the Corporation or out of the information that the Eligible Shareholder provided to the Corporation, (B) indemnify and hold harmless the Corporation and each of its Directors, officers and employees individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its Directors, officers or employees arising out of any nomination, solicitation or other activity by the Eligible Shareholder in connection with its efforts to elect the Proxy Access Shareholder Nominee pursuant to this Article I, Section 8, and (C) file with the Securities and Exchange Commission any solicitation with the Corporation’s shareholders relating to the meeting at which the Proxy Access Shareholder Nominee will be nominated, regardless of whether any such filing is required under Regulation 14A of the Exchange Act or whether any exemption from filing is available for such solicitation under Regulation 14A of the Exchange Act.

In addition, no later than the Final Proxy Access Nomination Date, a Qualifying Fund whose share ownership is counted for purposes of qualifying as an Eligible Shareholder must provide to the Secretary of the Corporation documentation reasonably satisfactory to the Board of Directors that demonstrates that the funds comprising the Qualifying Fund are either (i) under common management and investment control, (ii) under common management and funded primarily by a single employer or (iii) a “group of investment companies,” as such term is defined in Section 12(d)(1)(G)(ii) of the Investment Company Act of 1940, as amended.

(h) The Eligible Shareholder may provide to the Secretary of the Corporation, at the time the information required by this Article I, Section 8 is provided, a written statement for inclusion in the Proxy Materials for the applicable annual meeting of shareholders, not to exceed 500 words,



in support of the Eligible Shareholder's Proxy Access Shareholder Nominee (the "**Statement**"). Notwithstanding anything to the contrary contained in this Article I, Section 8, the Corporation may omit from the Proxy Materials any information or Statement (or portion thereof) that it, in good faith, believes would violate any applicable law or regulation.

(i) No later than the Final Proxy Access Nomination Date, each Proxy Access Shareholder Nominee must:

(i) provide to the Secretary of the Corporation all of the consents, representations, and agreements required pursuant to Article I, Section 6 as if the Proxy Access Shareholder Nominee was a nominee;

(ii) submit to the Secretary of the Corporation all completed and signed documents required of the Corporation's Directors and nominees for election to the Board of Directors within five business days of receipt of each such questionnaire from the Corporation; and

(iii) provide to the Secretary of the Corporation within five business days of the Corporation's request such additional information as the Corporation determines may be necessary to permit the Board of Directors to determine (A) such Proxy Access Shareholder Nominee's status as to "independence", including references to the criteria established by the New York Stock Exchange (or any other exchange or quotation system on which the Corporation's equity securities are listed), any applicable rules of the Securities and Exchange Commission and the Corporation's Corporate Governance Guidelines and Independence Standards for Directors, (B) if such Proxy Access Shareholder Nominee has any direct or indirect relationship with the Corporation, and (C) if such Proxy Access Shareholder Nominee is not and has not been subject to any event specified in Item 401(f) of Regulation S-K of the Exchange Act or any successor provision.

In the event that any information or communications provided by the Eligible Shareholder or the Proxy Access Shareholder Nominee to the Corporation or its shareholders ceases to be true and correct in any respect or omits a fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, each Eligible Shareholder or Proxy Access Shareholder Nominee, as the case may be, shall promptly notify the Secretary of the Corporation of any such inaccuracy or omission in such previously provided information and of the information that is required to make such information or communication true and correct.

(j) Any Proxy Access Shareholder Nominee who is included in the Proxy Materials for a particular annual meeting of shareholders but either (i) withdraws from or becomes ineligible or unavailable for election at that annual meeting, or (ii) does not receive at least 25% of the votes cast in favor of the Proxy Access Shareholder Nominee's election, will be ineligible to be a Proxy Access Shareholder Nominee pursuant to this Article I, Section 8 for the next two annual meetings of shareholders. Any Proxy Access Shareholder Nominee who is included in the Proxy Materials for a particular annual meeting of shareholders, but subsequently is determined not to satisfy the eligibility requirements of this Article I, Section 8 or any other provision of these Regulations, or the Corporation's Articles of Incorporation, Corporate Governance Guidelines, Independence



Standards for Directors or other applicable document or regulation at any time before the applicable annual meeting of shareholders, will not be eligible for election at the relevant annual meeting of shareholders and may not be substituted by the Eligible Shareholder that nominated such Proxy Access Shareholder Nominee.

(k) The Corporation shall not be required to include, pursuant to this Article I, Section 8, a Proxy Access Shareholder Nominee in the Proxy Materials for any meeting of shareholders, or, if the proxy statement already has been filed, to allow the nomination of a Proxy Access Shareholder Nominee, notwithstanding that proxies in respect of such vote may have been received by the Corporation:

(i) if any person is engaging in a “solicitation” within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a Director at the applicable annual meeting of shareholders other than a nominee of the Board of Directors;

(ii) if the Proxy Access Shareholder Nominee or the Eligible Shareholder (or any member of any group of shareholders that together is such Eligible Shareholder) who has nominated such Proxy Access Shareholder Nominee has engaged in or is currently engaged in, or has been or is a “participant” in another person’s, “solicitation” within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a Director at the applicable annual meeting of shareholders other than its Proxy Access Shareholder Nominee(s) or a nominee of the Board of Directors;

(iii) who is not independent under the listing standards of each principal U.S. securities exchange upon which the common shares of the Corporation are listed, any applicable rules of the Securities and Exchange Commission, and any publicly disclosed standards used by the Board of Directors in determining and disclosing independence of the Corporation’s Directors, in each case as determined by the Board of Directors;

(iv) who does not meet the audit committee independence requirements under the rules of any U.S. securities exchange upon which the common shares of the Corporation are traded, is not a “non-employee director” for the purposes of Rule 16b-3 under the Exchange Act (or any successor rule), is not an “outside director” for the purposes of Section 162(m) of the Internal Revenue Code (or any successor provision);

(v) whose election as a member of the Board of Directors would cause the Corporation to be in violation of these Regulations, the Articles of Incorporation, the rules and listing standards of the principal U.S. securities exchanges upon which the common shares of the Corporation are listed, or any applicable state or federal law, rule or regulation;

(vi) who is or has been, within the past three years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914;



(vii) who is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past ten years;

(viii) if such Proxy Access Shareholder Nominee or the applicable Eligible Shareholder (or any member of any group of shareholders that together is such Eligible Shareholder) shall have provided information to the Corporation in connection with such nomination, including information provided pursuant to this Article I, Section 8, that was untrue in any material respect or omitted to state a material fact necessary in order to make any statement made, in light of the circumstances under which it was made, not misleading, as determined by the Board of Directors or any committee thereof;

(ix) the Eligible Shareholder (or a qualified representative thereof) does not appear at the applicable annual meeting of shareholders to present the Proxy Access Shareholder Nominee for election;

(x) the Eligible Shareholder (or any member of any group of shareholders that together is such Eligible Shareholder) or applicable Proxy Access Shareholder Nominee otherwise breaches or fails to comply with or the Board of Directors or any committee thereof determines it has breached its representations or obligations pursuant to these Regulations, including, without limitation, this Article I, Section 8; or

(xi) the Eligible Shareholder ceases to be an Eligible Shareholder for any reason, including but not limited to not owning the Required Shares through the date of the applicable annual meeting.

For the purpose of this Section 8(k): (A) clauses (ii) through (xi) will result in the exclusion from the Proxy Materials pursuant to this Article I, Section 8 of the specific Proxy Access Shareholder Nominee to whom the ineligibility applies, or, if the proxy statement already has been filed, the ineligibility of the Proxy Access Shareholder Nominee; and (B) clause (i) may, at the sole discretion of the Board of Directors, result in the exclusion from the Proxy Materials pursuant to this Article I, Section 8 of all or any number of Proxy Access Shareholder Nominees from the applicable annual meeting of Shareholders, or, if the proxy statement already has been filed, the ineligibility of all Proxy Access Shareholder Nominees.

Article II.
BOARD OF DIRECTORS

Section 1. Number of Directors; Election; Term of Office.

The members of the Board of Directors shall be elected at each annual meeting of shareholders, and each Director shall hold office until the next annual meeting of shareholders and until his or her successor is elected, or until his or her earlier resignation, removal from office or death. The number of Directors, which shall not be less than three, may be fixed or changed (a) at



any meeting of shareholders called to elect Directors at which a quorum is present, by the affirmative vote of the holders of a majority of the shares represented at the meeting and entitled to vote on the proposal, or (b) by the Directors at any meeting of the Board of Directors by the vote of a majority of the Directors then in office.

Section 2. Directors Elected by Holders of Serial Preferred Stock.

The provisions of Article II, Section 1 shall not apply to any Directors elected by the holders of Serial Preferred Stock of all series voting separately as a class in the event of default in the payment of the equivalent of six quarterly dividends (whether or not consecutive) on any outstanding series of Serial Preferred Stock. Any such Directors shall be elected to serve until the next annual meeting of shareholders and until their respective successors are elected, or until such default is cured, whichever occurs first.

Section 3. Vacancies.

In the event of the occurrence of any vacancy or vacancies in the Board of Directors, however caused, the Directors then in office, though less than a majority of the whole authorized number of Directors, may, by vote of a majority of their number, fill any such vacancy for the unexpired term.

Section 4. Meetings of Directors.

Meetings of Directors may be called by the Chairman of the Board, the Chief Executive Officer or the President, or twenty-five percent or more of the Directors then in office. Such meetings may be held at any place within or without the State of Ohio, and may be held through any communications equipment if all persons participating can hear each other. Participation in a meeting of Directors held through communications equipment pursuant to this Article II, Section 4 shall constitute presence at such meeting. Written notice of the time and place of each meeting of Directors shall be given to each Director by personal delivery, or by mail, email, overnight delivery service or any other means of communication authorized by the Director at least two days before the meeting, which notice need not specify the purposes of the meeting. Notice of adjournment of a meeting of Directors need not be given if the time and place to which it is adjourned are fixed and announced at such meeting.

Section 5. Quorum.

A majority of the Directors in office shall constitute a quorum for any meeting of Directors; provided that a majority of the Directors present at a meeting duly held, whether or not a quorum is present, may adjourn such meeting from time to time. The act of a majority of the Directors present at a meeting at which a quorum is present is the act of the Board of Directors.

Article III.
COMMITTEES

The Board of Directors may at any time appoint from its members an executive committee or other committee or committees, consisting of such number of members as the Board of Directors



may deem advisable, together with such alternates as the Board of Directors may deem advisable to take the place of any absent member or members at any meeting of such committee. Each member and each alternate shall hold office during the pleasure of the Board of Directors. Any committee shall act only in the intervals between meetings of the Board of Directors and shall have such authority of the Board of Directors, however conferred, as may, from time to time, be delegated by the Board of Directors, other than that of filling vacancies in the Board of Directors or in any committee thereof and other than adopting, amending or repealing regulations. Each committee shall keep a written record of all actions taken by it. Unless otherwise ordered by the Board of Directors, any such committee may prescribe its own rules for calling and holding meetings, including meetings by means of communications equipment, and for its own methods of procedure, and may act by a majority of its members at a meeting or without a meeting by a writing or writings signed by all of its members.

Article IV.
OFFICERS

Section 1. Designation and Election.

The Corporation shall have a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary, a Treasurer and a Controller. A single individual may hold a combination of two or more of the foregoing offices. The Corporation may also have such other officers and assistant officers as may be deemed necessary. The officers shall be elected by the Board of Directors, at least annually. Assistant officers may be appointed by the Board, the Chairman of the Board, the Chief Executive Officer or the President. The Chairman of the Board shall be a Director, but none of the other officers need be a Director.

Section 2. Authority and Duties of Officers.

The officers of the Corporation shall have such authority and perform such duties as are customarily incident to their respective offices, or as may be determined, from time to time, by the Board of Directors.

Article V.
CORPORATE SEAL

The corporate seal of the Corporation shall be circular in form and shall contain the name of the Corporation and the word "Seal".

Article VI.
AMENDMENTS



These Regulations may be amended in any respect, or new regulations may be adopted, (i) by the shareholders at a meeting held for such purpose, by the affirmative vote of, or without a meeting by the written consent of, the holders of shares entitling them to exercise a majority of the voting power on such proposal, or (ii) by the Board of Directors to the extent permitted by the Ohio General Corporation Law.

Article VII.
INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

The Corporation shall indemnify, to the full extent permitted or authorized by the Ohio General Corporation Law as it may from time to time be amended, any person made or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a Director, officer or employee of the Corporation, or is or was serving at the request of the Corporation as a Director, trustee, officer or employee of another corporation, partnership, joint venture, trust or other enterprise. The indemnification provided by this Article VII shall not be deemed exclusive of any other rights to which any person seeking indemnification may be entitled under the articles of incorporation or the regulations, or any agreement, vote of shareholders or disinterested Directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director, trustee, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.



To: [PARTICIPANT NAME]

**PARKER-HANNIFIN CORPORATION
RESTRICTED STOCK UNIT AWARD AGREEMENT (RSU-009DIBOD)**

The Human Resources and Compensation Committee of the Board of Directors (the "Committee") of Parker-Hannifin Corporation (the "Company") has awarded to you the following number of Restricted Stock Units under the Parker-Hannifin Corporation 2016 Omnibus Stock Incentive Plan (the "Plan") and subject to the Parker-Hannifin Corporation Restricted Stock Unit Terms and Conditions (RSU-009DIBOD) (the "Terms and Conditions"):

Grant Date	Number of RSUs
[Grant Date]	[Number Granted]

Vesting Dates. Except as otherwise provided in the Terms and Conditions, while you are an active full-time employee, units will vest in full on the third (3rd) anniversary of the grant date. The scheduled vesting date and amounts for this award are viewable by clicking on the Grant Date hyperlink on your Restricted Stock Unit Grant Information page on the Stock Incentive Plan Administrator's web site.

Payment Dates. The Restricted Stock Units will be paid to you in shares of Parker common stock on the vesting dates, except as otherwise provided in the Terms and Conditions.

Your Action Items. Please take the following actions:

- **Before you accept your grant,** click on the links below to review the Terms and Conditions, the Prospectus and the Plan document. This Award is subject to the terms of the Plan and administrative procedures the Committee may promulgate under it from time to time. In the event of a conflict between this document, the Prospectus, and the Plan, the Plan document as well as any determinations made by the Committee, as authorized by the Plan document, shall govern.
- **Accept** the Terms and Conditions and execute this Agreement by clicking on the "Accept" button below. If you do not accept this Award Agreement prior to the initial vesting date, your Award will be forfeited, except in the event of your permanent disability or death prior to the initial vesting date.
- **Inform the Company of any change in address or contact information, as necessary.** Refer to the section of the Terms and Conditions titled "**Notification of Change in Personal Data**" for instructions on how to provide notification to the Company.

[Restricted Stock Unit Terms and Conditions \(RSU-009DIBOD\)](#)
[2016 Omnibus Stock Incentive Plan](#)

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

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

To view the [Prospectus](#), please click here



To: [PARTICIPANT NAME]

**PARKER-HANNIFIN CORPORATION
RESTRICTED STOCK UNIT AWARD AGREEMENT (RSU-010DIBOD)**

The Human Resources and Compensation Committee of the Board of Directors (the "Committee") of Parker-Hannifin Corporation (the "Company") has awarded to you the following number of Restricted Stock Units under the Parker-Hannifin Corporation 2016 Omnibus Stock Incentive Plan (the "Plan") and subject to the Parker-Hannifin Corporation Restricted Stock Unit Terms and Conditions (RSU-010DIBOD) (the "Terms and Conditions"):

Grant Date	Number of RSUs
[Grant Date]	[Number Granted]

Vesting Dates. Except as otherwise provided in the Terms and Conditions, while you are an active full-time employee, units will vest in full on the fifth (5th) anniversary of the grant date. The scheduled vesting date and amounts for this award are viewable by clicking on the Grant Date hyperlink on your Restricted Stock Unit Grant Information page on the Stock Incentive Plan Administrator's web site.

Payment Dates. The Restricted Stock Units will be paid to you in shares of Parker common stock on the vesting dates, except as otherwise provided in the Terms and Conditions.

Your Action Items. Please take the following actions:

- **Before you accept your grant,** click on the links below to review the Terms and Conditions, the Prospectus and the Plan document. This Award is subject to the terms of the Plan and administrative procedures the Committee may promulgate under it from time to time. In the event of a conflict between this document, the Prospectus, and the Plan, the Plan document as well as any determinations made by the Committee, as authorized by the Plan document, shall govern.
- **Accept** the Terms and Conditions and execute this Agreement by clicking on the "Accept" button below. If you do not accept this Award Agreement prior to the initial vesting date, your Award will be forfeited, except in the event of your permanent disability or death prior to the initial vesting date.
- **Inform the Company of any change in address or contact information, as necessary.** Refer to the section of the Terms and Conditions titled "**Notification of Change in Personal Data**" for instructions on how to provide notification to the Company.

[Restricted Stock Unit Terms and Conditions \(RSU-010DIBOD\)
2016 Omnibus Stock Incentive Plan](#)

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



**PARKER-HANNIFIN CORPORATION
RESTRICTED STOCK UNIT TERMS AND CONDITIONS (RSU-[#]BOD)**

Pursuant to the Restricted Stock Unit Award Agreement (the "Award Agreement") available on the website of the third party Plan administrator for Parker-Hannifin Corporation (the "Company"), the Human Resources and Compensation Committee (the "Committee") of the Board of Directors of the Company has awarded you a number of Restricted Stock Units. The Restricted Stock Units have been awarded to you as of the grant date specified in the Award Agreement (the "Grant Date"), and the Restricted Stock Units are subject to the terms, conditions and restrictions set forth in the Parker-Hannifin Corporation 2016 Omnibus Stock Incentive Plan, as amended from time to time, or any applicable successor plan (the "Plan") and these Restricted Stock Unit Terms and Conditions (RSU-[#]BOD) (the "Terms and Conditions"). To the extent that, in accordance with the terms of the Plan, the Committee has delegated to any persons any of the Committee's authority with respect to these Terms and Conditions, references to the Committee in these Terms and Conditions shall be deemed to be references to those persons with respect to authority so delegated.

1. Crediting of Restricted Stock Units. Each Restricted Stock Unit shall represent the contingent right to receive one share of Common Stock of the Company and shall at all times be equal in value to one share of Common Stock of the Company. The Restricted Stock Units shall be credited in a book entry account established for you until payment in accordance with Section 6 hereof.

2. Payment of RSUs. The RSU grant you received in accordance with your Award Agreement will become payable to you in accordance with the rules set forth in Sections 3, 4, and 5 below.

3. Vesting of Restricted Stock Units.

(a) Subject to these Terms and Conditions, all or a portion of the Restricted Stock Units will vest on the vesting date(s) described in the Award Agreement (each a "Vesting Date") and shall be payable at the Distribution Date(s) (as defined in Section 4 hereof), provided that you shall have remained in the continuous employment of the Company and its Subsidiaries (collectively referred to herein as the "Parker Companies") through the applicable Vesting Date. Notwithstanding the foregoing, to the extent it does not cause imposition of a tax under Section 409A of the Code, the Committee may, in its discretion, accelerate the vesting of the RSUs (but not the time of payment) at any time, in part or in full.

(b) For purposes of this Section 3 of these Terms and Conditions, your continuous employment with the Parker Companies shall not be deemed to have been interrupted, and you shall not be deemed to have ceased to be an employee of the Parker Companies, by reason of: (1) the transfer of your employment among the Parker Companies; (2) the transfer of your employment to an entity that is 50% (or more) owned (directly or indirectly) by the Company provided that you remain actively and continuously employed by such entity; or (3) a shift from full-time to part-time employment status.

4. Qualifying Termination following a Change in Control. Notwithstanding the foregoing, if, coincident with or during the 12-month period following the effective date of a Change in Control (as defined in the Plan and including the date immediately prior to an "Anticipatory Termination" as defined in the Plan), your employment with the Parker Companies is either (i) terminated by the Parker Companies or a successor thereto other than for Cause (as such term is defined in the Plan), Disability or (ii) by you for Good Reason (as such term is defined in the Plan) then the unvested Shares awarded to such Participant under the Award Agreement will fully vest upon such termination of employment.

5. Effect of Termination Due to Death, Disability, or Retirement. Notwithstanding Section 3 above and, subject to the definitions of “Disability” and “Retirement” as set forth in Section 29 below, if your employment with the Parker Companies is terminated by reason of death or Disability, or by you on or after the date you meet the requirements of Retirement as defined in Section 29, the unvested RSUs covered under your Award Agreement will become fully vested upon such termination of employment.

6. Other Employment Terminations. In the event that your employment with the Parker Companies terminates in a manner other than any specified in Sections 4 or 5 above, you will automatically and permanently forfeit any RSUs that have not vested on or before the time of such termination.

7. Payment.

(a) Except as may be otherwise provided in this Section, the Company shall deliver to you (or your estate or any beneficiary you have designated in accordance with Section 16 hereof in the event of your death) the Common Stock underlying the vested Restricted Stock Units within thirty (30) days following each Distribution Date. Except as may be otherwise provided in this Section 6, a “Distribution Date” shall mean each Vesting Date that your Restricted Stock Units become vested. Notwithstanding the foregoing, to the extent that any of your Restricted Stock Units become vested solely on the basis of your Retirement, then the Distribution Date of such Restricted Stock Units shall be the earlier of (x) each Vesting Date that such Restricted Stock Units would otherwise have become vested in accordance with your Award Agreement, had your employment with the Parker Companies continued until such Vesting Date, i.e., at the same time you otherwise would have received the RSUs (y) the occurrence of a termination within 12 month of a “change in control” as specified in Section 4 above, or (z) your death.

(b) Notwithstanding any provision of Section 7(a) above to the contrary, if your employment with the Parker Companies terminates due to Disability or Retirement your termination of employment will result in a right to payment only if it is a “separation from service” as that term is defined in Code Section 409A(a)(2)(A)(i). Furthermore, if upon your “separation from service” you are a “specified employee” as determined pursuant to procedures adopted by the Committee in compliance with Section 409A(a)(2)(B)(i) of the Code, and to the extent that the payment of your RSUs does not otherwise qualify for an exception to Section 409A, then your “Distribution Date” will be the earlier of: (x) the first day of the seventh month after the date of your separation from service from the Parker Companies within the meaning of Section 409A(a)(2)(A)(i) of the Code; and (y) the date of your death.

8. Transferability. The Restricted Stock Units may not be transferred, assigned, pledged or hypothecated in any manner, or be subject to execution, attachment or similar process, by operation of law or otherwise, unless otherwise provided under the Plan. Any purported transfer or encumbrance in violation of the provisions of this Section 8 shall be null and void, and the other party to any such purported transaction shall not obtain any rights to or interest in such Restricted Stock Units.

9. Dividend, Voting and Other Rights. You shall not possess any incidents of ownership (including, without limitation, dividend or voting rights) in the Common Stock underlying the Restricted Stock Units until such Common Stock has been delivered to you in accordance with Section 6 hereof. The obligations of the Company under these Terms and Conditions will be merely an unfunded and unsecured promise of the Company to deliver Common Stock in the future, subject to the terms and conditions of the Plan and these Terms and Conditions, and your rights will be no greater than that of an unsecured general creditor. No assets of the Company will be held or set aside as security for the obligations of the Company under these Terms and Conditions.

10. Dividend Equivalents.

(a) For employees on the U.S.-based payroll, from and after the Grant Date and until the earliest of (i) the time when the Restricted Stock Units are paid in accordance with Section 6 hereof, (ii) the time when your right to payment of the Restricted Stock Units is forfeited in accordance with Section 7 hereof and (iii) the time your employment is relocated to a jurisdiction that does not employ a United States-based payroll, you shall be entitled to a cash payment equal to the product of (x) the dollar amount of the cash dividend paid per share of Common Stock on such date and (y) the total number of unpaid Restricted Stock Units credited to you as of such date (each such cash

payment a “Dividend Equivalent”). Any Dividend Equivalent shall be paid to you within thirty (30) days after such date following the Grant Date that a cash dividend (if any) is paid to the holders of shares of Common Stock. Dividend Equivalents will be subject to any required withholding for federal, state or local taxes, social taxes or other taxes. Employees subject to subsection (iii) shall become entitled to Dividend Equivalent Units pursuant to the terms of Section 10(b) hereof in lieu of Dividend Equivalents.

(b) For employees on a non-U.S.-based payroll, from and after the Grant Date and until the earlier of (i) the time when the Restricted Stock Units are paid in accordance with Section 6 hereof, (ii) the time when your right to payment of the Restricted Stock Units is forfeited in accordance with Section 7 hereof or (iii) the time your employment is relocated to a jurisdiction that employs a United States-based payroll, on the date that the Company pays a cash dividend (if any) to holders of shares of Common Stock generally, you shall be credited with a number of additional Restricted Stock Units (the “Dividend Equivalent Units”) determined by dividing the aggregate amount of the cash dividend that would be payable on such date to a holder of a number of shares of Common Stock equal to the number of your unpaid Restricted Stock Units by the closing price per share of the Company’s Common Stock on the New York Stock Exchange on the last trading day preceding the dividend payment date. Any such Dividend Equivalent Units will be considered Restricted Stock Units for purposes of these Terms and Conditions and will be subject to all of the terms, conditions and restrictions set forth herein, provided that for purposes of Section 3(a) of these Terms and Conditions: (x) any such additional Restricted Stock Units credited between the Grant Date and the first Vesting Date shall vest in three equal installments on the first Vesting Date, the second Vesting Date and the third Vesting Date, provided that you are continuously employed by the Parker Companies through each such Vesting Date; (y) any such additional Restricted Stock Units credited between the first Vesting Date and the second Vesting Date shall vest in two equal installments on the second Vesting Date and the third Vesting Date, provided that you are continuously employed by the Parker Companies through each such Vesting Date; (z) and any such additional Restricted Stock Units credited between the second Vesting Date and the third Vesting Date shall vest on the third Vesting Date, provided that you are continuously employed by the Parker Companies through such Vesting Date. Employees subject to subsection (iii) shall become entitled to Dividend Equivalents pursuant to the terms of Section 10(a) hereof in lieu of Dividend Equivalent Units.

11. No Rights to Future Awards. By voluntarily acknowledging and accepting your award of Restricted Stock Units, you acknowledge and understand that the Restricted Stock Units shall not form part of any contract of employment between you and the Company. Nothing in these Terms and Conditions, your Award Agreement, the Plan or the plan summary and prospectus which describes the Plan (the “Prospectus”) shall confer upon you any right to continue to receive stock incentive awards in the future. You further acknowledge that your award of Restricted Stock Units is for future services and is not under any circumstances to be considered compensation for past services.

12. Detrimental Activity, Claw-back Policy.

(a) If the Committee finds in its discretion that you have engaged in any Detrimental Activity (as defined in the Plan), the Committee may at any time and in its sole discretion cancel and revoke all or any unpaid portion of your Restricted Stock Units. In addition, if the Committee finds that you have engaged in any Detrimental Activity, either during your employment with the Company or within twelve months thereafter, then you shall be required to (a) return to the Company all shares of Common Stock that you have not disposed of that were issued pursuant to these Terms and Conditions within twelve months prior to the commencement of such Detrimental Activity, and (b) pay to the Company in cash, within ten days after demand therefor, the Fair Market Value (determined as of the date that the Restricted Stock Units were paid to you in accordance with Section 6 hereof) of all shares of Common Stock that you have disposed of that were so issued pursuant to these Terms and Conditions. The Plan defines Detrimental Activity as any conduct or activity, whether or not related to the business of the Parker Companies, that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Parker Companies, including without limitation (i) 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 Company; (ii) disclosure to anyone outside of the Company, or the use for any purpose other than the Company’s business, of confidential information or material related to the Company, whether acquired during or after employment with the Company; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) violation of the Company’s Code of Ethics.

(b) By accepting your award of Restricted Stock Units, you acknowledge that the Restricted Stock Units may be subject to reduction, cancellation, forfeiture or recoupment, to such extent as may be provided under the Company's Claw-back Policy, as established by the Committee or the Board, as it now exists or as it may be amended from time to time.

13. Relation to Other Benefits. Any economic or other benefit to you under these Terms and Conditions or the Plan shall not be taken into account in determining any benefits to which you may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Parker Companies and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Parker Companies. Without limiting the foregoing, by voluntarily acknowledging and accepting your award of Restricted Stock Units, you agree that no benefits accruing under your Award Agreement, these Terms and Conditions or the Plan will be reflected in any severance or indemnity payments that the Parker Companies may make or be required to make to you in the future, regardless of the jurisdiction in which you may be located.

14. Relation to Plan. These Terms and Conditions and all rights under your Award Agreement and these Terms and Conditions are at all times subject to all other terms, conditions and provisions of the Plan (and any rules or procedures adopted under the Plan by the Committee). All capitalized terms not defined in these Terms and Conditions shall have the meaning ascribed to such terms in the Plan. In the event of a conflict between the terms of the Plan and these Terms and Conditions, your Award Agreement or the Prospectus, the terms of the Plan shall control. These Terms and Conditions, the Plan and the Award Agreement contain the entire agreement and understanding of the parties with respect to the subject matter contained in these Terms and Conditions, and supersede all prior written or oral communications, representations and negotiations in respect thereto.

15. Taxes and Withholding.

You are liable for any and all taxes, including income tax, social insurance, fringe benefit tax, payroll tax, payment on account, employer taxes or other tax-related items related to your participation in the Plan and legally applicable to or otherwise recoverable from you by the Company and/or, if different, your employer (the "Employer") whether incurred at grant, vesting, sale, prior to vesting or at any other time ("Tax-Related Items"). In the event that the Company or the Employer (which, for purposes of this Section 15, shall include a former employer) is required, allowed or permitted to withhold taxes as a result of the RSUs or the shares of Common Stock acquired pursuant to such RSUs, or due upon receipt of dividend equivalent payments or dividends, you shall surrender a sufficient number of whole shares of Common Stock, make a cash payment or make adequate arrangements satisfactory to the Parker Companies to withhold such taxes from your wages or other cash compensation paid to you by the Parker Companies at the election of the Company, in its sole discretion, or, if permissible under local law, the Company may sell or arrange for the sale of shares of Common Stock that you acquire as necessary to cover all Tax-Related Items that the Parker Companies have to withhold or that are legally recoverable from you (such as fringe benefit tax) at the time the restrictions on the RSUs lapse, unless the Company, in its sole discretion, has established alternative procedures for such payment. However, with respect to any RSUs subject to Section 409A, the Parker Companies shall limit the surrender of Shares to the minimum number of Shares permitted to avoid a prohibited acceleration under Section 409A. You will receive a cash refund for any fraction of a surrendered Share or Shares in excess of any and all Tax-Related Items. To the extent that any surrender of shares of Common Stock or payment of cash or alternative procedure for such payment is insufficient, you authorize the Parker Companies which are qualified to deduct tax at source, to deduct from your compensation all Tax-Related Items. You agree to pay any Tax-Related Items that cannot be satisfied from wages or other cash compensation, to the extent permitted by applicable law.

(a) To avoid negative accounting treatment, the Parker Companies may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash and will have no entitlement to the Common Stock share equivalent. If the obligation for Tax-Related Items is satisfied by withholding in shares of Common Stock, for tax purposes, you are deemed to have been issued the full number of shares of Common Stock subject to the vested RSUs, notwithstanding

that a number of the shares of Common Stock is held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of your participation in the Plan.

- (b) Regardless of any action the Parker Companies take with respect to any or all Tax-Related Items, you acknowledge and agree that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Parker Companies. You further acknowledge that the Parker Companies: (i) make no representations nor undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this grant of RSUs or dividend equivalents, including, but not limited to, the grant, vesting or settlement of RSUs or dividend equivalents, the subsequent delivery of shares of Common Stock and/or cash upon settlement of such RSUs or the subsequent sale of any shares of Common Stock acquired pursuant to such RSUs and receipt of any dividends or dividend equivalent payments; and (ii) do not commit to and are under no obligation to structure the terms or any aspect of the grant of RSUs and/or dividend equivalents to reduce or eliminate your liability for Tax-Related Items or to achieve any particular tax result. Further, if you have become subject to tax in more than one jurisdiction, you acknowledge that the Parker Companies may be required to withhold or account for Tax-Related Items in more than one jurisdiction. You shall pay the Parker Companies any amount of Tax-Related Items that the Parker Companies may be required to withhold or account for as a result of the Employee's participation in the Plan or your of RSUs that cannot be satisfied by the means previously described. The Company may refuse to deliver the benefit described in the Award Agreement if you fail to with your obligations in connection with the Tax Related Items.
- (c) In accepting the RSUs, you consent and agree that in the event the RSUs or the dividend equivalents become subject to an employer tax that is legally permitted to be recovered from you, as may be determined by the Parker Companies at their sole discretion, and whether or not your employment with the Parker Companies is continuing at the time such tax becomes recoverable, you will assume any liability for any such taxes that may be payable by the Parker Companies in connection with the RSUs and dividend equivalents. Further, by accepting the RSUs, you agree that the Parker Companies may collect any such taxes from you by any of the means set forth in this Section 15. You further agree to execute any other consents or elections required to accomplish the above, promptly upon request of the Company.

16. Beneficiary Designation. To the extent permitted by the Committee, in its sole discretion, you shall have the right to designate one or more beneficiaries to receive all or part of any shares of Common Stock underlying the Restricted Stock Units in the event of your death. Any beneficiary designation permitted by the Committee shall be effective when it is submitted in writing to the Committee during your lifetime on a form prescribed by the Committee. The submission of a new beneficiary designation shall cancel all prior beneficiary designations. Any finalized divorce or marriage subsequent to the date of a beneficiary designation shall revoke such designation, unless in the case of divorce your previous spouse was not designated as beneficiary and unless in the case of marriage your new spouse was previously designated as beneficiary. If you are married, your spouse 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 you fail to designate a beneficiary as may be permitted by the Committee, or if such beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new designation, or if every person designated as beneficiary predeceases you or dies prior to the payment of your Restricted Stock Units, then the Company shall direct the payment of the shares of Common Stock underlying the Restricted Stock Units to the legal representative of your estate.

If you and your beneficiary shall die simultaneously or under such circumstances that it cannot be determined with reasonable certainty who died first, then it shall be presumed for purposes of this designation that you survived your beneficiary.

The payment of the shares of Common Stock to a beneficiary shall fully and completely discharge the Parker Companies and the Committee from all further obligations under the Plan with respect to you and your estate, and your Award Agreement shall terminate upon such full payment of benefits.

17. Adjustments. The number and kind of shares of Common Stock deliverable pursuant to the Restricted Stock Units are subject to adjustment as provided in Section 4.3 of the Stock Incentive Plan.

18. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws and listing requirements with respect to the Restricted Stock Units; provided, however, notwithstanding any other provision of these Terms and Conditions, and only to the extent permitted under Section 409A of the Code, the Company shall not be obligated to deliver any shares of Common Stock pursuant to these Terms and Conditions if the delivery thereof would result in a violation of any such law or listing requirement. The Company intends that the Award Agreement and these Terms and Conditions are subject to the requirements of Section 409A of the Code and they will be interpreted, construed and administered accordingly.

19. Amendments. Subject to the terms of the Plan, the Committee may amend these Terms and Conditions upon written notice to you. Any amendment to the Plan shall be deemed to be an amendment to these Terms and Conditions to the extent that the amendment is applicable hereto. Notwithstanding the foregoing, no amendment of the Plan or these Terms and Conditions shall adversely affect your rights under these Terms and Conditions without your consent unless the Committee determines that such amendment is necessary or advisable to conform the Plan or these Terms and Conditions to any present or future law, regulation or rule applicable to the Plan.

20. Severability. In the event that one or more of the provisions of these Terms and Conditions shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

21. Successors and Assigns. Without limiting Section 8, the provisions of these Terms and Conditions shall inure to the benefit of, and be binding upon, your successors, administrators, heirs, legal representatives and assigns, and the successors and assigns of the Company.

22. Governing Law. The interpretation, performance, and enforcement of these Terms and Conditions shall be governed by the laws of the State of Ohio, without regard to its conflict of law rules. Any dispute, disagreement or question which arises under or as a result of, or in any way relates to, the interpretation, construction or application of the terms of the Plan, the Award Agreement or these Terms and Conditions will be determined and resolved by the Committee. Such determination and resolution by the Committee will be final, binding and conclusive for all purposes.

23. No Shareholder Rights Prior to Issuance of Shares. You will have no rights as a shareholder unless and until shares of Company Stock are issued pursuant to the Award Agreement or these Terms and Conditions.

24. Non-U.S. Employees. Notwithstanding any provision of these Terms and Conditions, if your employment with the Parker Companies is subject to the rules and regulations of one or more non-United States jurisdictions, then your Restricted Stock Units shall be subject to any special terms and conditions as set forth in any appendix for your country (an "Appendix"). Moreover, if you relocate to one of the countries included in an Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of these Terms and Conditions or the Plan. An Appendix shall constitute part of these Terms and Conditions.

25. Consent to Transfer Personal Data. By accepting your award of Restricted Stock Units:

(a) You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this Grant Agreement and any other materials

by and among, as applicable, the Parker Companies for the exclusive purpose of implementing, administering and managing your participation in the Plan.

- (b) You understand that the Parker Companies may hold certain personal information about you, including, but not limited to, name, home address, drivers' license information, and telephone number, date of birth, social insurance number or other identification number, salary, nationality, residency, status, job title, any shares of stock or directorships held in the Parker Companies, details of all RSUs, options or any other entitlement to shares of stock granted, canceled, purchased, exercised, vested, unvested or outstanding in your favor ("Data") for the exclusive purpose of implementing, managing and administering the Plan.
- (c) You understand that Data will be transferred to the Parker Companies or one or more stock plan service providers as may be selected by the Parker Companies from time to time, which is assisting the Parker Companies with the implementation, administration and management of the Plan. You understand that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country of operation (e.g., the United States) may have different data privacy laws and protections than your country. You understand that if you reside outside the United States, you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the Parker Companies and any other possible recipients which may assist the Parker Companies (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing your participation in the Plan. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that if you reside outside the United States, you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing your local human resources representative.
- (d) Further, you understand that are providing the consents herein on a purely voluntary basis. If you do not consent, or if you later seek to revoke your consent, your employment and career with the Parker Companies will not be affected; the only consequence of refusing or withdrawing your consent is that the Parker Companies would not be able to grant RSUs or other equity awards to you or administer or maintain such awards. Therefore, you understand that refusing or withdrawing the consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

26. Notification of Change in Personal Data. If your address or contact information changes while any portion of your Restricted Stock Units remains unpaid, the Company must be notified in order to administer this award. Notification of such changes should be provided to the Company as follows:

- (a) **U.S. and Canada Participants** (employees who are on the U.S. or Canadian payroll system):
- Active employees: Update your address and contact information directly through your Personal Profile Section in the Employee Self-Service site.
 - Retired, terminated or family member of deceased participant: Contact the Benefits Service Center at 1-800-992-5564.

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

27. Electronic Delivery. You hereby consent and agree to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered under the Plan. You also understand that you shall have

the right at any time to request that the Company deliver written copies of any and all materials referred to above at no charge. You hereby consent to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and you agree that your electronic signature is the same as, and shall have the same force and effect as, your manual signature. You consent and agree that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

28. Prospectus Notification. Copies of the Prospectus and the most recent Annual Report and Proxy Statement issued by the Company are available for your review on the UBS One Source Web site. You have the right to receive a printed copy of the Prospectus upon request by either calling the third party Plan Administrator at 877-742-7471 or by sending your written request to Parker's Total Rewards Department.

29. Certain Defined Terms. For purposes of these Terms and Conditions:

"Retirement" shall mean your termination of employment with the Parker Companies after the attainment of age 65.

"Disability" shall mean a termination of employment under circumstances that would make you eligible to receive benefits under the applicable long-term disability plan or policy of the Parker Companies in which you participate or, if Disability is not defined in an applicable long-term disability plan or policy, Disability shall mean the Company's long-term disability plan, as it may be in effect from time to time, or any successor plan, program, agreement or arrangement.

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

APPENDIX

Parker-Hannifin Corporation Restricted Stock Unit Terms and Conditions (RSU-[#]BOD) Special Provisions for Non-U.S. Employees

This Appendix includes additional terms and conditions that govern the Restricted Stock Units granted to you under the Plan if you reside in, or are subject to tax in, one of the countries described below at any time prior to the Distribution Date of your Restricted Stock Units. Certain capitalized terms used but not defined in this Appendix have the meanings set forth in the Plan and/or the Terms and Conditions.

Australia

Retirement. The following provision modifies Sections 3 and 6 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee.

CHINA

Retirement. The following provision modifies Sections 3 and 6 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee.

In the event of your Retirement with the prior consent of the Committee, if you are a Chinese national, you hereby agree that you will instruct the third party Plan administrator to sell the shares you receive in payment of vested Restricted Stock Units within five (5) months after the date of your Retirement. If you do not sell the shares within five (5) months after Retirement, then the Company shall be authorized to instruct the third party Plan administrator to sell the shares on your behalf and report the transaction results to the Company for tax reporting and withholding purposes in order to comply with China SAFE requirements.

DENMARK

Purchase Price. The following provision modifies Section 1 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, if you reside in, or are subject to tax in, Denmark on the Grant Date, then the distribution of the Common Stock underlying your vested Restricted Stock Units is subject to your payment of a purchase price per Common Share equal to 1% of the Fair Market Value per share on the Grant Date (the "Purchase Price"). All of your Restricted Stock Units shall be forfeited without further action or notice if you fail to pay the Purchase Price to the Company within ten (10) days after the Distribution Date.

Retirement. The following provision modifies Sections 3 and 6 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee.

No Dividend Equivalent Units. The following provision modifies Section 10 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, no Dividend Equivalent Units shall be credited or paid to you with respect to your Restricted Stock Units.

HONG KONG

Retirement. The following provision modifies Sections 3 and 6 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee.

INDIA

Retirement. The following provision modifies Sections 3 and 6 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee.

JAPAN

Retirement. The following provision modifies Sections 3 and 6 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee.

MEXICO

Retirement. The following provision modifies Sections 3 and 6 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee.

THE NETHERLANDS

Retirement. The following provision modifies Sections 3 and 6 of the Terms and Conditions.

Notwithstanding any provision of the Terms and Conditions to the contrary, you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee.

OTHER COUNTRIES

If the Committee determines, in its sole discretion, that your Restricted Stock Units would otherwise become subject to tax in any country prior to the delivery of the shares of Common Stock underlying your vested Restricted Stock Units, then, except as otherwise may be required by Section 409A of the Code, the Committee may, in its sole discretion, provide that, notwithstanding any provision of the Terms and Conditions to the contrary, (1) you shall not be eligible for Retirement (or any vesting of your Restricted Stock Units that would occur as a result of Retirement) unless you obtain the prior consent of the Committee; and (2) in the event of your Retirement with the prior consent of the Committee, the Distribution Date for your vested Restricted Stock Units shall be the date of your Retirement.



TO: [PARTICIPANT NAME]

**PARKER-HANNIFIN CORPORATION
STOCK APPRECIATION RIGHTS AWARD AGREEMENT (SAR-[#])**

The Human Resources and Compensation Committee of the Board of Directors (the "Committee") of Parker-Hannifin Corporation (the "Company") has awarded to you the following number of Stock Appreciation Rights ("SARs") under the Parker-Hannifin Corporation 2016 Omnibus Stock Incentive Plan (the "Plan") and subject to the Parker-Hannifin Corporation Stock Appreciation Right Terms and Conditions (SAR-[#]) (the "Terms and Conditions"):

Grant Date: [Grant Date]

Number of Options: [Number Granted]

Grant Price: U.S. \$[Grant Price] per share

Expiration Date: [Date] at 4:00 PM U.S. Eastern Time

Each SAR granted under this award entitles you upon exercise to receive the increase in value between the Grant Price and the fair market value of one share of common stock of the Company, subject to the Terms and Conditions and the Plan.

Vesting Dates. Except as otherwise provided in the Terms and Conditions, while you are an active full-time employee, one-third (1/3) of the SARs will vest and become exercisable on each of the first, second, and third anniversaries of the Grant Date. Once SARs become vested and exercisable, you may exercise those SARs at any time prior to the Expiration Date, except as otherwise provided in the Terms and Conditions. Scheduled vesting dates and amounts for this award are viewable by clicking on the Grant Date hyperlink on your Stock Appreciation Rights Grant Information page on the Stock Incentive Plan Administrator's web site.

Your Action Items. Please take the following actions:

Before you accept your grant, click on the links below to review the Terms and Conditions and the Plan, which govern this award.

Accept the Terms and Conditions and execute this Agreement by clicking on the "Accept" button below.

Inform the Company of any change in address or contact information, as necessary. Refer to the section of the Terms and Conditions titled "**Notification of Change in Personal Data**" for instructions on how to provide notification to the Company.

[Stock Appreciation Right Terms and Conditions \(SAR-\[.\]\)](#)
[2016 Omnibus Stock Incentive Plan](#)

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

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

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



PARKER-HANNIFIN CORPORATION
STOCK APPRECIATION RIGHTS TERMS AND CONDITIONS (SAR-0S190)

Pursuant to the Stock Appreciation Rights Award Agreement (the "Award Agreement") available on the website of the third party Plan administrator for Parker-Hannifin Corporation (the "Company"), The Human Resources and Compensation Committee (the "Committee") of the Board of Directors of the Company has awarded you a number of Stock Appreciation Rights ("SARs"). The SARs have been awarded to you as of the grant date specified in the Award Agreement (the "Grant Date"), and the SARs are subject to the terms, conditions, and restrictions set forth in the Parker-Hannifin Corporation 2016 Omnibus Stock Incentive Plan, as amended from time to time, or any applicable successor plan (the "Plan") and these Stock Appreciation Rights Terms and Conditions (SAR-[#]) (the "Terms and Conditions"). To the extent that, in accordance with the terms of the Plan, the Committee has delegated to any persons any of the Committee's authority with respect to these Terms and Conditions, references to the Committee in these Terms and Conditions shall be deemed to be references to those persons with respect to authority so delegated.

1. Description of SARs. Your SARs award entitles you to receive the increase in value between the Grant Price set forth in your Award Agreement and the Fair Market Value at exercise ("Appreciation") of the number of shares of Common Stock to which your award applies, subject to these Terms and Conditions. Upon exercise, the Appreciation will be paid to you in shares of Common Stock having a value equal to the amount of the Appreciation. The calculation of Appreciation is described in more detail below. Your unexercised SARs will expire and cease to be exercisable without further action or notice on the Expiration Date set forth in your Award Agreement or such earlier date (a "Lapse Date") as may be applicable pursuant to Section 3(d) of these Terms and Conditions.

2. Calculation of Appreciation. Appreciation shall be determined by the Company (or its third party Plan administrator) by subtracting the Grant Price from the Fair Market Value of a share of Common Stock at the time of your exercise of SARs, and multiplying the result by the number of SARs exercised. The number of shares of Common Stock issued upon exercise of SARs will be the number derived from dividing the Appreciation by the Fair Market Value at exercise of a share of Common Stock, rounded down to the nearest whole share. You will not receive cash for any fractional share eliminated by rounding.

3. Vesting of SARs.

(a) Subject to these Terms and Conditions, all or a portion of the SARs will vest and become exercisable on the vesting date(s) described in the Award Agreement (each a "Vesting Date"), provided that you shall have remained in the continuous full-time employment of the Company and its Subsidiaries (collectively referred to herein as the "Parker Companies") through the applicable Vesting Date.

(b) Notwithstanding the foregoing, if your continuous full-time employment with the Parker Companies is terminated prior to the applicable Vesting Date, your awards shall be treated as follows:

If your Termination is due to:	SARs that have not yet become vested shall:
Death or Disability	Immediately vest and become exercisable as of the date of such termination of employment;
Retirement	Immediately vest as of the date of your Retirement and become exercisable upon the applicable Vesting Date(s);
Qualifying Termination in connection with a Change in Control	Immediately vest and become exercisable as of the date of your termination of employment;
Any other reason	Immediately forfeited.

For purposes of these Terms and Conditions “Retirement” shall have the meaning set out in the applicable retirement plan or policy of the Parker Companies in which you participate or, if Retirement is not defined in an applicable retirement plan or policy, Retirement shall mean your termination of employment with the Parker Companies after the attainment of age 55 and ten years of service.

(c) Except as otherwise provided in Section 3(d), any SARs that have become vested and exercisable in accordance with this Section 3 may be exercised only while you are a full-time employee of the Parker Companies at any time until the earlier of the Expiration Date or the applicable Lapse Date.

(d) If your continuous full-time employment with the Parker Companies is terminated prior to the Expiration Date for any reason, any vested and exercisable SARs shall remain exercisable until the Lapse Date set forth below:

Termination Reason	Lapse Date
If your continuous full-time employment terminates due to:	Then your vested and exercisable SARs will lapse and cease to be exercisable on:
Disability	The Expiration Date;
Retirement	The Expiration Date;
Death	If Retirement eligible at the time of death, the Expiration Date. Otherwise, the <u>earlier</u> of (i) Two (2) years after the date of death or (ii) the Expiration Date;
Qualifying Termination in connection with a Change in Control	If Retirement eligible at the time of termination, the Expiration Date. Otherwise, the <u>earlier</u> of: (i) Three (3) months from the date of termination or (ii) the Expiration Date
Any other reason	The <u>earlier</u> of: (i) Three (3) months from the date of termination or (ii) the Expiration Date

(e) For purposes of this Section 3, your continuous full-time employment with the Parker Companies shall not be deemed to have been interrupted, and you shall not be deemed to have ceased to be an employee of the Parker Companies, by reason of (1) the transfer of your employment among the Parker Companies, or (2) the transfer of your employment to an entity that is 50% owned (directly or indirectly) by the Company provided that you remain actively and continuously employed by such entity.

4. Forfeiture of SARs. Any SARs that have not yet vested pursuant to Section 3 shall be forfeited automatically without further action or notice if you cease to be employed by the Parker Companies prior to a Vesting Date other than as provided in Section 3(b).

5. Exercise and Settlement Procedures.

(a) Exercise of all or any portion of your vested and exercisable SARs shall be subject to such exercise procedures of the Company and its third party Plan administrator, as the same shall be in effect from time to time. Upon your exercise of SARs in accordance with such procedures and these Terms and Conditions, the Company will instruct its stock transfer agent to issue the net number of shares of Common Stock you are entitled to receive.

(b) Any vested and exercisable SARs granted under your Award Agreement that have net Appreciation (after all applicable withholding taxes) but that remain unexercised on the business day preceding the Expiration Date shall automatically be self-exercised on the Expiration Date. **NOTE: AWARDS THAT LAPSE PRIOR TO THE ORIGINAL EXPIRATION DATE AND AWARDS THAT HAVE NOT BEEN ACCEPTED BY THE PARTICIPANT ARE NOT ELIGIBLE FOR SELF-EXERCISE. ANY AWARDS THAT HAVE NOT BEEN EXERCISED ON OR BEFORE THE EXPIRATION DATE SHALL EXPIRE WITH NO VALUE.**

(c) The Company's obligations with respect to the SARs shall be satisfied in full upon the delivery of the Common Stock underlying vested SARs that are exercised in accordance with these Terms and Conditions.

6. Transferability. The SARs may not be transferred, assigned, pledged or hypothecated in any manner, or be subject to execution, attachment or similar process, by operation of law or otherwise, unless otherwise provided under the Plan. Your SARs are not transferable or assignable during your life except to (a) your spouse, children or their lineal descendants ("Immediate Family Members"); (b) one or more trusts for the benefit of you and/or one or more of your Immediate Family Members; or (c) a partnership or limited liability company in which you or your Immediate Family Members are the only partners or members; provided, however, in each case that you (i) submit a completed SAR Assignment Form to the Plan Administrator or comply with other procedures in effect at the time of the transfer and (ii) do not receive any consideration for the transfer. All transferred SARs remain subject to the terms, conditions and restrictions of the Plan and these Terms and Conditions (except that such transferred SARs are not transferable by the transferee during life). Any purported transfer or encumbrance in violation of the provisions of this Section 6 shall be null and void, and the other party to any such purported transaction shall not obtain any rights to or interest in such SARs.

7. No Rights to Future Awards. By voluntarily acknowledging and accepting your award of SARs, you acknowledge and understand that the SARs shall not form part of any contract of employment between you and the Company. Nothing in these Terms and Conditions, your Award Agreement, the Plan or the plan summary and prospectus which describes the Plan (the "Prospectus") shall confer upon you any right to continue to receive stock incentive awards in the future. You further acknowledge that your award of SARs is for future services and is not under any circumstances to be considered compensation for past services.

8. Detrimental Activity, Claw-back Policy.

(a) If the Committee finds in its discretion that you have engaged in any Detrimental Activity (as defined in the Plan), the Committee may at any time and in its sole discretion cancel and revoke all or any unexercised portion of your SARs. In addition, if the Committee finds that you have engaged in any Detrimental Activity, either during your employment with the Company or within twelve months thereafter, then you shall be required to (a) return to the Company, in exchange for payment by the Company of any amount actually paid therefor by you, all shares of Common Stock that you have not disposed of that were issued pursuant to these Terms and Conditions within twelve months prior to the commencement of such Detrimental Activity, and (b) pay to the Company in cash, within ten days after demand therefor, the difference between any amount actually paid therefor by you and the Fair Market Value (determined as of the date that the SARs were exercised) of all shares of Common Stock that you have disposed of that were issued pursuant to these Terms and Conditions. The Plan defines Detrimental Activity as any conduct or activity, whether or not related to the business of the Parker Companies, that is determined in individual cases, by the Committee or its express delegate, to be detrimental to the interests of the Parker Companies, including without limitation (i) 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 Company; (ii) disclosure to anyone outside of the Company, or the use for any purpose other than the Company's business, of confidential information or material related to the Company, whether acquired during or after employment with the Company; (iii) fraud, embezzlement, theft-in-office or other illegal activity; or (iv) violation of the Company's Code of Ethics.

(b) By accepting your award of SARs, you acknowledge that the SARs may be subject to reduction, cancellation, forfeiture or recoupment, to such extent as may be provided under the Company's Claw-back Policy, as established by the Committee or the Board, as it now exists or as it may be amended from time to time.

9. Relation to Other Benefits. Any economic or other benefit to you under these Terms and Conditions or the Plan shall not be taken into account in determining any benefits to which you may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Parker Companies and shall not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Parker Companies. Without limiting the foregoing, by voluntarily acknowledging and accepting your award of SARs, you agree that no benefits accruing under your Award Agreement, these Terms and Conditions or the Plan will be reflected in any severance or indemnity payments that the Parker Companies may make or be required to make to you in the future, regardless of the jurisdiction in which you may be located.

10. Taxes and Withholding. The Parker Companies have the right to deduct or cause to be deducted, or collect or cause to be collected, with respect to the taxation of the SARs, any federal, state or local taxes, social taxes or other taxes required to be withheld or paid with respect to the SARs, and you will be required to pay any such amounts or such amounts will be deducted from any amount payable to you. To the extent the Parker Companies are required to withhold any federal, state, local, foreign or other taxes in connection with the delivery of shares of Common Stock under these Terms and Conditions, then the Company or Subsidiary (as applicable) may, at its discretion, retain a number of shares of Common Stock otherwise deliverable hereunder with a value equal to the required withholding (based on the Fair Market Value of the shares of Common Stock on the date of delivery); provided that in no event shall the value of the shares of Common Stock retained exceed the minimum amount of taxes required to be withheld or such other amount that will not result in a negative accounting impact.

11. Beneficiary Designation. To the extent permitted by the Committee, in its sole discretion, you shall have the right to designate one or more beneficiaries to receive all or part of any shares of Common Stock underlying the SARs in the event of your death. Any beneficiary designation permitted by the Committee shall be effective when it is submitted in writing to the Committee during the Participant's lifetime on a form prescribed by the Committee. The submission of a new beneficiary designation shall cancel all prior beneficiary designations. Any finalized divorce or marriage subsequent to the date of a beneficiary designation shall revoke such designation, unless in the case of divorce your previous spouse was not designated as beneficiary and unless in the case of marriage your new spouse was previously designated as beneficiary. If you are married, your spouse 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 you fail to designate a beneficiary as may be permitted by the Committee, or if such beneficiary designation is revoked by marriage, divorce, or otherwise without execution of a new designation, or if every person designated as beneficiary predeceases you or dies prior to the exercise of your SARs, then the Company shall issue any Common Stock payable under your SARs to the estate of the last to die of you and any beneficiaries.

12. Adjustments. The number and kind of shares of Common Stock deliverable pursuant to exercise of the SARs are subject to adjustment as provided in Section 4.3 of the Plan.

13. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws and listing requirements with respect to the SARs; provided, however, notwithstanding any other provision of these Terms and Conditions, and only to the extent permitted under Section 409A of the Code, the Company shall not be obligated to deliver any shares of Common Stock pursuant to these Terms and Conditions if the delivery thereof would result in a violation of any such law or listing requirement. The Company intends that the Award Agreement and these Terms and Conditions be exempt from the requirements of Section 409A of the Code and they will be interpreted, construed and administered accordingly.

14. Amendments. Subject to the terms of the Plan, the Committee may amend these Terms and Conditions upon written notice to you. Any amendment to the Plan shall be deemed to be an amendment to these Terms and Conditions to the extent that the amendment is applicable hereto. Notwithstanding the foregoing, no amendment of the Plan or these Terms and Conditions shall adversely affect your rights under these Terms and Conditions without your consent unless

the Committee determines that such amendment is necessary or advisable to conform the Plan or these Terms and Conditions to any present or future law, regulation or rule applicable to the Plan.

15. Severability. In the event that one or more of the provisions of these Terms and Conditions shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

16. Relation to Plan. These Terms and Conditions and all rights under your Award Agreement and these Terms and Conditions are at all times subject to all other terms, conditions and provisions of the Plan (and any rules or procedures adopted under the Plan by the Committee). All capitalized terms not defined in these Terms and Conditions shall have the meaning ascribed to such terms in the Plan. In the event of a conflict between the terms of the Plan and these Terms and Conditions, your Award Agreement or the Prospectus, the terms of the Plan shall control. These Terms and Conditions, the Plan and the Award Agreement contain the entire agreement and understanding of the parties with respect to the subject matter contained in these Terms and Conditions, and supersede all prior written or oral communications, representations and negotiations in respect thereto.

17. Successors and Assigns. Without limiting Section 6, the provisions of these Terms and Conditions shall inure to the benefit of, and be binding upon, your successors, administrators, heirs, legal representatives and assigns, and the successors and assigns of the Company.

18. Governing Law. The interpretation, performance, and enforcement of these Terms and Conditions shall be governed by the laws of the State of Ohio, without regard to its conflict of law rules. Any dispute, disagreement or question which arises under or as a result of, or in any way relates to, the interpretation, construction or application of the terms of the Plan, the Award Agreement or these Terms and Conditions will be determined and resolved by the Committee. Such determination and resolution by the Committee will be final, binding and conclusive for all purposes.

19. Non-U.S. Employees. Notwithstanding any provision of these Terms and Conditions, if your employment with the Parker Companies is subject to the rules and regulations of one or more non-United States jurisdictions, then your SARs shall be subject to any special terms and conditions as set forth in any appendix for your country (an "Appendix"). Moreover, if you relocate to one of the countries included in an Appendix, the special terms and conditions for such country will apply to you, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of these Terms and Conditions or the Plan. An Appendix shall constitute part of these Terms and Conditions.

20. Consent to Transfer Personal Data. By accepting your award of SARs, you voluntarily acknowledge and consent to the collection, use, processing and transfer of personal data as described in this Section 19. You are not obliged to consent to such collection, use, processing and transfer of personal data. However, failure to provide the consent may affect your ability to participate in the Plan. The Parker Companies hold certain personal information about you, that may include your name, home address and telephone number, fax number, email address, family size, marital status, sex, beneficiary information, emergency contacts, passport / visa information,

age, language skills, drivers license information, date of birth, birth certificate, social security number or other employee identification number, nationality, C.V. (or resume), wage history, employment references, job title, employment or severance contract, current wage and benefit information, personal bank account number, tax related information, plan or benefit enrollment forms and elections, option or benefit statements, any shares of stock or directorships in the Company, details of all options or any other entitlements to shares of Common Stock awarded, canceled, purchased, vested, unvested or outstanding in your favor, for the purpose of managing and administering the Plan (“Data”). The Parker Companies will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of your participation in the Plan, and the Parker Companies may further transfer Data to any third parties assisting the Parker Companies in the implementation, administration and management of the Plan. These recipients may be located throughout the world, including the United States. You authorize them to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares of stock on your behalf to a broker or other third party with whom you may elect to deposit any shares of stock acquired pursuant to the Plan. You may, at any time, review Data, require any necessary amendments to it or withdraw the consents herein in writing by contacting the Company; however, withdrawing your consent may affect your ability to participate in the Plan.

21. Notification of Change in Personal Data. If your address or contact information changes while any portion of your SARs remains unexercised, the Company must be notified in order to administer this award. Notification of such changes should be provided to the Company as follows:

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

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

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

22. Electronic Delivery. You hereby consent and agree to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered under the Plan. You also understand that you shall have the right at any time to request that the Company deliver written copies of any and all materials referred to above at no charge. You hereby consent to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and you agree that your electronic signature is the same as, and shall have the same force and effect as, your manual signature. You consent and agree that any such

procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

23. Prospectus Notification. Copies of the Prospectus and the most recent Annual Report and Proxy Statement issued by the Company are available for your review on the UBS One Source Web site. You have the right to receive a printed copy of the Prospectus upon request by either calling the third party Plan Administrator at 877-742-7471 or by sending your written request to Parker's Total Rewards Department.

APPENDIX

Parker-Hannifin Corporation Stock Appreciation Rights Terms and Conditions (SAR-0S190) Special Provisions for Non-U.S. Employees

This Appendix includes additional terms and conditions that govern the Stock Appreciation Rights (“SARs”) granted to you under the Plan if you reside in, or are subject to tax in, one of the countries described below at any time prior to the vesting or exercise of your Stock Appreciation Rights. Certain capitalized terms used but not defined in this Appendix have the meanings set forth in the Plan and/or the Terms and Conditions.

CHINA

Exercise and Settlement Procedures. The following provision modifies Section 5 of the Terms and Conditions.

If you are a Chinese national, the Company may, pursuant to China SAFE requirements, instruct the third party Plan administrator to automatically exercise your SARs and sell the resulting shares on your behalf if the SARs under this Award are vested and remain unexercised five (5) months after your retirement.

APPENDIX

Parker-Hannifin Corporation Stock Appreciation Rights Terms and Conditions (SAR-0S19O) Special Provisions for Non-U.S. Employees

This Appendix includes additional terms and conditions that govern the Stock Appreciation Rights (“SARs”) granted to you under the Plan if you reside in, or are subject to tax in, one of the countries described below at any time prior to the vesting or exercise of your Stock Appreciation Rights. Certain capitalized terms used but not defined in this Appendix have the meanings set forth in the Plan and/or the Terms and Conditions.

CHINA

Exercise and Settlement Procedures. The following provision modifies Section 5 of the Terms and Conditions.

If you are a Chinese national, the Company may, pursuant to China SAFE requirements, instruct the third party Plan administrator to automatically exercise your SARs and sell the resulting shares on your behalf if the SARs under this Award are vested and remain unexercised five (5) months after your retirement.



TO: [PARTICIPANT NAME]

NOTICE OF AWARD
PARKER-HANNIFIN CORPORATION
LONG-TERM INCENTIVE PERFORMANCE (LTIP)
UNDER PERFORMANCE BONUS PLAN

The Human Resources and Compensation Committee of the Board of Directors (the "Committee") of Parker-Hannifin Corporation (the "Company") has awarded to you the contingent right to receive the following number of shares of Common Stock of the Company ("Maximum Shares") under the Company's Long-Term Incentive Performance Plan Under the Performance Bonus Plan (as Amended and Restated) (the "LTIP Plan"), the Parker-Hannifin 2016 Omnibus Stock Incentive Plan (as defined in the LTIP Plan) and the Company's 2015 Performance Bonus Plan (the "Performance Bonus Plan"):

Grant Date: [Grant Date]

Performance Period: CY 2019-2020-2021

Maximum Shares [Number]

Target Shares [Number Granted]

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

Payout of Your Award. Your right to earn all or a portion of the Maximum Shares under your award will be based upon the Company's performance during the Performance Period for certain key objective financial metrics described in the LTIP Plan, and the Committee's discretion to reduce the amount payable under your award (including, for example, a possible reduction to the number of Target Shares set out above), based on the Company's performance in comparison to its peer group and otherwise as described in the LTIP Plan. Subject to your continued employment through the end of the Performance Period, any amount payable under your award will be paid in the form of shares of Common Stock in the Company, to be issued in April 2022 following the Committee's certification of performance results of the Company, subject to the Committee's exercise of any discretion to reduce the amount payable, and the Committee's authorization of payment.

Peer Group (as defined in the LTIP Plan):

Caterpillar Inc.	Fortive Corporation
Colfax Corporation	Honeywell International plc
Cummins Inc.	Illinois Tool Works Inc.
Danaher Corporation	ITT Industries Inc.
Deere & Company	Ingersoll-Rand Company Limited
Dover Corporation	Johnson Controls International plc
Eaton Corporation plc	Rockwell Automation Inc.
Emerson Electric Co.	SPX Flow
Flowsolve Corporation	Textron Inc.

Subject to your continued employment through the end of the Performance Period, any Shares earned hereunder will be issued after the end of the Performance Period following the Committee's certification of performance results, authorization of any Share issuance, and considerations of other appropriate factors as the Committee may determine.

Your Action Items. Please take the following actions:

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

[Long-Term Incentive Performance Plan Under the Performance Bonus Plan \(As Amended and Restated\)\(LT-006O\)](#)
[2016 Omnibus Stock Incentive Plan](#)
[2015 Performance Bonus Plan](#)
[2016 Omnibus Stock Incentive Prospectus](#)

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

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

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

1. Effective Date and Purpose. Parker-Hannifin Corporation, an Ohio corporation (the "Company"), adopted the Parker-Hannifin Corporation Long-Term Incentive Performance Plan as Amended and Restated Under the Performance Bonus Plan (the "Plan") effective as of January 20, 2016, and the Plan is amended and restated as set forth herein, effective as of January 23, 2019. The purpose of the Plan is to attract and retain key executives for the Company and to provide such persons with incentives for superior performance in the form of an opportunity to earn an award of shares of Parker-Hannifin Common Stock ("Shares") that qualifies as a Long-Term Incentive Bonus (as defined in the Company's Performance Bonus Plan), while preserving the ability of the Company to deduct Long-Term Incentive Bonuses paid under this Plan as "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code. This Plan and each Award Opportunity granted hereunder shall be subject to the terms and conditions set forth below and the terms and conditions of the Company's Performance Bonus Plan and the Stock Incentive Plan. Capitalized terms not defined in this Plan shall have the meanings set forth in the Performance Bonus Plan or the Stock Incentive Plan, as applicable.

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

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

4. Dividend Equivalent Units. From and after the Grant Date and until the earlier of (i) the time when the Award Opportunity is paid in accordance with Section 6 hereof or (ii) the time when your right to payment of the Award Opportunity is forfeited in accordance with Section 7 hereof, on the date that the Company pays a cash dividend (if any) to holders of shares of Common Stock generally, you shall be credited with a number of additional Target Shares Granted (the "Dividend Equivalent Units") determined by dividing the aggregate amount of the cash dividend that would be payable on such date to a holder of a number of shares of Common Stock equal to the number of your unpaid Target Shares Granted by the closing price per share of the Company's Common Stock on the New York Stock Exchange on the last trading day preceding the dividend payment date. Any such Dividend Equivalent Units will be considered Target Shares Granted for purposes of these Terms and Conditions and will be subject to all of the terms, conditions and restrictions set forth herein.

5. Determination of Amount Payable Under Award Opportunities.

A. Committee Certification of Management Objectives. Subject to potential reduction as set forth in Section 5.B and further subject to the other terms and conditions of this Plan, the full number of Maximum Shares granted to a Participant with respect to a Performance Period shall be earned as of the last day of such Performance Period, provided that (i) following the end of the Performance Period, the Committee has certified that the Company has achieved either (a) average Return on Average Equity of 4% during the Performance Period, or (b) average Free Cash Flow Margin of 4% during the Performance Period; and (ii) the Participant has been continuously employed by the Company and its Affiliates through the last day of the Performance Period.

B. Committee Discretion to Reduce Long-Term Incentive Awards. Notwithstanding Section 5.A, the actual number of Shares payable to a Participant with respect to a Performance Period may be reduced (including a reduction to zero) by the Committee in its sole and absolute discretion based on such factors as the Committee determines to be appropriate, including, without limitation, the Company's performance with respect to the performance measures (the "Peer Performance Measures") set out below, with the number of a Participant's Target Shares under an Award Opportunity allocated to each of the Peer Performance Measures in proportion to the percentages set out below. The Peer Performance Measures shall be determined for the Company at the conclusion of the Performance Period, in comparison to the performance of the members of the Company's Peer Group, determined for each member of the Peer Group based on its performance at the conclusion of the three fiscal year period of such company ending with or immediately prior to the conclusion of the Performance Period:

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

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

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

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

6. Payment of Awards. Except as otherwise provided in this Plan, during the fourth month following the end of the applicable Performance Period, the Company shall deliver to each Participant the Shares, if any, that the Committee has determined (in accordance with Section 5) to be payable with respect to any Award Opportunity.

7. Terminations. Except as otherwise provided in this Section 7 or Section 8, a Participant must remain continuously employed by the Company and its Affiliates through the last day of a Performance Period in order to be entitled to receive payment of any Long-Term Incentive Bonus pursuant to this Plan for such Performance Period.

A. Qualifying Retirement. Notwithstanding the foregoing, in the event of a Participant's termination of employment during a Performance Period due to a Qualifying Retirement with respect to such Performance Period, the Participant will be entitled to receive the Award Opportunity, if any, that the Committee determines (in accordance with Section 5) to be payable for such Performance Period, as if the Participant had remained continuously employed through the end of the Performance Period. Any such Award Opportunity will be payable at the time provided in Section 6, following the certification of the achievement of the management objectives by the Committee in accordance with Section 5.A.

B. Death, Disability, Termination Without Cause, Other Retirement. Notwithstanding the foregoing, in the event of a Participant's termination of employment during a Performance Period due to death, Disability, termination of employment by the Company without Cause, or Other Retirement, the Participant will be entitled to receive a prorated Long-Term Incentive Bonus for that Performance Period equal to the product of the amount of the Award Opportunity, if any, determined to be payable by the Committee pursuant to Section 5 multiplied by a fraction, the numerator of which is the number of full months of continuous employment during the Performance Period and the denominator of which is 36. Any such prorated bonus will be payable at the time provided in Section 6, following the certification of the achievement of the management objectives by the Committee in accordance with Section 5.A.

C. Other Terminations. Except as otherwise provided pursuant to Section 8, in the event of a Participant's termination of employment during a Performance Period for any reason other than Qualifying Retirement, Other Retirement, death, Disability, or termination of employment by the Company without Cause, the Participant will forfeit his or her Award Opportunity for such Performance Period, without any further action or notice.

8. Change in Control. In the event of a Change in Control (as defined in the Stock Incentive Plan and including the date immediately prior to an "Anticipatory Termination" as defined therein) of the Company during a Performance Period, each Participant then holding an outstanding Award Opportunity granted under this Plan for such Performance Period shall receive payment of his or her Award Opportunity as follows: (a) within fifteen (15) days following the date of the Change in Control, each such Participant shall receive a number of shares of Common Stock equal to the number of Target Shares subject to such Award Opportunity; and (b) within

forty-five (45) days after the date of such Change in Control, each such Participant shall receive a number of shares of Common Stock equal to the excess, if any, of (i) the number of shares of Common Stock that would be payable in accordance with Section 5 if the Company had achieved the management objectives described in Section 5.A for the Performance Period, the Committee had exercised its discretion to reduce the number of shares of Common Stock payable in accordance with Section 5.B based upon the Company's percentile ranking among the Peer Group with respect to the Peer Performance Measures as described therein, and the Company's percentile ranking among the Peer Group for each of those Peer Performance Measures during the Performance Period through the end of the fiscal quarter immediately preceding the date of the Change in Control continued throughout the Performance Period at the same level; over (ii) the number of Target Shares subject to such Award Opportunity.

9. Promotions and New Hires. With respect to a Participant who is newly hired or is promoted by the Company during a Performance Period, the Committee shall grant an Award Opportunity, or adjust an Award Opportunity previously granted, to such Participant for such Performance Period pursuant to the provisions of this Section 9; provided, however, that no Award Opportunity shall be granted or adjusted in such a manner as to cause any Long-Term Incentive Bonus payable under this Plan to fail to qualify as "performance-based compensation" within the meaning of section 162(m)(4)(C) of the Code and Section 1.162-27 of the Treasury Regulations promulgated thereunder.

A. Pro-Rated Award Opportunities for Newly-Eligible Executives. A Participant who is granted an Award Opportunity more than 90 days after the beginning of the Performance Period, either because the Participant is a newly hired Eligible Officer or is promoted into an Eligible Officer position, will be granted an Award Opportunity under the Plan for such Performance Period based on the number of Maximum Shares and Target Shares established by the Committee during the first 90 days of the Performance Period for the Participant's grade level, with the number of Maximum Shares and Target Shares pro-rated based on the ratio of the number of full months remaining in the Performance Period on and after the date of hire or promotion (as applicable) to the total number of months in the Performance Period. For any salary grade created between the salary grades for which the Committee has established the number of Maximum Shares and Target Shares as described above, straight-line interpolation shall be used to determine the pro-rated number of Maximum Shares and Target Shares in accordance with this Section 9.A.

B. Adjustments to Outstanding Award Opportunities. If a Participant is promoted after the beginning of a Performance Period, the Participant's outstanding Award Opportunity granted for such Performance Period will be adjusted, effective as of the date of such promotion, based on the number of Maximum Shares and Target Shares established by the Committee during the first 90 days of the Performance Period for the Participant's grade level. The adjustments to each such Participant's Award Opportunity shall be pro-rated on a monthly basis, with the number of Maximum Shares and Target Shares for the Participant's original position applicable for the number of full months preceding the effective date of the promotion and the number of Maximum Shares and Target Shares for the Participant's new position applicable for the remaining number of months in the Performance Period. For any salary grade created between the salary grades for which the Committee has established the number of Maximum Shares and Target Shares as described above, straight-line interpolation shall be used to determine the pro-rated number of Maximum Shares and Target Shares in accordance with this Section 9.B.

C. Negative Discretion. Notwithstanding any other provision of this Section 9, the Committee retains the discretion to reduce the amount of any Long-Term Incentive Bonus, including a reduction of such amount to zero. By way of illustration, and not in limitation of the foregoing, the Committee may, in its discretion, determine (i) not to grant a pro-rated Award Opportunity pursuant to Section 9.A above, (ii) not to adjust an outstanding Award Opportunity pursuant to Section 9.B above, (iii) to grant a pro-rated Award Opportunity in a smaller amount than would otherwise be provided by Section 9.A above, or (iv) to adjust an outstanding Award Opportunity to produce a smaller Long-Term Incentive Award than would otherwise be provided by Section 9.B above.

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

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

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

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

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

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

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

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

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

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

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

1.162-27 of the Treasury Regulations promulgated thereunder. In the event of a conflict between the terms and conditions of any Notice of Award and the terms and conditions of the Stock Incentive Plan, the terms and conditions of the Stock Incentive Plan shall prevail.

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

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

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

24. Consent to Transfer Personal Data. By acknowledging an Award Opportunity, each Participant will voluntarily acknowledge and consent to the collection, use, processing and transfer of personal data as described in this Section 24. Participants are not obliged to consent to such collection, use, processing and transfer of personal data. However, failure to provide the consent may affect the Participant's ability to participate in the Plan. The Company and its Affiliates hold certain personal information about each Participant, that may include name, home address and telephone number, fax number, email address, family size, marital status, sex, beneficiary information, emergency contacts, passport / visa information, age, language skills, drivers license information, date of birth, birth certificate, social security number or other employee identification number, nationality, C.V. (or resume), wage history, employment references, job title, employment or severance contract, current wage and benefit information, personal bank account number, tax related information, plan or benefit enrollment forms and elections, option or benefit statements, any shares of stock or directorships in the Company, details of all options or any other entitlements to Shares awarded, canceled, purchased, vested, unvested or outstanding in your favor, for the purpose of managing and administering the Plan ("Data"). The Company and its Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of each Participant's participation in the Plan, and may further transfer Data to any third parties assisting the Company and its Affiliates in the implementation, administration and management of the Plan. These recipients may be located throughout the world, including the United States. By acknowledging an Award Opportunity, each Participant will authorize such third parties to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Plan, including any requisite transfer of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares of stock on the Participant's behalf to a broker or other third party with whom the Participant may elect to deposit any shares of stock acquired pursuant to the Plan. A Participant may, at any time, review Data, require any necessary amendments to it or withdraw the consents herein in writing by contacting the Company; however, withdrawing such consent may affect the Participant's ability to participate in the Plan.

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

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

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

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

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

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

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

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

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

"Beneficiary" means a person designated by a Participant in accordance with Section 14 of the Plan to receive, in the event of the Participant's death, any Shares remaining to be delivered with respect to the Participant under the Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Qualifying Retirement" applies to participants in the Plan who receive their first Award Opportunity pursuant to the Plan on or before January 24, 2018, and means termination of employment by a Participant during a Performance Period (i) after attainment of age 65, or (ii) after attainment of age 60 with at least 10 years of service and after completion of at least 12 months of continuous employment during such Performance Period. For purposes of clarity, whether a Participant's termination of employment constitutes a Qualifying Retirement will be determined separately with respect to each Performance Period for which such Participant has an outstanding Award Opportunity at the time of termination of employment.

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

generally accepted accounting principles as in effect on the first day of the applicable Performance Period.

"Stock Incentive Plan" means the Amended and Restated Parker-Hannifin Corporation 2016 Omnibus Stock Incentive Plan, as amended from time to time, or any successor plan.

"Target Shares" means the notional number of Shares specified as such in a Participant's Notice of Award for a Performance Period, which may be used by the Committee in the exercise of its discretion under Section 5.B of the Plan to reduce the amount otherwise payable pursuant to the Participant's Award Opportunity.

CERTIFICATIONS

I, Thomas L. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 7, 2019

/s/ Thomas L. Williams

Thomas L. Williams

Chief Executive Officer

CERTIFICATIONS

I, Catherine A. Suever, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 7, 2019

/s/ Catherine A. Suever

Catherine A. Suever

Executive Vice President - Finance &

Administration and Chief Financial Officer

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
§ 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q of Parker-Hannifin Corporation (the "Company") for the quarterly period ended December 31, 2018 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: February 7, 2019

/s/ Thomas L. Williams

Name: Thomas L. Williams
Title: Chief Executive Officer

/s/ Catherine A. Suever

Name: Catherine A. Suever
Title: Executive Vice President - Finance &
Administration and Chief Financial Officer