Annual Report 2014
The Things That Matter to People
Parker continues to push the bounds of what is possible by collaborating with researchers to develop innovations that can have a meaningful impact on people’s lives.

The innovative filtration system shown on the cover of this report utilizes several Parker technologies and represents a promising advancement in fighting cancer. The device supports a treatment designed to enhance the body’s ability to use its own immune system to attack cancer cells. This treatment could provide a nontoxic alternative to improve the lives of both early and late-stage cancer patients.

The examples throughout this report showcase what can be done when we apply our technology and engineering expertise to help solve some of the world’s greatest engineering challenges. Today, Parker is uniquely positioned to partner on innovations that matter to people by advancing health care and improving the quality of life.

The Year In Review
For The Years Ended June 30,

Operating Data

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$13,215,971</td>
<td>$13,015,704</td>
<td>$13,145,942</td>
</tr>
<tr>
<td>Gross profit</td>
<td>3,027,744</td>
<td>2,929,029</td>
<td>3,187,605</td>
</tr>
<tr>
<td>Net income attributable to common shareholders</td>
<td>1,041,048</td>
<td>948,427</td>
<td>1,151,823</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>1,387,893</td>
<td>1,190,935</td>
<td>1,530,385</td>
</tr>
<tr>
<td>Net cash (used in) investing activities</td>
<td>(646,401)</td>
<td>(809,845)</td>
<td>(375,768)</td>
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<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(936,115)</td>
<td>576,174</td>
<td>(623,520)</td>
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</tbody>
</table>

Per Share Data

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Diluted earnings</td>
<td>6.87 $</td>
<td>6.26 $</td>
<td>7.45 $</td>
</tr>
<tr>
<td>Dividends</td>
<td>1.86 $</td>
<td>1.70 $</td>
<td>1.54 $</td>
</tr>
<tr>
<td>Book value</td>
<td>44.72 $</td>
<td>38.44 $</td>
<td>32.72 $</td>
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</tbody>
</table>

Ratios

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on sales</td>
<td>7.9 %</td>
<td>7.3 %</td>
<td>8.8 %</td>
</tr>
<tr>
<td>Return on average assets</td>
<td>8.1 %</td>
<td>8.0 %</td>
<td>10.4 %</td>
</tr>
<tr>
<td>Return on average shareholders’ equity</td>
<td>16.8 %</td>
<td>17.8 %</td>
<td>22.4 %</td>
</tr>
<tr>
<td>Debt to debt-shareholders’ equity</td>
<td>25.9 %</td>
<td>33.0 %</td>
<td>26.1 %</td>
</tr>
</tbody>
</table>

Other

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>57,447</td>
<td>58,151</td>
<td>59,331</td>
</tr>
</tbody>
</table>

### Operating Data

#### Net Sales

- Millions of Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$2,929,029</td>
<td>$3,027,744</td>
<td>$3,187,605</td>
<td>$3,250,000</td>
<td>$3,300,000</td>
</tr>
</tbody>
</table>

#### Gross Profit

- Millions of Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>$3,027,744</td>
<td>$2,929,029</td>
<td>$3,187,605</td>
<td>$3,250,000</td>
<td>$3,300,000</td>
</tr>
</tbody>
</table>

#### Net Income Attributable to Common Shareholders

- Millions of Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$1,041,048</td>
<td>$948,427</td>
<td>$1,151,823</td>
<td>$1,200,000</td>
<td>$1,250,000</td>
</tr>
</tbody>
</table>

#### Number of Employees

- Thousands of Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>13,215,971</td>
<td>13,015,704</td>
<td>13,145,942</td>
<td>13,150,000</td>
<td>13,200,000</td>
</tr>
</tbody>
</table>

#### Sales Per Average Employee

- Thousands of Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Per Employee</td>
<td>$14,000</td>
<td>$13,500</td>
<td>$13,000</td>
<td>$12,500</td>
<td>$12,000</td>
</tr>
</tbody>
</table>
Letter to Shareholders

Don E. Washkewicz, Chairman, Chief Executive Officer and President

The technologies featured in this year’s annual report reflect how far Parker has come since implementing the Win Strategy in 2001. Back then it would have been difficult for us to imagine applications of our technology that we can envision today, such as those that advance health care, with the potential to have a profound impact on our lives. By following a disciplined innovation process, efficiently investing our resources, and following a clear direction to develop new to the world, new to the market products, we have established innovation as a key element of our growth strategy.

The examples we share here are a window into a bright future - products on the cutting edge doing things many said could not be done. They represent a glimpse of how our technology and engineering expertise can be used to solve some of the world’s greatest engineering challenges. On the cover, for example, is the latest design of an innovative filtration system that is being developed for the European market with the objective of assisting the body’s own immune system in overcoming cancer cell defenses. When commercialized, the system would have the potential to help patients with early and late-stage cancer. Today, Parker is positioned to use its technology and knowledge to assist world-class doctors in the surgical suite, therapists in the clinic and researchers in the lab to advance patient care and improve quality of life.

Strong Performance in a Transitional Year

Fiscal year 2014 was a transitional year for Parker as we began a series of significant restructuring activities affecting many of our businesses and locations. These decisions were not made easily given the impact on our employees, but were necessary to align our operations to reflect the reality of challenging global economic conditions.

A keen focus on margin expansion is expected to generate meaningful improvements in the next several years, and we are targeting a record segment operating margin of greater than 15% in fiscal year 2015.

This fiscal year, many of our businesses completed actions, particularly in Europe, that allowed us to optimize our manufacturing operations and better serve our customers. Our team managed a complex set of activities throughout the fiscal year that we expect will deliver sustainable margin improvement for our business.

Despite the focus and attention these actions required, and only moderate improvement in the global macroeconomic environment, Parker delivered consistent financial performance throughout fiscal year 2014.

• Total net sales were a record at $13.2 billion and represented a 1.5% increase over the prior year. When adjusted for a joint venture agreement completed during the year, sales increased 2.5%. Parker recorded positive order growth in every quarter of fiscal year 2014.

• Total segment operating margins for fiscal year 2014 were 13.5% as reported, or 14.3% adjusted for restructuring expenses. Performance was led by the North American Industrial business which reported margins of 16.6%.

• Net income was $1.0 billion, or $6.67 per diluted share, an increase of 10% compared with the prior year. Adjusted earnings per diluted share were $6.94, excluding the impact of restructuring expenses, a gain on the joint venture agreement with GE Aviation and charges associated with asset write downs.

• Cash flow from operations, excluding a $75 million discretionary pension contribution, was $1.5 billion or 11.1% of sales. Coinciding with the launch of our Win Strategy, this represents the 13th consecutive fiscal year that Parker has generated operating cash greater than 10% of sales before discretionary pension contributions.

• Our strong cash flow and balance sheet gave us the flexibility to invest in our business while also increasing shareholder returns through dividends and share repurchases. We increased the quarterly dividend by 7% during the fiscal year, which extends our long-standing record of increasing dividends to 58 consecutive fiscal years. We also repurchased $200 million worth of Parker stock, reaffirming our confidence in Parker as a long-term investment.

This year, Parker celebrated the 50-year anniversary of its initial public offering on the New York Stock Exchange. Marking this occasion allows us to reflect on our progress over that time. As our results in fiscal year 2014 highlight, today we are better equipped than before to build on our position as a premier diversified industrial company and to advance our role as a technology leader.

Pursuing Aggressive Growth Targets

Our future aspirations remain centered on the diligent execution of the Win Strategy. While it has served us remarkably well over a sustained period of growth and transformation, there is still room for us to improve. During fiscal year 2014 we began formally certifying our operations, through the Win Certification Program, based on execution of the Win Strategy. This is an indication of how embedded the Win Strategy has become in our daily operations.

However, our strategy is best measured by the financial results it produces, and we remain focused on pursuing 15% total segment operating margins over the economic cycle and an aggressive 5-year compound annual sales growth goal of 10%, including acquisitions.

Our aerospace business has secured more than $20 billion in contract wins across a broad range of new aircraft platforms in the past five years. Engineering and testing of these new systems to support our customers has increased our research and development investment. As these aircraft enter into service in the coming years, we expect to see a return
on that investment in the form of increased sales, normalized research and development expenses and improved segment operating margins.

An increased focus on developing systems and innovations that add significant customer value are also expected to positively impact segment operating margins. By their nature, these opportunities typically generate higher revenue. Our goal is to have new products and systems make up an increasingly greater percentage of our revenue over time.

Our 5-year compound annual sales growth target of 10% will continue to center on strategic acquisitions, innovation, expanding our distribution network and growth in emerging markets.

Acquisitions are expected to deliver 4% sales growth annually. We actively pursued a number of companies in fiscal year 2014 and completed two small transactions. We also acquired the intellectual property and licenses for electroactive polymer technology from Bayer MaterialScience LLC, and its Artificial Muscle Incorporated business unit. This technology is expected to allow us to research advanced materials in developing smart sensors and actuators for use in medical devices, remote monitoring and industrial systems.

Several areas of innovation hold great promise for the future. For example, our collaboration with Cleveland Clinic Innovations highlights our ability to extend innovation outside of our organization to develop potential new medical advancements. We have brought together our engineering and new product development expertise with the Cleveland Clinic’s clinical and research knowledge and unique understanding of the need for innovative medical solutions. Together, we have developed an extensive pipeline of projects to address the challenges in health care. Several of these innovations have been submitted for regulatory approval in the United States.

In fiscal year 2014, we introduced the improved, commercial version of Indego®, a powered lower limb orthotic device also referred to as an exoskeleton, which will allow people with mobility impairments to have a whole new level of independence. The device, which is being tested in collaboration with five of the top 10 leading rehabilitation centers in the United States, is expected to be submitted for regulatory approval in Europe and the United States in 2015.

Previously introduced Parker innovations are already gaining momentum in the market. The fleet of refuse trucks equipped with Parker’s RunWise Advanced Series Hybrid Drive System has surpassed one million miles of operation in calendar year 2014 and continues to achieve positive fuel savings and emissions reductions for our customers.

Parker’s strong distribution channel remains an important and competitively distinct element of how we execute our growth strategy. Serving the maintenance, repair and overhaul market for motion and control technologies, we continue to expand our global network to more than 13,000 outlets. In this past fiscal year, we opened our 1,000th ParkerStore in the Asia Pacific region, marking the rapid pace of expansion there. We now boast more than 2,300 industrial retail stores globally. We continue to support our strong distribution channel as an important conduit to our customers, representing approximately half of our industrial sales.

Growth in emerging markets remains a cornerstone of our future plans. Despite near-term challenges, the fundamental drivers of these markets are population growth and the associated infrastructure expansion, which make them an attractive long-term investment. We anticipate nominal industrial growth of close to 10% per year over the next five years in India, China, ASEAN countries and Latin America. Parker has continued to expand its presence in these markets by investing tens of millions of dollars each year in manufacturing capacity that supports our customers with local production in the countries we serve.

While operating margins were the primary focus of our actions in fiscal year 2014, we continued to advance our long-term position. I feel very confident about Parker’s ability to deliver on our goals.

Parker’s Win Strategy

Vision

The #1 Motion & Control Company

Goals

Empowering Employees

Empowerment Programs

Parker’s Win Strategy

Empowered Employees

Through the Win Strategy, we have implemented a disciplined approach to managing our business that has driven our success.

Making a Meaningful Contribution

As we enter our 14th year of executing the Win Strategy, I am reminded of how far we have come. It has not always been an easy path, and we have had to adapt along the way, including during the Great Recession of 2008 and 2009, as well as during the transitional year in fiscal year 2014. Throughout this time, I have been extremely appreciative of our ability to stay true to the Win Strategy. I am inspired by the tenacity and focus of Parker people, and by their ability to deliver premier customer service, innovative solutions and achieve sound financial performance through a challenging global environment.

At more than 57,000 strong, our employees represent the foundation of our success and I thank them for their commitment. To support their health and well-being, this year we initiated a unique and comprehensive wellness strategy that focuses on prevention and effective treatment tools. This is one of many ways we support our global team in achieving their goals and presents greater choice to our employees in managing their health and leading productive lives both at work and at home.

Sincerely,

Don E. Washkewicz, Chairman, Chief Executive Officer and President

August 2014
Despite remarkable advancements in medical science and technology, each year millions of people lose their fight against cancer, making the need for effective cancer treatment one of the most critical challenges in health care.

Utilizing its knowledge and experience across several core technologies, Parker is collaborating with a pioneering customer to develop an innovative filtration system* designed to help cancer patients in a unique way.

A new product for the European market, the filtration system utilizes Parker’s pump and fluid control technology and is being designed to enable a treatment called Immunopheresis, which helps the body’s own immune system to overcome cancer cell defenses.

The objective of the treatment is to process the patients’ blood to remove inhibitors which block the body’s immune system from attacking cancer cells.

The ambition of the team developing the system is to establish an approach that is nontoxic and potentially has fewer side effects than current treatments such as chemotherapy and radiation.

Development and testing of the filtration system is underway. When commercialized, it could help improve the lives of both early and late-stage cancer patients. By applying its broad range of technologies, decades of engineering expertise and advanced manufacturing capabilities, Parker is playing a role in addressing this significant health care challenge.

Parker is working with medical and industry experts to develop and test the system, and hopes that these efforts will result in a successful submission to the European Union (EU) regulatory authorities and ultimately result in regulatory approval or clearance to market and sell the product in Germany and other countries. Subsequent to a successful launch, it is anticipated that further approvals may be sought for the treatment around the world.

In the near term, Parker does not anticipate seeking U.S. Food and Drug Administration (FDA) approval or clearance for the filtration system and, therefore, the product will not be available at this time for sale in the United States.

*Patents Pending
With the Cardioscope, a window of visibility within the heart is created through the combination of light transmitting polymers, a miniature high-definition camera and a proprietary flow control device that concentrates the flow of a clear fluid to produce an optically clear field of vision within the heart.

In addition to improved diagnosis and evaluation, the Cardioscope also is expected to allow physicians to access the heart by entering the body through the leg rather than the neck, reducing patient risk and discomfort.

The miniaturization of cameras, light sources and components has facilitated the development of the Cardioscope. Coupled with feedback from cardiologists, Parker’s expertise in extrusion, thermoplastic elastomers, fittings design and electrical system protection in harsh environments has contributed to this advanced imaging system that carries the potential to expand medical knowledge and improve patient care.

Cardioscope

PROVIDES MORE PRECISE DIAGNOSIS AND EVALUATION OF SURGICAL PROCEDURES

*Patents Pending
While the simple action of rising from a seat and walking across a room may not strike many as a significant accomplishment, the restoration of personal mobility holds great promise to provide a new level of freedom and independence to those confined to a wheelchair.

Developed for the millions of people around the world who have suffered spinal cord injuries, stroke, multiple sclerosis or other mobility-restricting conditions, Parker has recently introduced the commercial version of Indego.* Occasionally referred to as an exoskeleton, Indego is a powered lower limb orthotic device that would enable clinicians to conduct over-ground gait training during rehabilitation, and potentially allow mobility-impaired individuals to stand and walk in daily use.

Compared to the original prototype of the device released in 2012, the commercial version of Indego is slimmer, and is designed in a way that would be easier for the user and clinician to set up, remove and transport.

The device utilizes no-look connections, turn-to-fit strapping and modular segments, enabling users to put on and take off the device quickly and without assistance.

Indego is powered by a long-lasting, quick-change rechargeable battery that allows for extended use throughout the day.

The device is wirelessly paired with the new Indego software app, which serves as a useful rehabilitation tool by providing control over gait training parameters such as stride length and pace, and records performance data for each patient. This functionality eliminates the need for tethered controls.

Parker is working to secure FDA approval in the United States and CE marking for Indego in Europe. Pending regulatory approvals, Parker is targeting the commercial launch of Indego in Europe in early 2015 and in the United States in late 2015.

*CAUTION: Investigational device. Limited by Federal (or United States) law to investigational use. Patents pending.

Indego®
A POWERED LOWER LIMB ORTHOSIS THAT DELIVERS UNPRECEDENTED USABILITY AND EFFICACY
Parker is researching the impact of applying advanced materials to its proven condition monitoring solutions, aiming to create sensors that could provide physicians a streaming, detailed analysis of a patient’s health.

Parker’s dynamic sensors currently provide consistent and accurate readings for pressure, humidity and temperature, vital information which enables users to evaluate the status of medical equipment and, ultimately, ensure optimal performance and minimize downtime.

The sensors are used throughout hospitals, research and development laboratories and other medical facilities. They are wireless, battery-powered and designed for fast installation without tools. Their advanced technology allows for extended operation between battery replacements.

To further enhance the capabilities of the sensors and improve performance and efficiency, Parker is applying its advanced material development capabilities, including the use of electroactive polymers.

Engineered specifically for health care applications, these smart sensors could be implanted into wristbands, chest straps or other wearable devices and used to measure a patient’s heart rate, breathing patterns, temperature or other metrics related to their state of health.

Using low-power sensors paired to an intuitive user interface via wireless technology, physicians could continuously monitor a patient’s health in remarkable detail, utilizing trending biometrics data to develop a greater understanding of their condition and potentially prevent threatening complications.

By expanding the bounds of smart sensor technology, Parker intends to help shape the future of digital health and enable physicians to significantly improve patient care.
Parker continued to execute the Win Strategy in fiscal year 2014, and the company is well positioned for continued profitable growth. Parker employees have remained steadfast in their dedication to the Win Strategy, and the transformation of the company’s operations is reflected in its growth and financial performance, enabling us to invest in new opportunities and provide strong returns to our shareholders.

Management’s Discussion and Analysis

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 correlation to the Company’s future order rates are as follows:

• Purchasing Managers Index (PMI) on manufacturing activity that have a correlation to the Company’s future order rates are as follows:
• Housing starts with respect to the North American residential air conditioning market and certain mobile construction markets.
• Global aircraft miles flown and global revenue passenger miles.
• Global aircraft miles flown increased six percent from the comparable 2013 level and global revenue passenger miles increased seven percent from the comparable 2013 level. The Company anticipates that U.S. Department of Defense spending with regards to appropriations, and operations and maintenance for the U.S. Government’s fiscal year 2015 will increase by approximately one percent from the comparable fiscal 2014 level.

Housing starts in June 2014 were approximately eight percent higher than housing starts in June 2013 and were approximately six percent lower than housing starts in March 2014.

The Company has remained focused on maintaining its financial strength by adjusting its cost structure to reflect changing demand levels, maintaining a strong balance sheet and managing its cash. The Company continues to generate substantial cash flows from operations, has controlled capital spending and has proactively managed working capital. The Company has been able to borrow needed funds at affordable interest rates and had a debt to debt-shareholders’ equity ratio of 25.9 percent at June 30, 2014 compared to 28.6 percent at March 31, 2013 and 33.0 percent at June 30, 2013. Net of cash and cash equivalents and marketable securities, the debt to debt-shareholders’ equity ratio was 2.0 percent at June 30, 2014 compared to 7.1 percent at March 31, 2014 and 15.4 percent at June 30, 2013.

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

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

Acquisitions will be considered from time to time to the extent there is a strong strategic fit, while at the same time maintaining the Company’s strong financial position. The Company will continue to assess its existing businesses and initiatives 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 each of the financial statements presented on pages 22 to 25. All year references are fiscal years ending September 30.

Consolidated Statement of Income

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$5,049</td>
<td>$5,638</td>
<td>$5,708</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>$1,041</td>
<td>$1,152</td>
<td>$1,198</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$4,008</td>
<td>$4,486</td>
<td>$4,510</td>
</tr>
<tr>
<td>Operating income</td>
<td>$3,997</td>
<td>$4,446</td>
<td>$4,412</td>
</tr>
<tr>
<td>Income before tax</td>
<td>$2,841</td>
<td>$3,380</td>
<td>$3,230</td>
</tr>
<tr>
<td>Income tax</td>
<td>$572</td>
<td>$662</td>
<td>$752</td>
</tr>
<tr>
<td>Income from operations</td>
<td>$2,269</td>
<td>$2,718</td>
<td>$2,478</td>
</tr>
</tbody>
</table>

Net sales in 2014 were 1.0 percent lower than 2012. Acquisitions made during 2013 contributed approximately $448 million in sales during 2014 for the change in currency rate changes net during 2013 by approximately $140 million. Excluding the effect of acquisitions and currency rate changes, net sales in 2013 were 3.3 percent lower than 2012. The decrease in net sales in 2014 was primarily due to higher volume experienced in the Diversified Industrial Segment.

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

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GROSS PROFIT MARGIN increased in 2014 primarily due to lower direct manufacturing cost in the Diversified Industrial Segment and higher marketing expenditures in the Aerospace Systems Segment. Gross profit margin decreased in 2013 primarily due to higher direct manufacturing cost, operating inefficiencies in the Diversified Industrial Segment and higher engineering development costs in the Aerospace Systems Segment. Pension cost included in cost of sales in 2014, 2013 and 2012 were $174.8 million, $205.5 million and $198.5 million, respectively. The lower pension cost in 2014 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans. The lower pension cost in 2013 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans. The lower pension cost in 2013 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans. The lower pension cost in 2013 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans. The lower pension cost in 2013 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES increased 5.1 percent in 2014 and increased 2.3 percent in 2013. The increase in 2014 was primarily due to higher business realignment expenses and stock compensation expense, partially offset by lower expenses associated with the Company’s various other incentive compensation programs. Stock compensation expense increased primarily as a result of higher stock price used in the calculation of the fair value of the stock awards at the date of grant. The increase in 2013 was primarily due to higher amortization expense and charitable contributions, partially offset by lower net expenses associated with the Company’s incentive and deferred compensation programs. Pension cost included in selling, general and administrative expenses in 2014, 2013 and 2012 were $64.2 million, $78.5 million and $52.8 million, respectively. The lower pension cost in 2014 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans. The lower pension cost in 2013 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans. The lower pension cost in 2013 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans. The lower pension cost in 2013 primarily resulted from a lower amount of actuarial losses, primarily related to domestic defined benefit plans.

GOODWILL AND INTANGIBLE ASSET IMPAIRMENT related to the Worldwide Energy Products Division. Refer to Note 7 to the Consolidated Financial Statements for further discussion.

INCOME before income taxes increased 45.0 percent in 2014 primarily due to higher average borrowing rates on commercial paper borrowings, excluding the effects of the doubling of higher weighted-average borrowings. Interest expense in 2014 increased due to a lower average interest rate in the debt portfolio during the latter part of 2013 than the debt portfolio during the latter half of 2012 more than offsetting the effects of higher weighted-average borrowings. Interest expense in 2013 decreased primarily due to a lower average interest rate in the debt portfolio during the latter part of 2013 than the debt portfolio during the latter half of 2012 more than offsetting the effects of higher weighted-average borrowings.
The increase in assets in 2014 was primarily due to the effect of currency fluctuations and an increase in accounts receivable, partially offset by decreases in goodwill, intangible assets and inventory. The increase in assets in 2013 was primarily due to acquisitions as well as increases in plant and equipment, net and cash and cash equivalents, partially offset by the effect of currency fluctuations as well as decreases in inventory and intangible assets.

**AEROSPACE SYSTEMS SEGMENT**

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$2,235</td>
<td>$2,286</td>
</tr>
<tr>
<td>Operating income</td>
<td>$2,106</td>
<td>$2,103</td>
</tr>
<tr>
<td>Operating income as a percentage of sales</td>
<td>12.1%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Backlog</td>
<td>$7,194</td>
<td>$5,936</td>
</tr>
<tr>
<td>Assets</td>
<td>$1,359</td>
<td>$1,140</td>
</tr>
<tr>
<td>Return on average assets</td>
<td>25.7%</td>
<td>25.4%</td>
</tr>
</tbody>
</table>

Sales in 2014 were lower than the 2013 level as higher volume in the commercial original equipment manufacturer (OEM) business was offset by the absence of sales from the deconsolidated subsidiary whose sales are now reported by the joint venture with GE Aviation as well as lower volume in the military OEM and aftermarket businesses and the commercial aftermarket business. The increase in net sales in 2013 was primarily due to higher volume in all businesses with the largest increase being experienced in the commercial original equipment OEM businesses.

The lower margin in 2014 was primarily due to an unfavorable product mix, the impact of the joint venture with GE Aviation, and higher product support costs. Margins in 2014 were favorably impacted by the finalization of contract negotiation related to existing programs. The lower margin in 2013 was primarily due to higher engineering development costs, including fuel cell development, more than offsetting the benefit of the higher volume.

The increase in backlog in 2014 was primarily due to order rates exceeding shipments in the commercial and military OEM businesses, partially offset by shipments exceeding order rates in the military and commercial aftermarket businesses, partially as a result of a decrease in backlog of the deconsolidated subsidiary. The increase in backlog in 2013 was primarily due to higher commercial and military OEM orders and commercial aftermarket orders, partially offset by 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 remains in backlog.

For 2015, sales are expected to increase between 2.0 percent and 3.0 percent from the 2014 level and operating margins are expected to range from 13.1 percent to 13.9 percent. A higher concentration of commercial OEM volume in future product mix and higher than expected new product development costs could result in lower margins.

The increase in assets in 2014 was primarily due to the investment in the joint venture with GE Aviation as well as higher than expected increases in accounts receivable, inventory and intangible assets.

**CORPORATE assets increased 19.8 percent in 2014 compared to an increase of 23.0 percent from 2013 to 2012. The change in Corporate assets in 2014 and 2013 was primarily due to fluctuations in the amount of cash and cash equivalents and marketable securities. The change in 2013 was also due to a fluctuation in deferred taxes.**

**DISCUSSION OF CONSOLIDATED BALANCE SHEET**

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

**INTANGIBLE ASSETS, NET AND GOODWILL**

INTANGIBLE ASSETS, NET and GOODWILL, decreased from the 2013 amounts primarily due to impairments of approximately $44 million in 2014, a $189 million impairment charge in the second quarter of fiscal 2014. See Note 7 to the Consolidated Financial Statements for further discussion.

**NOTES PAYABLE AND LONG-TERM DEBT PAYABLE WITHIN ONE YEAR**

Not included in the current liabilities, due to the amount of commercial paper borrowings outstanding at the end of 2014. The Company from time to time will utilize short-term intercompany loans to repay commercial paper borrowings. At times, the short-term intercompany loans are outstanding at the end of a fiscal quarter.

**SHAREHOLDERS’ EQUITY activity during 2014 included a decrease of $206 million related to share repurchases, an increase of $91 million related to employee stock contribution benefits, and an increase of $193 million related to foreign currency translation adjustments.**

**DISCUSSION OF CONSOLIDATED STATEMENT OF CASH FLOWS**

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

**A summary of cash flows follows:**

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided by (used in):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>$1,388</td>
<td>$1,439</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(64)</td>
<td>(84)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(596)</td>
<td>576</td>
</tr>
<tr>
<td>Effect of exchange rates</td>
<td>(14)</td>
<td>(150)</td>
</tr>
<tr>
<td>Net (decrease) increase in cash and cash equivalents</td>
<td>$ (166)</td>
<td>$ 943</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM OPERATING ACTIVITIES**

In 2014 benefited from a $291 million increase in cash provided by operating activities, commercial paper borrowings, or might accelerate the maturity of the related outstanding borrowings. However, the Company currently does not have a covenant contained in the credit agreements and the indentures that would limit the Company's ability to use the credit agreement nor would credit ratings be lowered. Although a lowering of the Company's credit ratings would likely increase the cost of future debt, it would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

The Company currently is authorized to sell up to $1.65 billion of short-term commercial paper notes. As of June 30, 2014, $416 million of commercial paper notes were outstanding and the largest amount of commercial paper notes outstanding during the last quarter of 2014 was $728 million.

The Company’s credit agreements and indentures govern certain debt agreements contain various covenants, the violation of which would limit or preclude the use of the applicable agreements for future borrowings, or might accelerate the maturity of related outstanding borrowings covered by the applicable agreements. Based on the Company’s rating level at June 30, 2014, the most restrictive financial covenant contained in the credit agreements and the indentures provides that the ratio of secured debt to net tangible assets be less than 10 percent. However, the Company currently does not have secured debt in its debt portfolio. The Company is in compliance with all covenants and remains in compliance in the debt agreements and indentures.

In both 2013 and 2012, the Company purchased the outstanding shares not previously owned by the Company in majority-owned subsidiaries. Cash flows from these transactions represent a repurchase of a total of approximately 28 million shares at an aggregate price of $726 million in 2013 and 6.4 million common shares for $455 million in 2012. Cash flows provided by financing activities in 2013 included a higher level of commercial paper borrowings due to the increase in acquisition activity.
The Company is unaware of any current market trends that are contrary to the assumptions made in the estimation of the fair value of any asset. The Company estimates the forward-looking fair value in accordance with the assumptions made in the estimation of the fair value of the reporting units, especially assumptions pertaining to new markets and penetration into new markets. Due to the current economic environment, it is possible that the estimated fair value of certain reporting units could fall below their carrying value resulting in the necessity to conduct additional goodwill impairment tests.

Long-lived assets held for use, which primarily includes finite-lived intangible assets and plant and equipment, are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows expected to be generated by the asset are less than its fair value. When circumstances indicate that the carrying amount of an asset group may not be recoverable, the Company performs a goodwill impairment test. During fiscal 2014, in connection with the goodwill impairment test discussed above, the Company determined certain intangible assets of EPD, primarily trademarks and customer lists, and plant and equipment were not recoverable. As a result, the Company recognized an impairment charge of $4.6 million. The fair value of EPD’s intangible assets and plant and equipment were determined using the income approach for each asset. There were no events or circumstances that indicated that the carrying value of the Company’s remaining long-lived assets held for use were not recoverable.

PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS – The annual net periodic expense and benefit obligations related to the Company’s domestic defined benefit plans, a 50 basis point change in the discount rate is estimated to increase pension expense by $18 million. As of June 30, 2014, $1,016 million of past years’ net actuarial gains and losses are recognized in accumulated other comprehensive income (loss) as of the date of determination. Changes in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. Further information on stock-based compensation is provided in Note 12 to the Consolidated Financial Statements.

Stock-based Compensation – The computation of the expense associated with stock-based compensation requires the use of a valuation model. The Black-Scholes option pricing model is used to calculate the fair value of its stock options and stock appreciation rights. The Black-Scholes model requires assumptions regarding the expected term of the stock and the Company’s dividend ratio. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes option pricing model. Because future events are likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility, future dividend payments and future stock award exercise price could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards.
### CONSOLIDATED STATEMENT OF INCOME

**Dollars in thousands, except per share amounts**

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>$13,215,971</td>
<td>$13,015,704</td>
<td>$13,145,942</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>10,186,227</td>
<td>10,086,875</td>
<td>9,958,337</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>3,027,744</td>
<td>2,928,829</td>
<td>3,187,605</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>1,633,992</td>
<td>1,554,973</td>
<td>1,519,316</td>
</tr>
<tr>
<td><strong>Goodwill and intangible asset impairment</strong> (Note 7)</td>
<td>82,566</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>82,566</td>
<td>91,552</td>
<td>92,790</td>
</tr>
<tr>
<td><strong>Other (income), net</strong> (Gain) on disposal of assets (Note 2)</td>
<td>(25,513)</td>
<td>(18,198)</td>
<td>1,295</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>1,041,418</td>
<td>948,784</td>
<td>1,151,823</td>
</tr>
<tr>
<td><strong>Income taxes (Note 4)</strong></td>
<td>515,302</td>
<td>362,217</td>
<td>421,206</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>1,041,418</td>
<td>948,784</td>
<td>1,151,823</td>
</tr>
<tr>
<td><strong>Less: Noncontrolling interest in subsidiaries’ earnings</strong></td>
<td>370</td>
<td>337</td>
<td>3,069</td>
</tr>
<tr>
<td><strong>Net Income Attributable to Common Shareholders</strong></td>
<td>$1,041,048</td>
<td>$948,427</td>
<td>$1,151,823</td>
</tr>
<tr>
<td><strong>Earnings per Share Attributable to Common Shareholders</strong> (Note 5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Basic earnings per share</strong></td>
<td>$6.98</td>
<td>$6.38</td>
<td>$7.62</td>
</tr>
<tr>
<td><strong>Diluted earnings per share</strong></td>
<td>$6.87</td>
<td>$6.26</td>
<td>$7.45</td>
</tr>
</tbody>
</table>

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

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Dollars in thousands**

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Income</strong></td>
<td>$1,041,418</td>
<td>$948,784</td>
<td>$1,151,823</td>
</tr>
<tr>
<td><strong>Less: Noncontrolling interests in subsidiaries’ earnings</strong></td>
<td>370</td>
<td>337</td>
<td>3,069</td>
</tr>
<tr>
<td><strong>Net income attributable to common shareholders</strong></td>
<td>1,041,048</td>
<td>948,427</td>
<td>1,151,823</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss), net of income taxes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Foreign currency translation adjustment</strong> (net of tax of $4,692, $1,239 and $11,530 in 2014, 2013 and 2012)</td>
<td>192,925</td>
<td>(18,974)</td>
<td>(392,742)</td>
</tr>
<tr>
<td><strong>Realized loss</strong> (net of tax of $101, $101 and $102 in 2014, 2013 and 2012)</td>
<td>205</td>
<td>204</td>
<td>204</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss), net</strong></td>
<td>284,312</td>
<td>306,296</td>
<td>(990,517)</td>
</tr>
<tr>
<td><strong>Less: Other comprehensive (loss) for noncontrolling interests</strong> (Note 23)</td>
<td>(23)</td>
<td>(1,771)</td>
<td>(25,067)</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss) attributable to common shareholders</strong></td>
<td>284,335</td>
<td>308,067</td>
<td>(964,910)</td>
</tr>
<tr>
<td><strong>Total Comprehensive Income Attributable to Common Shareholders</strong></td>
<td><strong>$1,325,383</strong></td>
<td><strong>$1,236,494</strong></td>
<td><strong>$86,933</strong></td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of the financial statements.*
CONSOLIDATED BALANCE SHEET  

(DOLLARS IN THOUSANDS)

June 30, 2014  

Assets
Current Assets
Cash and cash equivalents (Note 1)  $ 1,613,555  
Marketable securities (Note 1)  573,701  
Trade accounts receivable, net (Note 1)  1,858,176  
Non-trade and notes receivable (Note 1)  388,437  
Inventories (Note 6)  1,371,681  
Prepaid expenses  129,837  
Deferred income taxes (Notes 1 and 4)  136,193  
Total Current Assets  6,071,580

Less accumulated depreciation  3,328,297  
Investments and other assets (Note 1)  9,174,189

Total Current Liabilities  3,252,796

Deferred income taxes (Notes 1 and 4)  136,193  
Total Current Liabilities  3,388,989

Total Assets  12,540,898

Liabilities and Equity
Current Liabilities
Accounts payable, trade  1,252,040  
Accrued payrolls and other compensation  1,018,781  
Other assets  1,188,282  
Prepaid expenses  129,837  
Deferred income taxes (Notes 1 and 4)  136,193  
Total Current Liabilities  3,388,989

Long-term debt (Note 9)  3,768  
Pensions and other postretirement benefits (Note 10)  214,965  
Deferred income taxes (Notes 1 and 4)  136,193  
Total Liabilities  5,903,147

Total Liabilities  12,540,898

Equity
Net income  $1,041,418  
Changes in assets and liabilities, net of effects from acquisitions:
Accounts receivable  (99,114)  
Inventories  (3,816)  
Prepaid expenses  (47,451)  
Other assets  (79,158)  
Accounts payable, trade  92,927  
Accrued payrolls and other compensation  20,840  
Accrued domestic and foreign taxes  188,870  
Other accrued liabilities  (23,480)  
Other liabilities  43,498  
Total liabilities  1,190,935

Net cash provided by operating activities  1,387,893  
Cash Flows From Investing Activities
Proceeds from disposal of assets  20,840  
Proceeds from sale of businesses  86,745  
Proceeds from sale of businesses  14,368  
Capital expenditures  838,317  
Stock incentive plan compensation  33,732

Pensions and other postretirement benefits  99,569  
Other liabilities  43,498  
Other  4,454  
Net cash used in investing activities  84,996

Net cash used in operating activities  1,387,893  
Cash Flows From Financing Activities
Proceeds from long-term borrowings  748  
Proceeds from sale of businesses  73,515

Pensions and other postretirement benefits  16,107  
Stock incentive plan compensation  33,732  
Other  4,454  
Net cash used in investing activities  84,996

Net cash used in operating activities  1,387,893  
Cash Flows From Financing Activities  84,996

Net (decrease) increase in cash and cash equivalents  1,472,889

Cash and cash equivalents at beginning of year  608,752

Cash and cash equivalents at end of year  $1,613,555  

Supplemental Data:
Cash paid during the year for:
Dividends paid  311,988  
Dividends paid  73,515

Effect of exchange rate changes on cash  1,090,246

Net (decrease) increase in cash and cash equivalents  (167,857)  
Cash and cash equivalents at beginning of year  1,781,412

Cash and cash equivalents at end of year  $1,613,555  

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

Revenue recognition – Revenue is recognized when persuasive evidence of an arrangement exists, product has shipped and the risks and rewards of ownership have transferred or services have been rendered. The price to the customer is fixed and determinable and collectibility is reasonably assured, which is generally at the time the product is shipped. Shipment and handling costs billed to customers are included in net sales and the related costs in cost of sales.

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

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

Marketable securities – Consist of short-term highly liquid investments, with stated maturities of greater than three months from the date of purchase, carried at cost plus accrued interest.

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 $16,040 and $14,824 at June 30, 2014 and June 30, 2013, respectively.

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

June 30, 2014 2013
Notes receivable $117,400 $111,511
Reverse repurchase agreements 94,772 —
Accounts receivable, other 216,265 110,394
Total $320,437 $222,925

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

Plant, equipment and depreciation – Plant and equipment are recorded at cost and are depreciated principally using the straight-line method for financial reporting purposes. Depreciation rates are based on estimated useful lives of the assets, generally 40 years for buildings, 10 years for machinery and equipment, and three to eight years for vehicles and office equipment. Improvements, which extend the useful life of property, are capitalized and maintenance and repairs are generally expensed. The Company reviews plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When plant and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in current income.
The results of operations for all acquisitions are included as of the respective acquisition date. The initial purchase price allocation and subsequent purchase price adjustments for acquisitions in 2014, 2013 and 2012 are presented below. Some of the 2014 acquisitions are still subject to purchase price adjustments.

### INCOME TAXES

Income taxes are provided based upon income for financial reporting purposes. Deferred income taxes arise from temporary differences in the recognition of income and expense for tax purposes. Tax credits and similar tax incentives are applied to reduce the provision for income taxes in the year in which the credits are anticipated. The Company recognizes intangible assets amortized over the estimated time period over which an economic benefit is expected to be received. Customer lists are amortized over a period based on anticipated customer attrition rates. The Company reviews intangible assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

### INCOME TAXES - Income before income taxes was derived from the following sources:

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$1,155,810</td>
<td>441,710</td>
<td>$1,597,520</td>
</tr>
<tr>
<td>2013</td>
<td>$1,159,010</td>
<td>653,622</td>
<td>$1,812,632</td>
</tr>
<tr>
<td>2012</td>
<td>$880,150</td>
<td>675,579</td>
<td>$1,555,729</td>
</tr>
</tbody>
</table>

### INCOME TAXES - Income taxes include the following:

<table>
<thead>
<tr>
<th>Year</th>
<th>Federal</th>
<th>Current</th>
<th>Deferred</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$37,404</td>
<td>167,356</td>
<td>26,523</td>
<td>$231,283</td>
</tr>
<tr>
<td>2013</td>
<td>45,643</td>
<td>176,739</td>
<td>28,472</td>
<td>245,854</td>
</tr>
<tr>
<td>2012</td>
<td>168,177</td>
<td>19,496</td>
<td>28,472</td>
<td>216,145</td>
</tr>
</tbody>
</table>

### NOTE 1. BUSINESS REALIGNMENT

To structure its businesses in light of current and anticipated demand, the Company incurred business realignment charges in 2014, 2013 and 2012.

### BUSINESS REALIGNMENT CHARGES BY BUSINESS SEGMENT

<table>
<thead>
<tr>
<th>Segment</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace Systems</td>
<td>$82,024</td>
<td>$12,234</td>
<td>$14,303</td>
</tr>
</tbody>
</table>

### OTHER INCOME TAXES

State and local income taxes of $3,331 were recognized in 2013 and $3,932 in 2012.

### NOTE 2. DECONSOLIDATION OF SUBSIDIARY, ACQUISITIONS AND DIVESTITURES

#### Deconsolidation of Subsidiary, Acquisitions and Divestitures

**Note 2. Decomposition of Conditional Statements.**

As of June 30, 2014, approximately $31 million in severance payments have been made relating to charges incurred during 2014. The majority of the remaining severance payments of approximately $82 million are expected to be paid by June 30, 2015 and are reflected within the other accrued liabilities caption in the Consolidated Balance Sheet. All required severance payments have been made relating to charges incurred in 2013 and 2012. Additional charges may be recognized in future periods related to the realignment actions described above, the timing and amount of which are not known at this time.

### NOTE 3. CHARGES RELATED TO BUSINESS REALIGNMENT

To structure its businesses in light of current and anticipated demand, the Company incurred business realignment charges in 2014, 2013 and 2012.

### BUSINESS REALIGNMENT CHARGES BY BUSINESS SEGMENT

<table>
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<tr>
<th>Segment</th>
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<th>2013</th>
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### NOTE 2. DECONSOLIDATION OF SUBSIDIARY, ACQUISITIONS AND DIVESTITURES

**Note 2. Decomposition of Conditional Statements.**

As of June 30, 2014, approximately $31 million in severance payments have been made relating to charges incurred during 2014. The majority of the remaining severance payments of approximately $82 million are expected to be paid by June 30, 2015 and are reflected within the other accrued liabilities caption in the Consolidated Balance Sheet. All required severance payments have been made relating to charges incurred in 2013 and 2012. Additional charges may be recognized in future periods related to the realignment actions described above, the timing and amount of which are not known at this time.

### NOTE 3. CHARGES RELATED TO BUSINESS REALIGNMENT

To structure its businesses in light of current and anticipated demand, the Company incurred business realignment charges in 2014, 2013 and 2012.

### BUSINESS REALIGNMENT CHARGES BY BUSINESS SEGMENT

<table>
<thead>
<tr>
<th>Segment</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace Systems</td>
<td>$82,024</td>
<td>$12,234</td>
<td>$14,303</td>
</tr>
</tbody>
</table>

### OTHER INCOME TAXES

State and local income taxes of $3,331 were recognized in 2013 and $3,932 in 2012.

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<table>
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<th>2014</th>
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<td>$14,303</td>
</tr>
</tbody>
</table>

### OTHER INCOME TAXES

State and local income taxes of $3,331 were recognized in 2013 and $3,932 in 2012.
A reconciliation of the Company’s effective income tax rate to the statutory Federal rate follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Effective Income Tax Rate</th>
<th>Statutory Federal Rate</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>0.27%</td>
<td>0.35%</td>
<td>-0.08%</td>
</tr>
<tr>
<td>2013</td>
<td>0.27%</td>
<td>0.35%</td>
<td>-0.08%</td>
</tr>
<tr>
<td>2012</td>
<td>0.27%</td>
<td>0.35%</td>
<td>-0.08%</td>
</tr>
</tbody>
</table>

Balance July 1 $107,440 $109,735 $2,295
Additions for tax positions related to current year 7,752 10,285 2,533
Additions for tax positions of prior years 55,136 10,719 44,417
Reductions for tax positions of prior years (1,359) (20,683) (21,042)
Reductions for settlements (1,495) (4,246) (2,751)
Reductions for expirations of statute of limitations (5,005) (437) (4,568)
Effect of foreign currency translation 2,705 2,057 648

Balance June 30 $104,813 $107,440 $2,627

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $71,998, $60,876 and $61,601 as of June 30, 2014, 2013 and 2012, respectively. If recognized, a significant portion of the gross unrecognized tax benefits as of June 30, 2014 would be net of an asset recorded in the Condensed Consolidated Balance Sheet. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, was $5,184, $5,184 and $3,676 as of June 30, 2014, 2013 and 2012, respectively.

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’s tax returns are subject to examination by taxing authorities throughout the world. The Company is no longer subject to examinations of its federal income tax returns by the United States Internal Revenue Service for fiscal years through 2012. All significant foreign, state and local tax returns are subject to examination through fiscal years 2006. The Company does not anticipate that, within the next twelve months, the total amount of unrecognized tax benefits will significantly change due to the settlement of examinations and the expiration of statute of limitations.

NOTE 5. Inventories

Inventories are stated at the lower of cost or market. The majority of cost and market are estimated by the last-in, first-out (LIFO) cost method and the balance of the Company’s inventories are valued by the first-in, first-out cost method. Inventories valued on the LIFO cost method were approximately 30 percent of total inventories in 2014 and 29 percent of total inventories in 2013. The current cost of these inventories exceeds their valuation determined on the LIFO basis by $208,291 in 2014 and $207,277 in 2013. Progress payments of $81,856 in 2014 and $42,263 in 2013 are netted against inventories.

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

- Finished products
  - Steel: $1,365,964
  - Ferroalloys: $234,000
  - Other: $71,304
- Materials and supplies
  - Steel scrap: $105,048
  - Other: $279,824

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Acquisition</th>
<th>Business combinations</th>
<th>Divestitures</th>
<th>Other (income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$316,857</td>
<td>—</td>
<td>—</td>
<td>$3,676</td>
</tr>
<tr>
<td>2013</td>
<td>$15,192</td>
<td>386,619</td>
<td>—</td>
<td>$3,676</td>
</tr>
<tr>
<td>2012</td>
<td>$1,377,405</td>
<td>732,294</td>
<td>—</td>
<td>$3,676</td>
</tr>
</tbody>
</table>

Total intangible amortization expense in 2014, 2013 and 2012 was $118,782, $118,516 and $107,086, respectively. Estimated intangible amortization expense for the five years ending June 30, 2015 through 2019 is $113,785, $109,360, $105,122, $99,406 and $92,579, respectively.

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their net carrying value. In connection with the goodwill impairment review of EPD discussed above, the Company determined that certain intangible assets of EPD, primarily trademarks and customer lists, were impaired resulting in the recognition of a non-cash impairment charge of $140,334. The impairment charge reflected in the goodwill and intangible asset impairment caption in the Consolidated Statement of Income and in the other (income) expense caption in the Business Segment Information. The fair value of EPD’s intangible assets were determined using an income approach for the individual intangible assets. Fair value calculated using an income approach is classified within level 3 of the fair value hierarchy and requires several assumptions including future sales and operating margins expected to be generated from the use of the individual intangible asset.
NOTE 8. Financing Arrangements

The Company has a treasurers' letter totaling $2,000,000 through a multi-currency revolving credit agreement with a group of banks, $1,183,900 of which was available at June 30, 2014. The credit agreement expires in October 2017; however, the Company has the ability 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 would 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 borrowings, it would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

The Company is currently authorized to sell up to $1,650,000 of short-term commercial paper notes. At June 30, 2014 and 2013, $861,100 and $1,231,445 of commercial paper notes were outstanding, respectively. In addition to commercial paper notes, notes payable includes short-term lines of credit and borrowings from foreign banks. At June 30, 2014, the Company had $69,949 in lines of credit from various foreign banks, $69,924 of which was available at June 30, 2014. Most of these agreements are renewed annually. The weighted-average interest rate on notes payable during 2014 and 2013 was 0.2 percent and 0.3 percent, respectively.

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

The Company's credit agreements and indentures governing certain borrowings contain various covenants, the violation of which would result in a default. Credit agreements and the indentures provides that the ratio of secured present rating level, the most restrictive covenant contained in the credit agreements, to the designated corporate rating of the Company.
Cash and cash equivalents $ 46,297 $ 45,976 $ 321 $ — 

Equity securities U.S. based companies 346,145 346,145 — —  
Non-U.S. based companies 220,913 220,913 — —

Fixed income securities Corporate bonds 234,719 101,227 133,492 —  
Mutual funds Equity funds 101,131 100,083 60,948 —

Common/Collective trusts Equity funds 192,283 191,501 592 —

Limited partnerships 233,662 189,375 34,287 —

Common/Collective trusts Equity funds 651,195 85,461 607,734 —

Limited partnerships 1,069,207 85,461 983,746 —

Miscellaneous 4,531 1,020,558 — —

Total at June 30, 2014 $3,499,274 $1,359,805 $2,139,369 $—

Cash and cash equivalents $ 65,170 $ 64,208 $ 962 $ — 

Equity securities U.S. based companies 368,682 368,682 — —

Common/Collective trusts Equity funds 190,264 80,599 110,307 —

Limited partnerships 223,764 223,764 — —

Fixed income securities Corporate bonds 191,267 100,833 90,434 —

Common/Collective trusts Equity funds 334,370 333,695 675 —

Limited partnerships 302,913 — 302,913 —

Miscellaneous 33,443 772 32,671 —

Total at June 30, 2013 $3,096,616 $1,186,016 $1,930,600 $—

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

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded. U.S. based companies include Company stock with a fair value of $167,157 as of June 30, 2014 and $126,634 as of June 30, 2013.

Fixed income securities are valued using both market observable inputs for similar assets that are traded on an active market and the closing price of the active market on which the individual securities are traded. Mutual funds are valued using the closing market price reported on the active market on which the fund is traded and market observable inputs for similar assets that are traded on an active market and primarily consist of equity and fixed income funds. The equity funds primarily provide exposure to U.S. and international equities, real estate and commodities. The fixed income funds primarily provide exposure to high-yield securities and emerging market fixed income funds.

Common/collective trusts primarily consist of equity and fixed income funds and are valued using a net asset value per share. Common/collective trust investments can be redeemed daily and without restriction. Redemption of the entire investment balance generally requires a 30-day notice period. The equity funds provide exposure to large, mid and small cap U.S. equities, international large and small cap equities and emerging market equities. The fixed income funds provide exposure to U.S., international and emerging market debt securities.

Limited Partnerships primarily consist of hedge funds valued using a net asset value per share and provide exposure to a variety of hedging strategies including long/short equity, relative value, event driven and global macro. Limited Partnerships investments can be redeemed daily and without restriction. Redemption of the entire investment balance generally requires a 30-day notice period.

Miscellaneous primarily includes real estate funds, insurance contracts held in the asset portfolio of the Company’s non-U.S. defined benefit pension plans, and net payables for securities purchased and settled in the asset portfolio of the Company’s U.S. defined benefit pension plans. Insurance contracts are valued at the present value of future cash flows projected under the terms of the insurance contracts.

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

Employee Savings Plan—The Company sponsors an employer stock ownership plan (ESOP) as part of its existing savings and investment 401(k) plan. The ESOP is available to eligible domestic employees. Company stock is used to match contributions made by employees to the ESOP up to a maximum of 4.0 percent of an employee’s annual compensation. Company contributions to the ESOP are generally made in the form of cash and are recorded as compensation expense.

In addition to shares held by ESOP, as of June 30, 2014, employees have elected to invest in 2,515,935 shares of common stock within a company stock fund of the savings and investment 401(k) plan. The Company has a retirement income account (RIA) within the employee savings plan. The Company makes a contribution to the participant’s RIA on the active market with the share price being based on the price of the shares and number of years of service. Participants do not contribute to the RIA. The Company recognized $25,247, $22,046 and $19,312 in expense related to the RIA in 2014, 2013 and 2012, respectively.

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

Certain employees are covered under benefit provisions that include prescription drug coverage for Medicare eligible retirees. The impact of the subsidy received under the Medicare Prescription Drug Improvement and Modernization Act of 2003 on the Company’s other postretirement benefits was immaterial.

A summary of the Company’s other postretirement benefit plans follows:

<table>
<thead>
<tr>
<th>Benefit cost</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$ 825</td>
<td>$ 728</td>
<td></td>
</tr>
<tr>
<td>Interest cost</td>
<td>2,826</td>
<td>2,826</td>
<td></td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>$(5,009)</td>
<td>$(6,752)</td>
<td></td>
</tr>
<tr>
<td>Benefits paid</td>
<td>$(5,009)</td>
<td>$(6,752)</td>
<td></td>
</tr>
<tr>
<td>Benefit cost at end of year</td>
<td>$ (7,820)</td>
<td>$ (7,544)</td>
<td></td>
</tr>
<tr>
<td>Funded status</td>
<td>$(7,544)</td>
<td>$(7,544)</td>
<td></td>
</tr>
</tbody>
</table>

Amounts recognized on the Consolidated Balance Sheet

|Net actuarial loss| $(972)| $(972)|
|Net actuarial gain| $14,674| $13,115|
|Prior service (credit) | $720 | $(972) |

The presentation of the amounts recognized on the Consolidated Balance Sheet and in accumulated other comprehensive (loss) is on a net (credit) basis and without the effect of income taxes. The amount of net actuarial loss and prior service (credit) that will be amortized from accumulated other comprehensive (loss) into net periodic postretirement cost in 2015 is $1,141 and $121, respectively.

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

<table>
<thead>
<tr>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>4.1%</td>
</tr>
<tr>
<td>Current medical cost trend rate</td>
<td>7.35%</td>
</tr>
<tr>
<td>Ultimate medical cost trend rate</td>
<td>5.0%</td>
</tr>
<tr>
<td>Medical cost trend rate decreases to ultimate in year</td>
<td>2021</td>
</tr>
</tbody>
</table>

The discount rate assumption used to measure the benefit obligation was 3.74 percent in 2014 and 4.1 percent in 2013.

Estimated future benefit payments for other postretirement benefits in the five years ending June 30, 2019 through 2023 are $5,903, $5,991, $6,076, $6,044 and $6,572, respectively, and $24,941 in the aggregate for the five years ending June 30, 2029 through June 30, 2034.

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

1% Increase 1% Decrease

Effect on total of service and interest components $ 83 $ 72 Effect on postretirement benefit obligation 2,011 (1,750)
The fair value of each stock option and SAR award granted in 2014, 2013 and 2012 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free interest rate</td>
<td>1.55%</td>
<td>1.65%</td>
<td>1.66%</td>
</tr>
<tr>
<td>Expected life of award</td>
<td>5.9 years</td>
<td>4.9 years</td>
<td>5.2 years</td>
</tr>
<tr>
<td>Expected dividend yield of stock</td>
<td>1.9%</td>
<td>1.7%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Expected volatility of stock</td>
<td>39.1%</td>
<td>39.0%</td>
<td>37.3%</td>
</tr>
<tr>
<td>Weighted-average fair value</td>
<td>$32.57</td>
<td>$24.71</td>
<td>$22.40</td>
</tr>
</tbody>
</table>

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

Stock option and SAR activity during 2014 is as follows (aggregate intrinsic value in millions):

<table>
<thead>
<tr>
<th>Stock Option</th>
<th>Number of Grant Date Shares</th>
<th>Weighted-Average Remaining Contractual Life</th>
<th>Aggregate Intrinsic Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding</td>
<td>9,435,173</td>
<td>3.4 years</td>
<td>$63.48</td>
</tr>
<tr>
<td>Granted</td>
<td>1,478,731</td>
<td>10.7 years</td>
<td>$107.53</td>
</tr>
<tr>
<td>Exercised</td>
<td>1,464,996</td>
<td>8.2 years</td>
<td>$66.43</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Stock Option</th>
<th>Average Price per Share</th>
<th>Shares Surrendered or Reissued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock options</td>
<td>$84.17</td>
<td>1,724,143</td>
</tr>
<tr>
<td>Average price per share</td>
<td>$85.55</td>
<td>3,006,005</td>
</tr>
<tr>
<td>Average price per share</td>
<td>$87.09</td>
<td>6,395,866</td>
</tr>
</tbody>
</table>

The fair value of each LTIP award granted in 2014, 2013 and 2012 was based on the market value of the Company’s common stock at the date of grant. A summary of the status and changes of shares relating to the LTIP and the related average price per share follows:

<table>
<thead>
<tr>
<th>LTIP Restricted Stock</th>
<th>Nonvested June 30, 2013</th>
<th>Granted</th>
<th>Vested</th>
<th>Cancelled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonvested June 30, 2013</td>
<td>4,461,334</td>
<td>282,565</td>
<td>(17,899)</td>
<td></td>
</tr>
<tr>
<td>Granted</td>
<td>400,370</td>
<td>100.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vested</td>
<td>382,490</td>
<td>99.44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cancelled</td>
<td>17,899</td>
<td>93.42</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In June 2013, 2014, 2013 and 2012, the Company recognized stock-based compensation expense of $49,998, $33,018 and $26,585, respectively, relating to stock options and SAR awards. The related tax benefit was $16,810, $11,056 and $8,812, respectively. The fair value of each RSU award granted in 2014, 2013 and 2012 was based on the fair market value of the Company’s common stock on the date of grant. A summary of the status and changes of shares subject to RSU awards and the related average price per share follows:

<table>
<thead>
<tr>
<th>RSU</th>
<th>Nonvested June 30, 2013</th>
<th>Granted</th>
<th>Vested</th>
<th>Cancelled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonvested June 30, 2013</td>
<td>26,971,130</td>
<td>1,052,356</td>
<td>(111,818)</td>
<td></td>
</tr>
<tr>
<td>Granted</td>
<td>338,693</td>
<td>100.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vested</td>
<td>224,655</td>
<td>99.44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cancelled</td>
<td>111,818</td>
<td>93.42</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOTE 13. Shareholders’ Protection Rights Agreement

On January 25, 2007, the Board of Directors of the Company declared a dividend of one Shareholders’ Right for each common share outstanding, which is redeemable (at one cent per Shareholders’ Right), exchanged or exercised or exchanged in connection with the Company’s Shareholders Protection Rights Agreement. As of June 30, 2014, 148,902,813 common shares were reserved for issuance under this Agreement. Under certain conditions involving acquisition, or an offer for, 15 percent or more of the Company’s common shares, all holders of Shareholders’ Rights would be entitled to purchase one common share at an exercise price currently set at $160. In addition, in certain circumstances, all holders of Shareholders’ Rights (other than the acquiring entity) would be entitled to purchase a number of common shares equal to the number of shares of the acquiring entity. At the option of the Board of Directors, to exchange each Shareholders’ Right for one common share. The Shareholders’ Rights remain in existence until February 17, 2017, unless extended by the Board of Directors or earlier redeemed (at one cent per Shareholders’ Right), exercised or exchanged under the terms of the Agreement. In the event of an unfavorable business combination attempt, the Shareholders’ Rights would cause substantial dilution to the person attempting the business combination. The Shareholders’ Rights should not interfere with any merger or other business combination that is in the best interest of the Company and its shareholders since the Shareholders’ Rights may be redeemed. During 2014, 2013 and 2012, the Company recorded stock-based compensation expense of $31,688, $34,127 and $41,866, respectively, relating to the LTIP. Shares surrendered in connection with the LTIP: 2014—140,406; 2013—311,110; 2012—76,427.
NOTE 14. Research and Development

Research and development costs amounted to $470,132 in 2014, $406,613 in 2013 and $365,703 in 2012. These amounts include both costs incurred by the Company related to independent research and development initiatives as well as costs incurred in connection with research and development contracts. Costs incurred in connection with research and development contracts amounted to $55,916 in 2014, $58,916 in 2013 and $43,658 in 2012. These costs are included in the total research and development cost for each of the respective years.

NOTE 15. Financial Instruments

The Company’s financial instruments consist primarily of cash and cash equivalents, marketable securities and other short-term investments, long-term investments, and accounts receivable 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, marketable securities and other short-term investments, accounts receivable, accounts payable, trade and notes payable approximate fair value. The carrying value of long-term debt (excluding capital leases) and estimated fair value of long-term debt (excluding capital leases) at June 30 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Carrying value of long-term debt (excluding capital leases)</th>
<th>Estimated fair value of long-term debt (excluding capital leases)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$1,509,420</td>
<td>1,658,806</td>
</tr>
<tr>
<td>2013</td>
<td>$1,498,025</td>
<td>1,654,806</td>
</tr>
</tbody>
</table>

The fair value of long-term debt was estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rate for similar types of borrowing arrangements.

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.

Gains (losses) on derivative financial instruments that were recorded in the Consolidated Statement of Income are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Forward exchange contracts</th>
<th>Costless collar contracts</th>
<th>Gains (losses) on derivative and non-derivative financial instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$ (98)</td>
<td>562</td>
<td>$ (4,356)</td>
</tr>
<tr>
<td>2013</td>
<td>$ (6,801)</td>
<td>5,111</td>
<td></td>
</tr>
</tbody>
</table>

Gains (losses) on derivative and non-derivative financial instruments that were recorded in the Consolidated Statement of Operations are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cross-currency swap contracts</th>
<th>Foreign-denominated debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>($14,426)</td>
<td>$7,631</td>
</tr>
<tr>
<td>2013</td>
<td>($12,622)</td>
<td>4,743</td>
</tr>
</tbody>
</table>

There was no ineffectiveness of the cross-currency swap contracts or foreign denominated debt, nor were any portion of these financial instruments excluded from the effectiveness testing during 2014, 2013 and 2012.

NOTE 16. Contingencies

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

ENVIRONMENTAL – The Company is currently responsible for environmental remediation at various manufacturing facilities presently or formerly operated by the Company and has been named as a “potentially responsible party,” along with other companies, at off-site waste disposal facilities and regional sites. As of June 30, 2014, the Company had an accrual of $13,625 for environmental matters, which are probable and reasonably estimable. The accrual is based on the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required by governmental authorities and the amount of the Company’s liability in proportion to other responsible parties.

The Company’s estimated total liability for environmental matters ranges from a minimum of $13.6 million to a maximum of $82.7 million. The largest range for any one site is approximately $14.6 million. The actual costs to be incurred by the Company will be dependent on final determination of contamination and required remedial action, negotiations with governmental authorities with respect to cleanup levels, changes in regulatory requirements, innovations in investigatory and remedial technologies, effectiveness of remedial technologies employed, the ability of other responsible parties to pay, and any insurance or other third-party recoveries.

NOTE 17. Quarterly Information (Unaudited)

NOTE 18. Stock Prices and Dividends (Unaudited)

NOTE 19. Stockholders’ Equity
Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Parker-Hannifin Corporation and subsidiaries (the "Company") as of June 30, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended June 30, 2014. We also have audited the Company’s internal control over financial reporting as of June 30, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Parker-Hannifin Corporation and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our management, including the principal executive officer and the principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). We assessed the effectiveness of our internal control over financial reporting as of June 30, 2014. In making this assessment, we used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control - Integrated Framework (1992)." We concluded that based on our assessment, the Company’s internal control over financial reporting was effective as of June 30, 2014.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the Company’s consolidated financial statements, has issued an attestation report on the Company’s internal control over financial reporting as of June 30, 2014, which is included herein.

Donald E. Washkewicz
Chairman, Chief Executive Officer and President

Deloitte & Touche LLP
Cleveland, Ohio
August 22, 2014

Management’s Report on Internal Control Over Financial Reporting

Our management, including the principal executive officer and the principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). We assessed the effectiveness of our internal control over financial reporting as of June 30, 2014. In making this assessment, we used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in “Internal Control - Integrated Framework (1992).” We concluded that based on our assessment, the Company’s internal control over financial reporting was effective as of June 30, 2014.

Jon P. Marten
Executive Vice President – Finance & Administration and Chief Financial Officer

Forward-Looking Statements

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

Among other factors which may affect future performance are:

- changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments, disputes regarding contract terms or significant changes in financial condition, changes in contract cost and revenue estimates for new development programs, and changes in product mix;
- ability to identify acceptable strategic acquisition targets;
- uncertainties surrounding timing, successful completion or integration of acquisitions and similar transactions;
- the ability to successfully divert business plans 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;
- the ability to realize anticipated benefits of the consolidation of the Climate & Industrial Controls Group;
- threats associated with and efforts to combat terrorism;
- uncertainties surrounding the ultimate resolution of outstanding legal proceedings, including the outcome of any appeals;
- competitive market conditions and resulting effects on sales and pricing;
- increases in raw material costs that cannot be recovered in product pricing;
- the Company’s ability to manage costs related to insurance and employee retirement and health care benefits; and
- global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation, deflation, interest rates and credit availability.

The Company makes these statements as of the date of the filing of its Annual Report on Form 10-K for the year ended June 30, 2014, and undertakes no obligation to update them unless otherwise required by law.
| Year | Net sales   | Cost of sales | Selling, general and administrative expenses | Goodwill and intangible asset impairment | Interest expense | Income - continuing operations | Net Income attributable to common shareholders | Basic earnings per share | Diluted earnings per share - continuing operations | Basic earnings per share | Diluted earnings per share | Average number of shares outstanding - Basic | Average number of shares outstanding - Diluted | Cash dividends per share | Net income attributable to common shareholders as a percent of net sales | Return on average assets | Return on average shareholders’ equity | Return on assets | Return on equity | Book value per share | Working capital | Ratio of current assets to current liabilities | Plant and equipment, net | Total assets | Long-term debt | Shareholders’ equity | Debt to debt-shareholders’ equity percent | Depreciation | Capital expenditures | Number of employees | Number of shares outstanding at year-end |
|------|-------------|--------------|-----------------------------------------------|-----------------------------------------|------------------|-------------------------------|-----------------------------------------------|----------------------------|-----------------------------------------------|------------------------|-----------------------------------------------|-------------------------------|-----------------------------------------------|------------------------|------------------------------------------------|---------------|-----------------------------------------------|-----------------|------------------|------------------|---------------------|-----------------------------|------------------|-----------------|------------------|-----------------|
| 2003 | $13,215,971 | $13,015,704  | $13,154,942                                   | $12,345,870                             | $9,933,166       | $10,309,015                  | $12,145,605                                 | $9,385,888                  | $9,086,805                                   | $6,887,596            | $4,500            | $3,240,000                                  | $2,818,784                                  | $2,010,983                       | $2,012,101                  | $1,914,213                  | $1,383,905                                 | $1,118,027                  | $1,912,369                                 | $1,440,930                 | $1,457,873                           | $1,260,036                  | $1,688,219                                  | $1,693,794                  | $1,581,348                           | $1,574,988                  | $6,860,703                           | $6,914,701                  | $953,796                           | $2,882,454                  | $3,340,157                           | $2,982,454                  | $239,106                           | $234,210                  | $177,252                           | $148,903                      | $149,289                                         | $149,631                                    | $155,091                  | $161,256                                     | $160,489                                      | $167,512                                     | $173,618                                    | $174,417                                     | $170,034                                    | $177,252                                    |
Corporate Management

**CORPORATE OFFICERS**

- JOHN G. DEDINSKY, JR.
  - Vice President – Global Supply Chain and Procurement
  - Age: 57
  - Years of Parker service: 35

- WILLIAM G. ELINE
  - Vice President – Chief Information Officer
  - Age: 58
  - Years of Parker service: 35

- PAMELA J. HUGGINS
  - Vice President and Treasurer
  - Age: 53
  - Years of Parker service: 30

- JOSEPH H. LEONITI
  - Vice President, General Counsel and Secretary
  - Age: 42
  - Years of Parker service: 8

- M. CRAIG MAXWELL
  - Vice President – Chief Technology and Innovation Officer
  - Age: 58
  - Years of Parker service: 18

- CATHERINE A. SUEVER
  - Vice President and Controller
  - Age: 55
  - Years of Parker service: 27

**MANAGEMENT COMMITTEE**

- DONALD E. WASHKEWICZ
  - Chairman, Chief Executive Officer and President
  - Age: 64
  - Years of Parker service: 42

- LEE C. BANKS
  - Executive Vice President and Operating Officer
  - Age: 51
  - Years of Parker service: 22

- JON P. MARTEN
  - Executive Vice President – Finance & Administration and Chief Financial Officer
  - Age: 58
  - Years of Parker service: 27

- DANIEL S. SERBIN
  - Executive Vice President – Human Resources and External Affairs
  - Age: 60
  - Years of Parker service: 34

- THOMAS L. WILLIAMS
  - Executive Vice President and Operating Officer
  - Age: 59
  - Years of Parker service: 11

**GROUP PRESIDENTS & OFFICERS**

- ROBERT W. BOND
  - Vice President and President – Fluid Connectors Group
  - Age: 56
  - Years of Parker service: 37

- YOON “MICHAEL” CHUNG
  - Vice President and President – Automation Group
  - Age: 51
  - Years of Parker service: 28

- JEFFERY A. DULLMAN
  - Vice President and President – Hydraulics Group
  - Age: 59
  - Years of Parker service: 36

- JOHN R. GRECO
  - Vice President and President – Instrumentation Group
  - Age: 60
  - Years of Parker service: 38

- KURT A. KELLER
  - Vice President and President – Asia Pacific Group
  - Age: 56
  - Years of Parker service: 34

- PETER POPOFF
  - Vice President and President – Filtration Group
  - Age: 62
  - Years of Parker service: 35

- ANDREW D. ROSS
  - Vice President and President – Engineered Materials Group
  - Age: 47
  - Years of Parker service: 15

- ROGER S. SHERBARD
  - Vice President and President – Aerospace Group
  - Age: 48
  - Years of Parker service: 25

- JOACHIM GUHE
  - President – Europe, Middle East and Africa (EMEA) Group
  - Age: 50
  - Years of Parker service: 20

- CANDIDO LIMA
  - President – Latin America Group
  - Age: 49
  - Years of Parker service: 12

**GROUP PRESIDENTS**

- M. CRAIG MAXWELL
  - Vice President – Chief Technology and Innovation Officer
  - Age: 58
  - Years of Parker service: 18

- JOSEPH R. LEONTI
  - Vice President, General Counsel and Secretary
  - Age: 42
  - Years of Parker service: 8

- M. CRAIG MAXWELL
  - Vice President – Chief Technology and Innovation Officer
  - Age: 58
  - Years of Parker service: 18
Board of Directors

CHAIRMAN OF THE BOARD
DONALD E. WASHKEWICZ
Chairman, Chief Executive Officer and President
Parker Hannifin Corporation
Age: 64, Director since 2004
Chairman since 2004

KLAAUS-PETER MULLER 3, 4
Chairman of the Supervisory Board
Commerzbank AG
(international banking)
Age: 60, Director since 1998

ROBERT J. KOHLHEPP 2, 3
Chairman of the Board
Cortis Corporation
(former retail)
Age: 70, Director since 2002

COMMITTEE OF THE BOARD
(1) AUDIT
Chair: J. L. Wainscott
(2) HUMAN RESOURCES
AND COMPENSATION
Chair: C. M. Obourn
(3) CORPORATE GOVERNANCE
AND NOMINATING
Chair and Lead Director: R. J. Kohlhepp
(4) FINANCE
Chair: J. L. Wainscott

With Appreciation

LINDA S. HARTY 1, 4
Treasurer
Mathtrone, Inc. (medical technology)
Age: 54, Director since 2007

WILLIAM E. KASSLING 1, 2
Lead Director of
Waltco Corporation
Services for the rail industry)
Age: 70, Director since 2001

ROBERT J. KOHLHEPP 2, 3
Chairman of the Board
Cortis Corporation
(former retail)
Age: 70, Director since 2002

JOSEPH SCAMINACE 2, 3
Chair Executive Officer and Director
GM Group, Inc. (aerospaced specialty chemicals)
Age: 61, Director since 2004

WOLFGANG R. SCHMITT 1, 2
Chief Executive Officer
Trends 2 Innovation
Chairman, Chief Executive Officer
Inkjet-based specialty chemicals
Age: 64, Director since 2002

ÅKE SVENSSON 1, 4
Director General
Association of Swedish Engineering Industries
Age: 62, Director since 2010

KEVIN A. LORO 1, 4
Chairman, Chief Executive Officer
and President
Shyler Corporation
(medical technology)
Age: 48, Director since 2013

JAMES L. WAINSCOTT 2, 4
Chairman, Chief Executive Officer
and President
AK Steel Holding Corporation
(joint producer)
Age: 57, Director since 2000

THOMAS A. PIRAINO 1, 2
Chairman, General Counsel and Secretary
and Corporate Governance for 16 years as Vice President,
and Corporate General Counsel and Secretary. He also directed the
Chairman, Chief Executive Officer
of Thomas A. Piraino, Jr., after 32 years of dedicated
activities of the Parker Hannifin Foundation, which
holds millions of dollars each year. He is noted for
his passion for Parker and its history, and his legacy
of preserving our company’s unyielding reputation.

CHARITY SAUNER
The Board of Directors and Management of
Parker Hannifin acknowledge the retirement of Charity Saunier
after 43 years of dedicated service. Mr. Saunier held
leadership responsibility for the Europe, Middle East and
Africa region most recently as Group president. He led Parker through a period of significant growth
and reorganization in the region leading to record sales and
profitability. He is noted for improving Parker’s ability to
better meet the needs of its customers through
expanded distribution and services.

Corporate Information

ETHICAL CONDUCT
Observing high ethical standards has contributed to Parker Hannifin’s reputation for excellence. Parker
Hannifin’s Global Code of Business Conduct requires compliance with all applicable laws, while acting with
honesty, fairness and integrity. Parker Hannifin is committed to meeting its ethical obligations to
customers and suppliers, fellow employees, shareholders and the public.

EQUAOPPORTUNITY
Parker Hannifin is an affirmative action/equal opportunity employer that extends its commitment
to equal opportunity and nondiscriminatory practices to take positive steps to create an inclusive
and empowered employee environment.

ANNUAL MEETNG
The 2014 Annual Meeting of Shareholders will be held on Wednesday, October 22, 2014, at Parker Hannifin
Global Headquarters, 6035 Parkland Blvd., Cleveland, Ohio 44124-4414, at 9:00 a.m. EDT.
Telephone 216 896 3600

FORM 10-K
Shareholders may request a free copy of Parker Hannifin’s Annual Report to the Securities and
Exchange Commission on Form 10-K by writing to the Secretary, Parker Hannifin Corporation,
6035 Parkland Blvd., Cleveland, Ohio 44124-4414.

TRANSFER AGENT & REGISTRAR
Wells Fargo Bank, N.A.
Shareholder Services
P.O. Box 64854
St. Paul, Minnesota 55164-0854
Telephone 800 468 9716
www.shareowneronline.com

DIVIDEND REINVESTMENT PLAN
Parker Hannifin provides a Dividend Reinvestment Plan
for its shareholders. Under the Plan, Parker Hannifin pays all bank service charges and brokerage
commissions. Supplemental cash payments are also an option. For information, contact
Wells Fargo Bank, N.A.
Shareholder Services
P.O. Box 64854
St. Paul, Minnesota 55164-0854
Telephone 800 468 9716
www.shareowneronline.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Deloitte & Touche, LLP, Cleveland, Ohio

PARKER HANNIFIN CORPORATION

45 Parkland Boulevard
Cleveland, Ohio 44124-4414
216 896 3600

PRODUCT INFORMATION & DISTRIBUTOR LOCATIONS
North America:
1-800-C-PARKER (1 800 277 7537)
Outside North America:
00800-C-PARKER-H (00800 277 5374)

Visit us online at: www.parker.com

INVESTOR CONTACT
Pamela J. Huggins
Vice President and Treasurer
216 896 2240, phuggins@parker.com

MEDIA CONTACT
Aidan Gormley
Director, Global Communications and Branding
216 896 3258, aidan.gormley@parker.com

CAREER OPPORTUNITIES
Search for job openings and apply online at: www.parker.com/careers

Comparison of 5-Year Cumulative Total Return*  

2009 2010 2011 2012 2013
2009 2010 2011 2012 2013
Parker Hannifin Corporation
S&P 500
S&P 500

S&P 500 Index

$350
$300
$250
$200
$150
$100
$50
0
2009 2010 2011 2012 2013
Parker Hannifin Corporation
S&P 500
S&P 500

S&P 500 Index

*Comparison based on the S&P 500 index, including reinvestment of dividends.

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### Product Groups

#### Global Technology Platforms

- **Diversified Industrial Segment**
  - Key Markets: Automotive, Aerospace, Industrial, Marine, Material Handling, Mining, Oil & gas, Power generation, Recreational, Renewable energy, Truck Hydraulics, Turf Equipment.

- **Motion Systems**
  - Key Markets: Automotive, Aerospace, Industrial, Marine, Material Handling, Mining, Oil & gas, Power generation, Recreational, Renewable energy, Truck Hydraulics, Turf Equipment.

- **Flow & Process Control**
  - Key Markets: Automotive, Aerospace, Industrial, Marine, Material Handling, Mining, Oil & gas, Power generation, Recreational, Renewable energy, Truck Hydraulics, Turf Equipment.

- **Filtration & Engineered Materials**
  - Key Markets: Automotive, Aerospace, Industrial, Marine, Material Handling, Mining, Oil & gas, Power generation, Recreational, Renewable energy, Truck Hydraulics, Turf Equipment.

- **Aerospace**

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#### Key Products

- **Hydraulics**

- **Automation**

- **Fluid Connectors**

- **Instrumentation**

- **Filtration**

- **Engineered Materials**

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