



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.

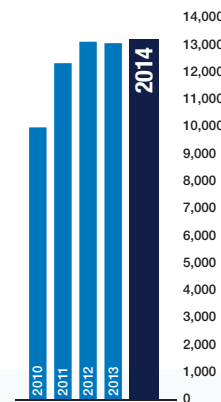


The Year In Review

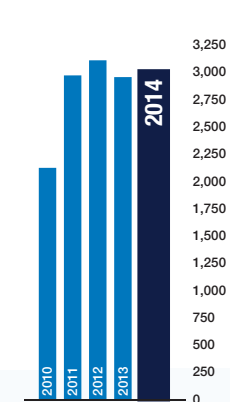
For The Years Ended June 30,

(dollars in thousands, except per share data)

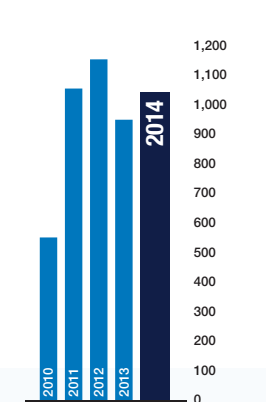
	2014	2013	2012
Operating Data			
Net sales	\$ 13,215,971	\$ 13,015,704	\$ 13,145,942
Gross profit.....	3,027,744	2,929,029	3,187,605
Net income attributable to common shareholders.....	1,041,048	948,427	1,151,823
Net cash provided by operating activities	1,387,893	1,190,935	1,530,385
Net cash (used in) investing activities.....	(646,401)	(809,845)	(375,768)
Net cash (used in) provided by financing activities.....	(958,115)	576,174	(823,520)
Per Share Data			
Diluted earnings.....	\$ 6.87	\$ 6.26	\$ 7.45
Dividends.....	1.86	1.70	1.54
Book value.....	44.72	38.44	32.72
Ratios			
Return on sales.....	7.9%	7.3%	8.8%
Return on average assets.....	8.1	8.0	10.4
Return on average shareholders' equity	16.8	17.8	22.4
Debt to debt-shareholders' equity	25.9	33.0	26.1
Other			
Number of employees	57,447	58,151	59,331



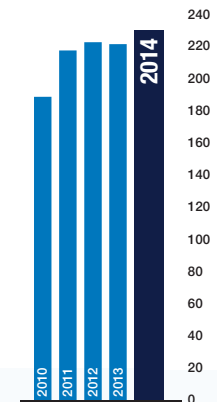
Net Sales
Millions of Dollars



Gross Profit
Millions of Dollars



Net Income Attributable to Common Shareholders
Millions of Dollars



Sales Per Average Number of Employees
Thousands of Dollars

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 \$6.87 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.

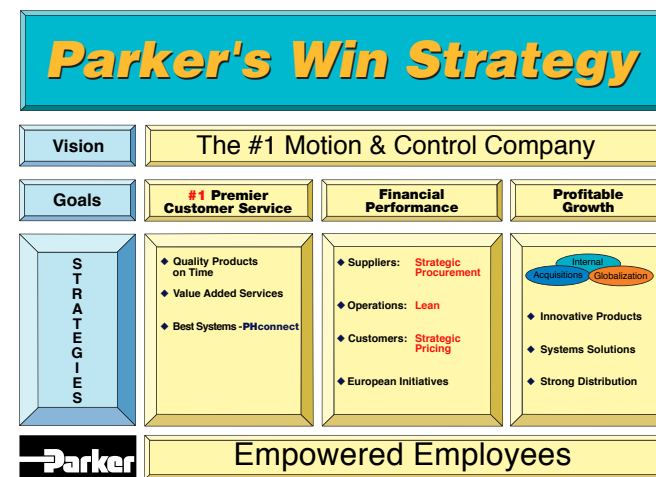
Previously introduced Parker innovations are already gaining momentum in the market. The fleet of refuse trucks equipped with Parker's RunWise

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.



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



Parker's senior leaders and the Board of Directors celebrated 50 years of growth and innovation since the company's initial public offering at the New York Stock Exchange. Parker's Chairman, Chief Executive Officer and President, Don Washkewicz rang The Closing Bell® on April 24, 2014.

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.

Guided by a sound strategy that keeps us focused on the fundamentals and drives consistent performance and supported by our global workforce operating in 50 countries, I have never been more confident in our future.

We are positioned not only to meet the ongoing needs of our customers, but also to drive increasing returns for shareholders. Perhaps even more importantly, Parker today has the opportunity to make a more meaningful contribution to human life - a legacy any company would be proud of and one that inspires all of us to make the world a better place to live.

Sincerely,

Don E. Washkewicz, Chairman, Chief Executive Officer and President
August 2014



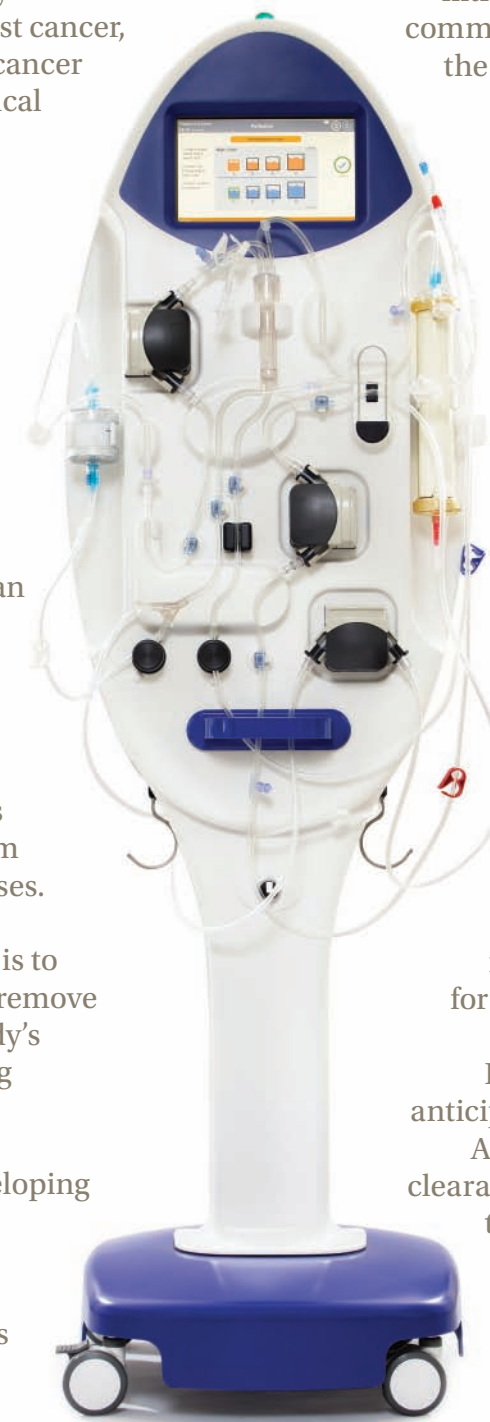
Despite remarkable advancements in medical science and technology, each year millions of people lose their fight against cancer, making the need for effective cancer treatment one of the most critical challenges in health care.

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.

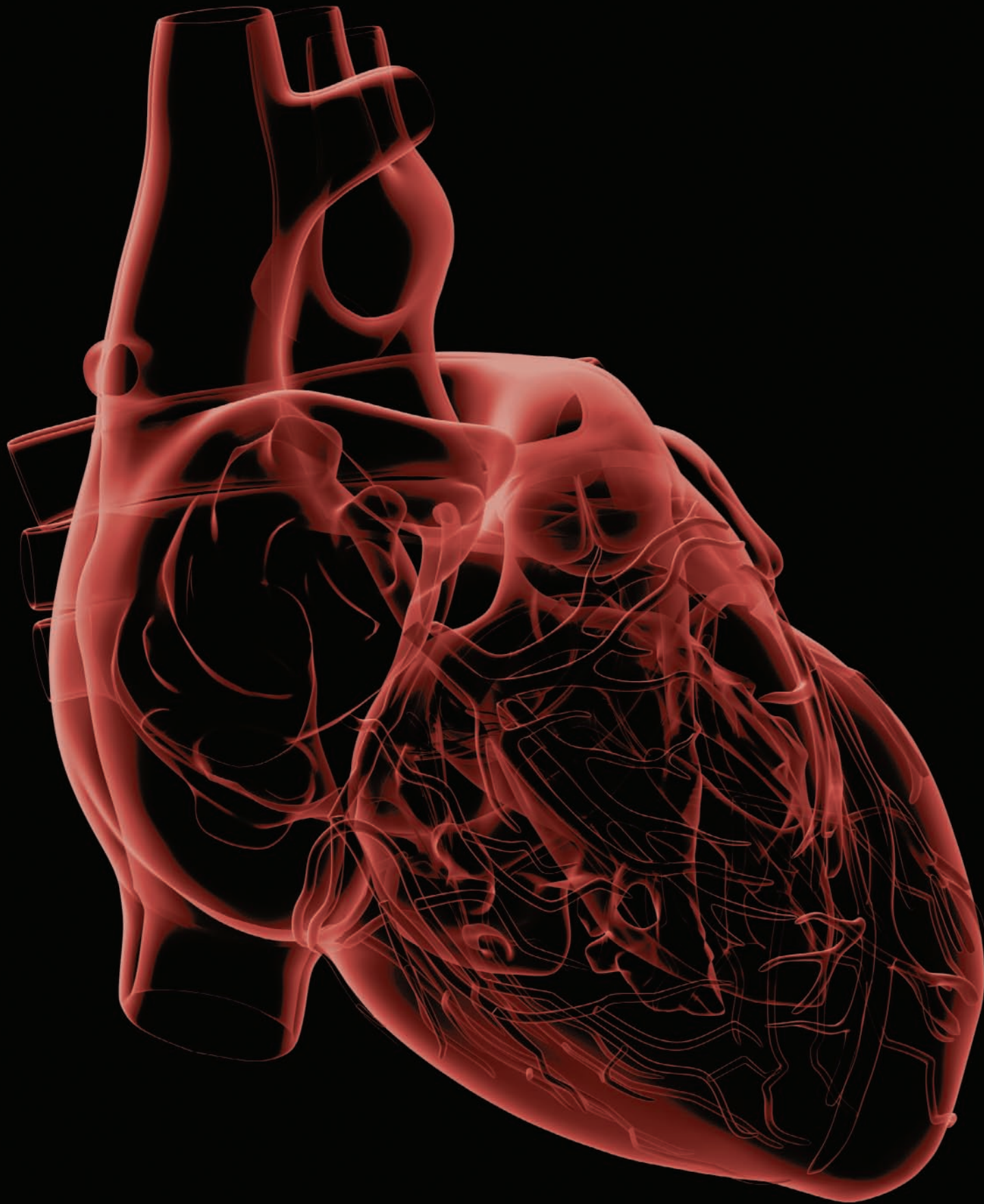
Parker is working with medical and industry experts to develop and test the system, and hopes that these efforts will result in a successful submission to the European Union (EU) regulatory authorities and ultimately result in regulatory approval or clearance to market and sell the product in Germany 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.

Immunopheresis

UTILIZING PARKER'S TECHNOLOGY TO DEVELOP A POTENTIAL
NEW CANCER TREATMENT

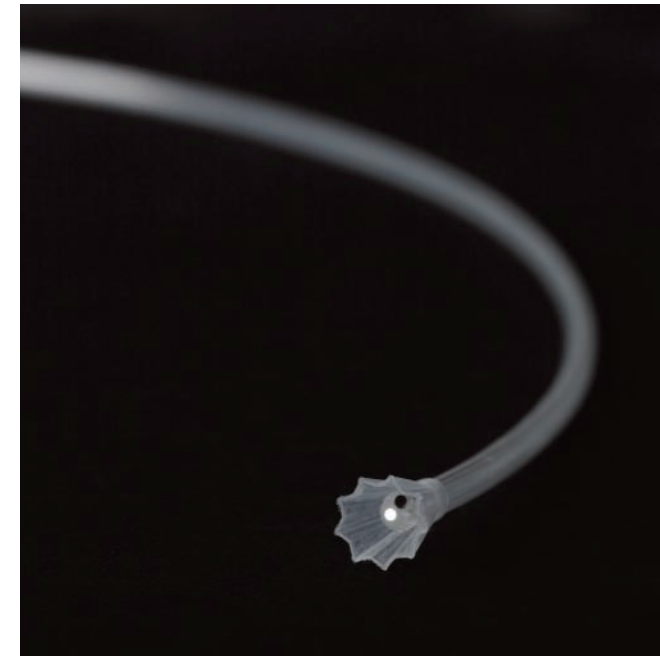


In an effort to advance health care technologies that improve patient treatment options, Parker is collaborating with Cleveland Clinic Innovations, the business development arm of the Cleveland Clinic hospital system, to develop new medical devices. This relationship has inspired a full pipeline of innovative products, some of which may soon be available on the market and others that are still in the research and development stages.

One product currently in the feasibility phase of manufacturing, efficacy and patient safety studies is a catheter system called Cardioscope.* Through a high-definition color camera, the objective of this device is to capture images of the inside of a beating heart, allowing physicians to provide more precise diagnosis and better evaluation of surgical procedures.

Current cardiac imaging equipment often requires patients to consume dye in preparation for procedures that require exposure to radiation.

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



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.

Indego®

**A POWERED LOWER LIMB ORTHOSIS THAT DELIVERS UNPRECEDENTED
USABILITY AND EFFICACY**

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



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.

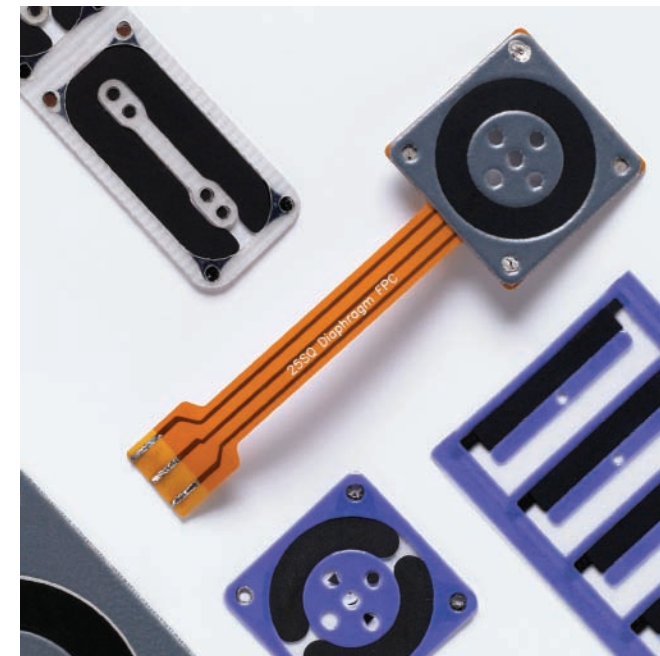
To further enhance the capabilities of the sensors and improve performance and

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.

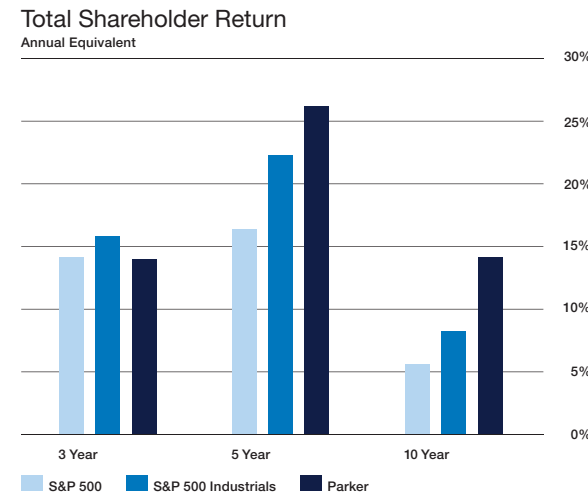


Smart Sensors

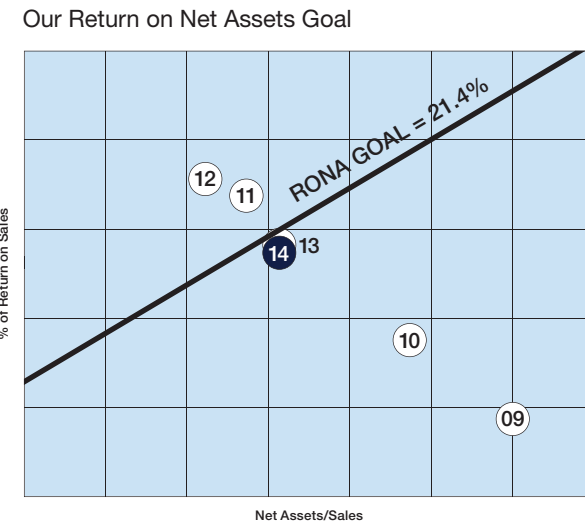
ADVANCED MATERIALS ENGINEERED SPECIFICALLY FOR HEALTH CARE

Financial Success

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.

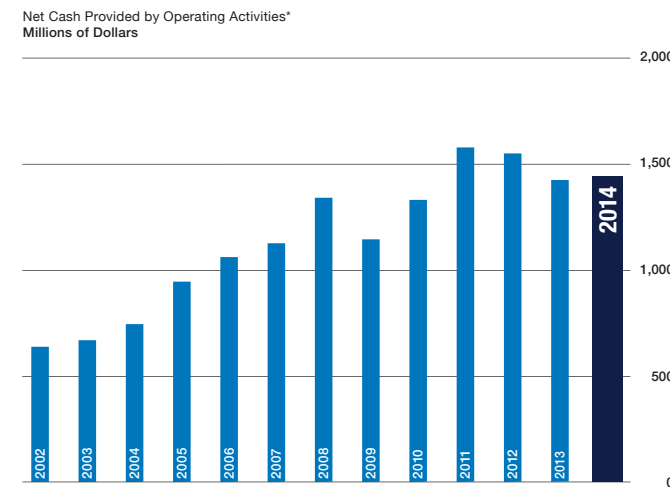


The total return calculation reflects share price appreciation and dividend payments and assumes reinvestment of dividends. The return provided is an annual equivalent percentage return reflecting the effect of compounding as of June 30, 2014.



Return on Net Assets (RONA) is a common metric used throughout the company, providing a standard for how efficiently and productively each operating unit employs the average dollar invested in assets. To reach Parker's internally established benchmark, the RONA Goal line, operations must successfully balance investments in assets with profitable sales growth. Since the launch of the Win Strategy, Parker has steadily moved toward the goal, reaching the line in 2005 and eclipsing it in 2006, 2007, 2008, 2011 and 2012. The impact of the global recession in 2009 and 2010 and challenging macroeconomic conditions in 2013 pushed this performance measure below the line. 2014 was a transitional year, causing Parker to remain below the line.

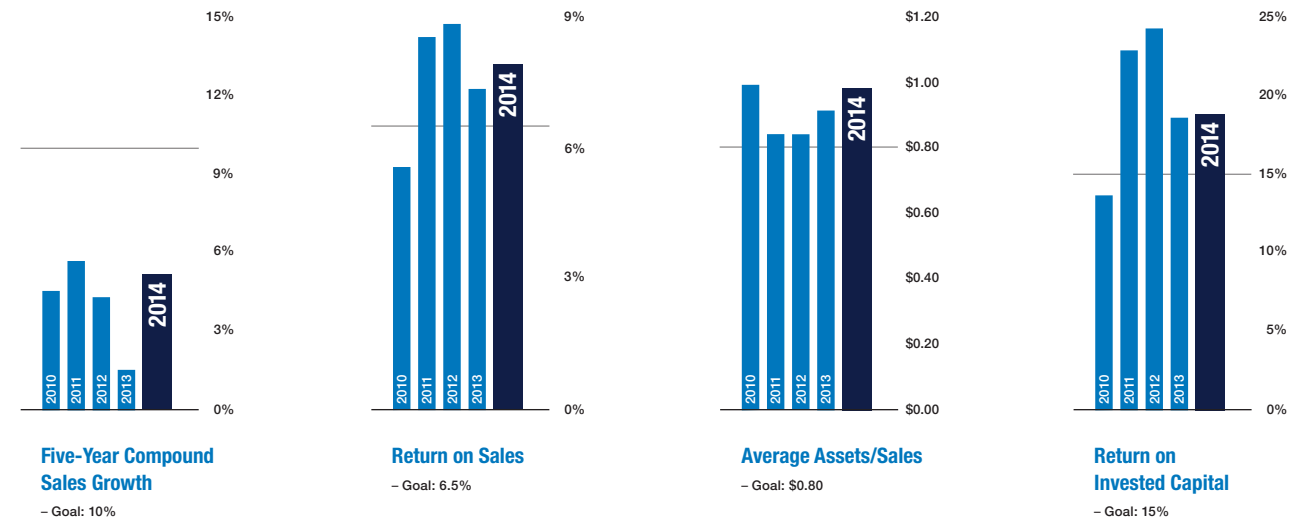
Thirteen Consecutive Fiscal Years of Greater Than 10% Cash Flow as a Percent of Sales



*Before discretionary pension contributions.
 (1) Free cash flow of \$1.2 billion is calculated as net cash provided by operating activities of \$1.4 billion minus capital expenditures of \$0.2 billion plus discretionary pension contributions of \$0.1 billion.

Financial Review

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

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

	June 30, 2014	March 31, 2014	June 30, 2013
United States	55.3	53.7	50.9
Eurozone countries	51.8	53.0	48.8
China	50.7	48.0	48.2
Brazil	48.7	50.6	50.4

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, 2014 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 initiate efforts to divest businesses that are not considered to be a good long-term strategic fit for the Company. Future business divestitures could have a negative effect on the Company's results of operations.

The discussion below is structured to separately discuss each of the financial statements presented on pages 22 to 25. All year references are to fiscal years.

Discussion of Consolidated Statement of Income

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

(dollars in millions)	2014	2013	2012
Net sales	\$13,216	\$13,016	\$13,146
Gross profit margin	22.9%	22.5%	24.2%
Selling, general and administrative expenses	\$ 1,634	\$ 1,555	\$ 1,519
Selling, general and administrative expenses, as a percent of sales	12.4%	11.9%	11.6%
Goodwill and intangible asset impairment	\$ 189	\$ —	\$ —
Interest expense	83	92	93
Other (income) expense, net	(26)	(18)	1
(Gain) on disposal of assets	(409)	(10)	(2)
Effective tax rate	33.1%	27.6%	26.7%
Net income attributable to common shareholders	\$ 1,041	\$ 948	\$ 1,152

NET SALES in 2014 were 1.5 percent higher than 2013. Acquisitions made in the last 12 months contributed approximately \$74 million in sales in 2014 and the effect of currency rate changes decreased net sales in 2014 by approximately \$22 million. Excluding the effect of acquisitions and currency rate changes, net sales in 2014 were 1.1 percent higher than 2013. The increase in sales in 2014 is primarily due to higher volume experienced in the Diversified Industrial International businesses partially offset by lower sales in the Aerospace Systems Segment.

Net sales in 2013 were 1.0 percent lower than 2012. Acquisitions made during 2013 contributed approximately \$448 million in sales and the effect of currency rate changes decreased net sales in 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 sales in 2013 is primarily due to lower volume experienced in the Diversified Industrial Segment.

GROSS PROFIT MARGIN increased in 2014 primarily due to lower defined benefit costs, and a favorable product mix in the Diversified Industrial North American businesses, partially offset by higher business realignment charges in the Diversified Industrial International businesses and higher product support costs and an unfavorable product mix in the Aerospace Systems Segment. Gross profit margin decreased in 2013 primarily due to higher defined benefit costs, 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, \$205.7 million and \$138.5 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 higher pension cost in 2013 primarily resulted from a higher amount of actuarial losses, primarily related to the domestic defined benefit plans. Included in cost of sales in 2014, 2013 and 2012 were business realignment charges of \$63.6 million, \$8.4 million and \$12.7 million, respectively.

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 a 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 higher pension cost in 2013 primarily resulted from a higher amount of actuarial losses, primarily related to the domestic defined benefit plans. Included in selling, general and administrative expenses in 2014, 2013 and 2012 were business realignment charges of \$38.9 million, \$3.9 million and \$1.0 million, respectively.

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

INTEREST EXPENSE in 2014 decreased primarily due to a lower average interest rate in the debt portfolio, including lower average borrowing rates on commercial paper borrowings, more than offsetting the effect 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 effect of higher weighted-average borrowings and interest rates on commercial paper borrowings.

OTHER (INCOME) EXPENSE, NET in 2014 includes \$11.1 million of income related to the Company's equity interests in joint ventures.

(GAIN) ON DISPOSAL OF ASSETS in 2014 includes a gain of \$412.6 million related to the deconsolidation of a subsidiary. (Gain) on disposal of assets in 2013 includes a net gain of \$14.7 million resulting

from business divestiture activity. (Gain) on disposal of assets in 2012 included \$3.7 million of gains from asset sales.

EFFECTIVE TAX RATE in 2014 was unfavorably impacted by discrete tax costs related to a non-deductible goodwill and intangible asset impairment charge, the deconsolidation of a subsidiary, and the expiration of the U.S. Research and Development credit. The effective tax rate in 2013 was higher primarily due to an unfavorable geographical mix of earnings. The effective tax rate in 2013 was favorably impacted by the enactment of the American Taxpayer Relief Act.

Discussion of Business Segment Information

The Business Segment information presents sales, operating income and assets on a basis that is consistent with the manner in which the Company's various businesses are managed for internal review and decision-making. As of July 1, 2013, the Company consolidated its Climate & Industrial Controls businesses into existing operating groups within the Industrial Segment. As a result of this consolidation and resulting change in management structure made in connection with the strategic divestiture of certain operations in the Climate & Industrial Controls Segment, the Company now has two reporting segments: Diversified Industrial (formerly referred to as Industrial) and Aerospace Systems (formerly referred to as Aerospace). All prior period results have been revised to reflect the new reporting segment structure.

DIVERSIFIED INDUSTRIAL SEGMENT

(dollars in millions)	2014	2013	2012
Sales			
North America	\$5,694	\$5,638	\$5,708
International	5,288	5,110	5,335
Operating income			
North America	946	909	960
International	572	602	752
Operating income as a percent of sales			
North America	16.6%	16.1%	16.8%
International	10.8%	11.8%	14.1%
Backlog	\$ 1,861	\$1,803	\$ 1,974
Assets	9,502	9,388	8,696
Return on average assets	16.1%	16.7%	19.2%

Sales in 2014 for the Diversified Industrial North American operations increased 1.0 percent from 2013 compared to a 1.2 percent decrease from 2012 to 2013. Acquisitions completed within the last 12 months contributed approximately \$53 million in sales in 2014. The effect of currency rate changes decreased 2014 net sales by approximately \$26 million, reflecting the strengthening of the U.S. dollar against the Canadian dollar. Excluding acquisitions and the effect of currency rate changes, the change in sales in 2014 reflects higher demand from distributors as well as from end-users in the construction equipment and oil and gas markets, partially offset by lower end-user demand in the heavy-duty truck, farm and agriculture equipment, engine, and car and light truck markets. Excluding acquisitions, sales in 2013 decreased 4.1 percent reflecting lower demand from distributors as well as from end-users in most markets with the largest decline occurring in the construction equipment, oil and gas, mining, heavy-duty truck and machine tool markets.

Sales in the Diversified Industrial International operations increased 3.5 percent in 2014 compared to a decrease of 4.2 percent from 2012 to 2013. Acquisitions completed within the last 12 months contributed approximately \$21 million in sales in 2014. The effect of currency rate changes did not have an overall impact on sales in 2014 as currency rate changes in Europe were offset by currency rate changes

in the Asia Pacific region and Latin America. Excluding acquisitions and the effect of currency rate changes, sales in 2014 in the Diversified Industrial International operations increased 3.1 percent, primarily due to higher volume in all regions with 50 percent of the increase occurring in the Asia Pacific region and one-third of the increase occurring in Europe. Excluding acquisitions and the effect of currency rate changes, the sales decrease in 2013 was primarily due to lower volume across most markets in all regions with the largest decrease equally distributed between Europe and the Asia Pacific region.

The absence of sales from divested businesses was also a contributing factor to the sales fluctuation between 2013 and 2014 in both the Diversified Industrial North American and Diversified Industrial International businesses.

The increase in operating margins in 2014 in the Diversified Industrial North American operations was primarily due to the higher sales volume, a favorable product mix and lower raw material prices, partially offset by higher intangible asset amortization expense related to 2013 acquisitions. The decrease in operating margins in 2014 in the Diversified Industrial International operations was primarily due to higher business realignment charges and associated operating inefficiencies partially offset by the impact of the higher sales volume and a favorable product mix. The decrease in operating margins in 2013 in the Diversified Industrial North American operations was primarily due to an unfavorable product mix and operating inefficiencies resulting from the decrease in sales volume, partially offset by the favorable effect of lower raw material prices. The decrease in operating margins in 2013 in the Diversified Industrial International operations was primarily due to the lower sales volume, resulting in operating inefficiencies, as well as the impact of integration costs related to 2013 acquisitions.

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

(dollars in thousands)	2014	2013	2012
Diversified Industrial North America	\$ 2,304	\$2,661	\$ 3,355
Diversified Industrial International	99,220	9,573	10,966

The business realignment charges consist primarily of severance costs resulting from plant closures as well as general reductions in work force. The majority of the Diversified Industrial International business realignment charges were incurred in Europe. The Industrial North America business realignment charges for 2012 also included expenses associated with enhanced retirement benefits. The Company does not anticipate that cost savings realized from the work force reductions taken during 2014 in the Diversified Industrial North American businesses will have a material impact on future operating income and anticipates that cost savings realized from work force reduction measures taken in the Diversified Industrial International businesses will positively impact operating income by approximately nine percent in 2015. In 2015, the Company expects to continue to take actions necessary to structure appropriately the operations of the Diversified Industrial Segment. Such actions are expected to result in approximately \$55 million in business realignment charges in 2015.

The Company anticipates Diversified Industrial North American sales for 2015 will increase between 3.0 percent and 7.0 percent from the 2014 level and Diversified Industrial International sales for 2015 will increase between 1.0 percent and 4.0 percent from the 2014 level. Diversified Industrial North American operating margins in 2015 are expected to range from 16.5 percent to 16.9 percent and Diversified Industrial International margins are expected to range from 14.7 percent to 15.7 percent.

The increase in total Diversified Industrial Segment backlog in 2014 was primarily due to order rates exceeding shipments in the Diversified Industrial North American businesses. The decline in total Diversified Industrial Segment backlog in 2013 was primarily due to lower order rates in both the Diversified Industrial North American and Diversified Industrial International businesses, partially offset by an increase in backlog from acquisitions. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale.

The 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

(dollars in millions)	2014	2013	2012
Sales	\$2,235	\$2,268	\$2,103
Operating income	271	280	290
Operating income as a percent of sales	12.1%	12.4%	13.8%
Backlog	\$1,994	\$1,936	\$1,862
Assets	1,359	1,140	1,033
Return on average assets	21.7%	25.8%	28.6%

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

For 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. The increase in assets in 2013 was primarily due to increases in accounts receivable, inventory and intangible assets.

CORPORATE assets increased 19.9 percent in 2014 compared to an increase of 39.7 percent from 2012 to 2013. 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.

(dollars in millions)	2014	2013
Cash	\$2,187	\$1,781
Trade accounts receivable, net	1,858	1,841
Inventories	1,372	1,377
Investments and other assets	1,019	687
Intangible assets, net	1,188	1,290
Goodwill	3,171	3,224
Notes payable and long-term debt payable within one year	817	1,334
Shareholders' equity	6,659	5,738
Working capital	\$2,819	\$2,011
Current ratio	1.9	1.6

CASH (comprised of cash and cash equivalents and marketable securities) includes \$2,126 million and \$1,655 million held by the Company's foreign subsidiaries at June 30, 2014 and June 30, 2013, respectively. Generally, cash and cash equivalents and marketable securities held by foreign subsidiaries are not readily available for use in the United States without adverse tax consequences. The Company's principal sources of liquidity are its cash flows provided by operating activities, commercial paper borrowings or borrowings directly from its line of credit. The Company does not believe the level of its non-U.S. cash position will have an adverse effect on working capital needs, planned growth, repayment of maturing debt, benefit plan funding, dividend payments or share repurchases.

TRADE ACCOUNTS RECEIVABLE, NET are receivables due from customers for sales of product. Days sales outstanding relating to trade receivables for the Company was 48 days in 2014 and 49 days in 2013. The Company believes that its receivables are collectible and appropriate allowances for doubtful accounts have been recorded.

INVENTORIES decreased \$6 million (which includes an increase of \$22 million from the effect of foreign currency translation and a decrease of \$34 million related to the deconsolidation of a subsidiary) primarily due to a decrease in inventory levels in the Aerospace Systems Segment partially offset by an increase in inventory levels in the Diversified Industrial International businesses. Days supply of inventory on hand was 61 days in 2014 and 62 days in 2013.

INVESTMENTS AND OTHER ASSETS at June 30, 2014 includes the fair value of the Company's equity investment in the joint venture with GE Aviation. See Note 2 to the Consolidated Financial Statements for further discussion.

INTANGIBLE ASSETS, NET AND GOODWILL decreased from the 2013 amounts primarily due to impairment charges of approximately \$44 million and \$140 million, respectively, recognized 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 decreased primarily due to a lower 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 \$200 million related to share repurchases, an increase of \$91 million related to pensions and postretirement 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:

(dollars in millions)	2014	2013	2012
Cash provided by (used in):			
Operating activities	\$1,388	\$1,191	\$1,530
Investing activities	(646)	(810)	(376)
Financing activities	(958)	576	(824)
Effect of exchange rates	48	(14)	(150)
Net (decrease) increase in cash and cash equivalents	\$ (168)	\$ 943	\$ 181

CASH FLOWS FROM OPERATING ACTIVITIES in 2014 benefited from a \$294 million increase in cash provided by working capital items partially offset by a \$184 million decrease in net income after consideration of non-cash items, including a \$413 million gain on the deconsolidation of a subsidiary and a \$189 million impairment charge. Refer to Note 2 and Note 7 to the Consolidated Financial Statements for further discussion of the gain on deconsolidation and impairment charge, respectively. During 2014, the Company also made a \$75 million voluntary cash contribution to the Company's domestic qualified defined benefit plan. Cash flow from operating activities decreased from 2012 primarily due to a decrease in net income as well as \$226 million of voluntary cash contributions made to the Company's domestic qualified defined benefit pension plan in 2013.

CASH FLOWS USED IN INVESTING ACTIVITIES decreased from 2013 primarily due to a lower level of acquisition activity and the proceeds from the sale of a 50 percent equity interest in a subsidiary related to the joint venture with GE Aviation (refer to Note 2 to the Consolidated Financial Statements for further discussion), partially offset by purchases of marketable securities and other investments. Cash flows used in investing activities increased from 2012 primarily due to an increase in acquisition activity and capital expenditures, partially offset by net proceeds from business divestitures.

CASH FLOWS USED IN FINANCING ACTIVITIES increased from 2013 primarily due to a lower level of borrowings required to support acquisition activity. The Company repurchased 1.7 million common shares for \$200 million during 2014 as compared to the repurchase of approximately 3.0 million common shares for \$257 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.

In both 2013 and 2012, the Company purchased the outstanding shares not previously owned by the Company in majority-owned subsidiaries. Cash flows used in financing activities in 2012 included a borrowing and a repayment, each for Japanese Yen (JPY) 6 billion (approximately \$73 million), under the terms of separate credit facilities.

Dividends have been paid for 256 consecutive quarters, including a yearly increase in dividends for the last 58 fiscal years. The current annual dividend rate is \$1.92.

The Company's goal is to maintain no less than an "A" rating on senior debt to ensure availability and reasonable cost of external funds. As one means of achieving this objective, the Company has established a financial goal of maintaining a ratio of debt to debt-shareholders' equity of no more than 37 percent.

DEBT TO DEBT-SHAREHOLDERS' EQUITY RATIO

(dollars in millions)	2014	2013
Debt	\$2,325	\$2,830
Debt & Shareholders' Equity	8,984	8,568
Ratio	25.9%	33.0%

As of June 30, 2014, the Company had a line of credit totaling \$2,000 million through a multi-currency revolving credit agreement with a group of banks, of which \$1,184 million was available at June 30, 2014. The credit agreement expires in October 2017; however, the Company has the right to request a one-year extension of the expiration date on an annual basis, which request may result in changes to the current terms and conditions of the credit agreement. Advances from the credit agreement can be used for general corporate purposes, including acquisitions, and for the refinancing of existing indebtedness. The revolving 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 debt, it would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

The Company is currently authorized to sell up to \$1,850 million of short-term commercial paper notes. As of June 30, 2014, \$816 million of commercial paper notes were outstanding and the largest amount of commercial paper notes outstanding during the last quarter of 2014 was \$1,079 million.

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

CONTRACTUAL OBLIGATIONS – The total amount of gross unrecognized tax benefits, including interest, for uncertain tax positions was \$173.0 million at June 30, 2014. Payment of these obligations would result from settlements with worldwide taxing authorities. Due to the difficulty in determining the timing of the settlements, these obligations are not included in the following summary of the Company’s fixed contractual obligations. References to Notes are to the Notes to the Consolidated Financial Statements.

(dollars in millions)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Long-term debt (Note 9)	\$ 1,508	\$ —	\$ 333	\$ 550	\$ 625
Interest on long-term debt	659	55	91	74	439
Operating leases (Note 9)	291	91	101	37	62
Retirement benefits (Note 10)	118	69	12	12	25
Total	\$2,576	\$215	\$537	\$673	\$1,151

Quantitative and Qualitative Disclosures About Market Risk

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

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value. Further information on the fair value of these contracts is provided in Note 15 to the Consolidated Financial Statements. Gains or losses on derivatives that are not hedges are adjusted to fair value through the Consolidated Statement of Income. Gains or losses on derivatives that are hedges are adjusted to fair value through accumulated other comprehensive income (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings. The translation of the foreign denominated debt that has been designated as a net investment hedge is recorded in accumulated other comprehensive income (loss) and remains there until the underlying net investment is sold or substantially liquidated.

The Company’s debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. The Company’s objective is to maintain a 60/40 mix between fixed rate and variable rate debt thereby limiting its exposure to changes in near-term interest rates. A 100 basis point increase in near-term interest rates would increase annual interest expense on variable rate debt existing at June 30, 2014 by approximately \$12 million.

Off-Balance Sheet Arrangements

The Company does not have off-balance sheet arrangements.

Critical Accounting Policies

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

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

IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS – Goodwill is tested for impairment, at the reporting unit level, on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of a reporting unit may exceed its fair value. For the Company, a reporting unit is one level below the operating segment level. Determining whether an impairment has occurred requires the valuation of the respective reporting unit, which the Company has consistently estimated using primarily a discounted cash flow model. The Company believes that the use of a discounted cash flow model results in the most accurate calculation of a reporting unit’s fair value since the market value for a reporting unit is not readily available. The discounted cash flow analysis requires several assumptions including future sales growth and operating margin levels as well as assumptions regarding future industry specific market conditions. Each reporting unit regularly prepares discrete operating forecasts and uses these forecasts as the basis for the assumptions used in the discounted cash flow analysis. The Company has consistently used a discount rate commensurate with its cost of capital, adjusted for inherent business risks, and an appropriate terminal growth factor. The Company also reconciles the estimated aggregate fair value of its reporting units as derived from the discounted cash flow analysis to the Company’s overall market capitalization.

The Company continually monitors its reporting units for impairment indicators and updates assumptions used in the most recent calculation of the fair value of a reporting unit as appropriate. During fiscal 2014, the Company made a decision to restructure and change the strategic direction of its Worldwide Energy Products Division (EPD). The Company calculated the fair value of EPD using assumptions reflecting the Company’s current strategic direction for this reporting unit, the results of which indicated that the carrying value of EPD exceeded its fair value. As a result, the Company estimated the implied fair value of EPD’s goodwill, which resulted in a non-cash impairment charge of \$140.3 million. The fair value of EPD was calculated using both a discounted cash flow analysis and estimated fair market values of comparable businesses. The results of the Company’s fiscal 2014 annual goodwill impairment test performed as of December 31, 2013 indicated that no additional goodwill impairment existed.

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

Long-lived assets held for use, which primarily includes finite-lived intangible assets and plant and equipment, are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition are less than their carrying value. The long-term nature of these assets requires the estimation of their cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test. During fiscal 2014, in connection with the goodwill impairment review discussed above, the Company determined certain intangible assets of EPD, primarily trademarks and customer lists, and plant and equipment were impaired resulting in a non-cash impairment charge of \$48.6 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.

INVENTORIES – Inventories are valued at the lower of cost or market. Cost is determined on the last-in, first-out basis for a majority of domestic inventories and on the first-in, first-out basis for the balance of the Company’s inventories. Inventories have been reduced by an allowance for obsolete inventories. The estimated allowance is based on management’s review of inventories on hand compared to estimated future usage and sales. Changes in the allowance have not had a material effect on the Company’s results of operations, financial position or cash flows.

PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS – The annual net periodic expense and benefit obligations related to the Company’s defined benefit plans are determined on an actuarial basis. This determination requires critical assumptions regarding the discount rate, long-term rate of return on plan assets, increases in compensation levels, amortization periods for actuarial gains and losses and health care cost trends.

Assumptions are determined based on Company data and appropriate market indicators, and are evaluated each year as of the plans’ measurement date. Changes in the assumptions to reflect actual experience as well as the amortization of actuarial gains and losses could result in a material change in the annual net periodic expense and benefit obligations reported in the financial statements. For the Company’s domestic defined benefit plans, a 50 basis point change in the assumed long-term rate of return on plan assets is estimated to have an \$11 million effect on pension expense and a 50 basis point decrease 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 losses related to the Company’s domestic qualified defined benefit plans are subject to amortization in the future. These losses will generally be amortized over approximately eight years and will negatively affect earnings in the future. Actuarial gains experienced in future years will help reduce the effect of the actuarial loss amortization.

Further information on pensions and postretirement benefits other than pensions is provided in Note 10 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 Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options and stock appreciation rights. The Black-Scholes model requires assumptions regarding the volatility of the Company’s stock, the expected life of the stock award and the Company’s dividend ratio. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is 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 experience 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. Further information on stock-based compensation is provided in Note 12 to the Consolidated Financial Statements.

INCOME TAXES – Significant judgment is required in determining the Company’s income tax expense and in evaluating tax positions. Deferred income tax assets and liabilities have been recorded for the differences between the financial accounting and income tax basis of assets and liabilities. Factors considered by the Company in determining the probability of realizing deferred income tax assets include forecasted operating earnings, available tax planning strategies and the time period over which the temporary differences will reverse. The Company reviews its tax positions on a regular basis and adjusts the balances as new information becomes available. Further information on income taxes is provided in Note 4 to the Consolidated Financial Statements.

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

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration that a company expects to be entitled to in exchange for the goods or services. To achieve this principle, a company must apply five steps including, identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) the company satisfies the performance obligations. Additional quantitative and qualitative disclosure to enhance the understanding about the nature, amount, timing, and uncertainty of revenue and cash flows is also required. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company has not yet determined the effect that ASU 2014-09 will have on its results of operations, statement of financial position, or financial statement disclosures.

Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

For the years ended June 30,	2014	2013	2012
Net Sales	\$13,215,971	\$13,015,704	\$13,145,942
Cost of sales	10,188,227	10,086,675	9,958,337
Gross profit	3,027,744	2,929,029	3,187,605
Selling, general and administrative expenses	1,633,992	1,554,973	1,519,316
Goodwill and intangible asset impairment (Note 7)	188,870	—	—
Interest expense	82,566	91,552	92,790
Other (income) expense, net	(25,513)	(18,198)	1,295
(Gain) on disposal of assets (Note 2)	(408,891)	(10,299)	(2,494)
Income before income taxes	1,556,720	1,311,001	1,576,698
Income taxes (Note 4)	515,302	362,217	421,206
Net Income	1,041,418	948,784	1,155,492
Less: Noncontrolling interest in subsidiaries' earnings	370	357	3,669
Net Income Attributable to Common Shareholders	\$ 1,041,048	\$ 948,427	\$ 1,151,823
Earnings per Share Attributable to Common Shareholders (Note 5)			
Basic earnings per share	\$ 6.98	\$ 6.36	\$ 7.62
Diluted earnings per share	\$ 6.87	\$ 6.26	\$ 7.45

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DOLLARS IN THOUSANDS)

For the years ended June 30,	2014	2013	2012
Net Income	\$ 1,041,418	\$ 948,784	\$1,155,492
Less: Noncontrolling interests in subsidiaries' earnings	370	357	3,669
Net income attributable to common shareholders	1,041,048	948,427	1,151,823
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustment (net of tax of \$4,692, \$1,239 and \$(11,530) in 2014, 2013 and 2012)	192,925	(18,974)	(392,742)
Retirement benefits plan activity (net of tax of \$(54,473), \$(195,884) and \$330,984 in 2014, 2013 and 2012)	91,182	325,066	(597,979)
Realized loss (net of tax of \$(101), \$(101) and \$(102) in 2014, 2013 and 2012)	205	204	204
Other comprehensive income (loss)	284,312	306,296	(990,517)
Less: Other comprehensive (loss) for noncontrolling interests	(23)	(1,771)	(25,607)
Other comprehensive income (loss) attributable to common shareholders	284,335	308,067	(964,910)
Total Comprehensive Income Attributable to Common Shareholders	\$1,325,383	\$1,256,494	\$ 186,913

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

BUSINESS SEGMENT INFORMATION

(DOLLARS IN THOUSANDS)

By Industry

	2014	2013	2012
Net Sales:			
Diversified Industrial:			
North America	\$ 5,693,527	\$ 5,637,657	\$ 5,708,057
International	5,287,916	5,110,332	5,335,138
Aerospace Systems	2,234,528	2,267,715	2,102,747
	\$13,215,971	\$13,015,704	\$13,145,942
Segment Operating Income:			
Diversified Industrial:			
North America	\$ 946,493	\$ 908,719	\$ 960,252
International	572,476	602,480	752,155
Aerospace Systems	271,238	280,286	290,135
Total segment operating income	1,790,207	1,791,485	2,002,542
Corporate administration	181,926	185,767	193,367
Income before interest expense and other	1,608,281	1,605,718	1,809,175
Interest expense	82,566	91,552	92,790
Other (income) expense	(31,005)	203,165	139,687
Income before income taxes	\$ 1,556,720	\$ 1,311,001	\$ 1,576,698
Assets:			
Diversified Industrial	\$ 9,501,837	\$ 9,388,027	\$ 8,696,094
Aerospace Systems (a)	1,359,130	1,139,967	1,033,449
Corporate (b)	2,413,395	2,012,904	1,440,739
	\$13,274,362	\$12,540,898	\$11,170,282
Property Additions (c):			
Diversified Industrial	\$ 189,832	\$ 312,392	\$ 219,872
Aerospace Systems	23,261	20,838	19,651
Corporate	3,247	7,105	8,223
	\$ 216,340	\$ 340,335	\$ 247,746
Depreciation:			
Diversified Industrial	\$ 187,347	\$ 187,014	\$ 182,853
Aerospace Systems	19,193	19,498	19,395
Corporate	8,425	7,210	8,260
	\$ 214,965	\$ 213,722	\$ 210,508

By Geographic Area (d)

	2014	2013	2012
Net Sales:			
North America	\$ 7,853,603	\$ 7,844,552	\$ 7,830,517
International	5,362,368	5,171,152	5,315,425
	\$13,215,971	\$13,015,704	\$13,145,942
Long-Lived Assets:			
North America	\$ 861,300	\$ 871,958	\$ 867,159
International	962,994	936,282	852,809
	\$ 1,824,294	\$ 1,808,240	\$ 1,719,968

As of July 1, 2013, the Company consolidated its Climate & Industrial Controls businesses into existing operating groups within the Industrial Segment. As a result of this consolidation and the resulting change in management structure made in connection with the strategic divestiture of certain operations in the Climate & Industrials Control Segment, the Company now has two reporting segments: Diversified Industrial (formerly referred to as Industrial) and Aerospace Systems (formerly referred to as Aerospace). All prior period results have been revised to reflect the new reporting segment structure.

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

(a) Includes investments in joint-venture companies in which ownership is 50 percent or less and in which the Company does not have operating control (2014 – \$263,246).

(b) Corporate assets are principally cash and cash equivalents, marketable securities, domestic deferred income taxes, investments, benefit plan assets, headquarters facilities and the major portion of the Company's domestic data processing equipment.

(c) Includes the value of net plant and equipment at the date of acquisition of acquired companies (2013 – \$74,439; 2012 – \$28,929).

(d) Net sales are attributed to countries based on the location of the selling unit. North America includes the United States, Canada and Mexico. No country other than the United States represents greater than 10 percent of consolidated sales. Long-lived assets are comprised of plant and equipment based on physical location.

CONSOLIDATED BALANCE SHEET

(DOLLARS IN THOUSANDS)

June 30,	2014	2013
Assets		
Current Assets		
Cash and cash equivalents (Note 1)	\$ 1,613,555	\$ 1,781,412
Marketable securities (Note 1)	573,701	—
Trade accounts receivable, net (Note 1)	1,858,176	1,840,820
Non-trade and notes receivable (Note 1)	388,437	221,925
Inventories (Note 6)	1,371,681	1,377,405
Prepaid expenses	129,837	182,669
Deferred income taxes (Notes 1 and 4)	136,193	126,955
Total Current Assets	6,071,580	5,531,186
Plant and equipment (Note 1)	5,152,591	4,999,301
Less accumulated depreciation	3,328,297	3,191,061
	1,824,294	1,808,240
Investments and other assets (Note 1)	1,018,781	687,458
Intangible assets, net (Notes 1 and 7)	1,188,282	1,290,499
Goodwill (Notes 1 and 7)	3,171,425	3,223,515
Total Assets	\$13,274,362	\$12,540,898
Liabilities and Equity		
Current Liabilities		
Notes payable and long-term debt payable within one year (Notes 8 and 9)	\$ 816,622	\$ 1,333,826
Accounts payable, trade	1,252,040	1,156,002
Accrued payrolls and other compensation	453,321	426,996
Accrued domestic and foreign taxes	223,611	136,079
Other accrued liabilities	507,202	467,300
Total Current Liabilities	3,252,796	3,520,203
Long-term debt (Note 9)	1,508,142	1,495,960
Pensions and other postretirement benefits (Note 10)	1,346,224	1,372,437
Deferred income taxes (Notes 1 and 4)	94,819	102,920
Other liabilities	409,573	307,897
Total Liabilities	6,611,554	6,799,417
Equity (Note 11)		
Shareholders' Equity		
Serial preferred stock, \$.50 par value, authorized 3,000,000 shares; none issued		
Common stock, \$.50 par value, authorized 600,000,000 shares; issued 181,046,128 shares in 2014 and 2013	90,523	90,523
Additional capital	595,498	608,752
Retained earnings	9,174,189	8,421,270
Accumulated other comprehensive (loss)	(823,498)	(1,107,833)
Treasury shares at cost: 32,143,315 in 2014 and 31,757,604 in 2013	(2,377,284)	(2,274,286)
Total Shareholders' Equity	6,659,428	5,738,426
Noncontrolling interests	3,380	3,055
Total Equity	6,662,808	5,741,481
Total Liabilities and Equity	\$13,274,362	\$12,540,898

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(DOLLARS IN THOUSANDS)

For the years ended June 30,	2014	2013	2012
Cash Flows From Operating Activities			
Net income	\$ 1,041,418	\$ 948,784	\$ 1,155,492
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	214,965	213,722	210,508
Amortization	121,737	121,902	111,421
Goodwill and intangible asset impairment	188,870	—	—
Stock incentive plan compensation	103,161	84,996	80,935
Deferred income taxes	(74,139)	(1,368)	(56,452)
Foreign currency transaction loss	5,398	19,497	4,300
Loss (gain) on disposal of assets	2,997	2,746	(2,494)
Gain on sale of businesses	—	(14,637)	—
Net gain on deconsolidation	(412,612)	—	—
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(99,144)	(21,206)	(91,091)
Inventories	(3,816)	98,518	(28,333)
Prepaid expenses	58,117	(47,451)	(26,981)
Other assets	(79,158)	(16,007)	(6,578)
Accounts payable, trade	92,927	(66,082)	59,692
Accrued payrolls and other compensation	20,840	(45,771)	16,003
Accrued domestic and foreign taxes	86,745	(17,054)	(70,302)
Other accrued liabilities	(23,480)	(62,728)	33,512
Pensions and other postretirement benefits	99,569	(16,691)	123,944
Other liabilities	43,498	9,765	16,809
Net cash provided by operating activities	1,387,893	1,190,935	1,530,385
Cash Flows From Investing Activities			
Acquisitions (less cash acquired of \$1,780 in 2014, \$33,932 in 2013 and \$19,161 in 2012)	(17,593)	(621,144)	(156,256)
Capital expenditures	(216,340)	(265,896)	(218,817)
Proceeds from disposal of assets	14,368	25,047	20,404
Proceeds from sale of businesses	—	73,515	—
Net proceeds from deconsolidation	202,498	—	—
Purchase of marketable securities and other investments	(624,880)	—	—
Other	(4,454)	(21,367)	(21,099)
Net cash used in investing activities	(646,401)	(809,845)	(375,768)
Cash Flows From Financing Activities			
Proceeds from exercise of stock options	8,013	32,204	10,599
Payments for common shares	(204,043)	(258,007)	(456,969)
Tax benefit from stock incentive plan compensation	33,732	66,030	16,107
Acquisition of noncontrolling interests	—	(1,091)	(147,441)
(Payments for) proceeds from notes payable, net	(515,387)	1,319,524	(1,961)
Proceeds from long-term borrowings	748	3,768	73,556
Payments for long-term borrowings	(2,934)	(331,245)	(76,757)
Dividends paid	(278,244)	(255,009)	(240,654)
Net cash (used in) provided by financing activities	(958,115)	576,174	(823,520)
Effect of exchange rate changes on cash	48,766	(14,169)	(150,246)
Net (decrease) increase in cash and cash equivalents	(167,857)	943,095	180,851
Cash and cash equivalents at beginning of year	1,781,412	838,317	657,466
Cash and cash equivalents at end of year	\$ 1,613,555	\$ 1,781,412	\$ 838,317
Supplemental Data:			
Cash paid during the year for:			
Interest	\$ 77,144	\$ 88,084	\$ 91,677
Income taxes	472,369	311,988	494,378

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

CONSOLIDATED STATEMENT OF EQUITY

(DOLLARS IN THOUSANDS)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Shares	Noncontrolling Interests	Total
Balance June 30, 2011	\$90,523	\$668,332	\$6,891,407	\$ (450,990)	\$ (1,815,418)	\$104,482	\$5,488,336
Net income			1,151,823			3,669	1,155,492
Other comprehensive (loss)				(964,910)		(25,607)	(990,517)
Dividends paid			(233,168)			(7,486)	(240,654)
Stock incentive plan activity		45,532	(22,887)		65,266		87,911
Acquisition activity		(73,615)				(65,843)	(139,458)
Shares purchased at cost					(455,380)		(455,380)
Balance June 30, 2012	\$90,523	\$640,249	\$ 7,787,175	\$ (1,415,900)	\$ (2,205,532)	\$ 9,215	\$ 4,905,730
Net income			948,427			357	948,784
Other comprehensive income (loss)				308,067		(1,771)	306,296
Dividends paid			(254,283)			(726)	(255,009)
Stock incentive plan activity		(34,678)	(60,049)		188,423		93,696
Acquisition activity		3,181				(4,020)	(839)
Shares purchased at cost					(257,177)		(257,177)
Balance June 30, 2013	\$90,523	\$608,752	\$8,421,270	\$ (1,107,833)	\$ (2,274,286)	\$ 3,055	\$ 5,741,481
Net income			1,041,048			370	1,041,418
Other comprehensive income (loss)				284,335		(23)	284,312
Dividends paid			(278,222)			(22)	(278,244)
Stock incentive plan activity		(13,254)	(9,907)		97,002		73,841
Shares purchased at cost					(200,000)		(200,000)
Balance June 30, 2014	\$90,523	\$595,498	\$ 9,174,189	\$ (823,498)	\$ (2,377,284)	\$ 3,380	\$6,662,808

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

Notes to Consolidated Financial Statements

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 1. Significant Accounting Policies

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

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

The Diversified Industrial Segment is an aggregation of several business units, which manufacture motion-control and fluid power system components for builders and users of various types of manufacturing, packaging, processing, transportation, agricultural, construction, and military vehicles and equipment. Diversified Industrial Segment products are marketed primarily through field sales employees and independent distributors. The Diversified Industrial North American operations have manufacturing plants and distribution networks throughout the United States, Canada and Mexico and primarily service North America. The Diversified Industrial International operations provide Parker products and services to 47 countries throughout Europe, Asia Pacific, Latin America, the Middle East and Africa.

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

See the table of Business Segment Information “By Industry” and “By Geographic Area” on page 23 for further disclosure of business segment information.

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

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

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

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

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

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

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

MARKETABLE SECURITIES – 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	\$ 111,531
Reverse repurchase agreements	54,772	—
Accounts receivable, other	216,265	110,394
Total	\$388,437	\$221,925

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, 15 years for land improvements and building equipment, seven to 10 years for machinery and equipment, and three to eight years for vehicles and office equipment. Improvements, which extend the useful life of property, are capitalized, and maintenance and repairs are expensed. The Company reviews plant and equipment for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. When plant and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in current income.

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

June 30,	2014	2013
Land and land improvements	\$ 326,008	\$ 316,360
Buildings and building equipment	1,535,634	1,431,358
Machinery and equipment	3,210,172	3,131,077
Construction in progress	80,777	120,506
Total	\$5,152,591	\$4,999,301

INVESTMENTS AND OTHER ASSETS – Investments in joint-venture companies in which ownership is 50 percent or less and in which the Company does not have operating control are stated at cost plus the Company's equity in undistributed earnings and amounted to \$324,610 and \$61,117 at June 30, 2014 and June 30, 2013, respectively. The Company's share of earnings from these investments were immaterial to the Company's results of operations.

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

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

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

PRODUCT WARRANTY – In the ordinary course of business the Company warrants its products against defect in design, materials and workmanship over various time periods. The warranty accrual at June 30, 2014 and 2013 is immaterial to the financial position of the Company and the change in the accrual during 2014, 2013 and 2012 was immaterial to the Company's results of operations and cash flows.

FOREIGN CURRENCY TRANSLATION – Assets and liabilities of foreign subsidiaries are translated at current exchange rates, and income and expenses are translated using weighted-average exchange rates. The effects of these translation adjustments, as well as gains and losses from certain intercompany transactions, are reported in the accumulated other comprehensive (loss) component of shareholders' equity. Such adjustments will affect net income only upon sale or liquidation of the underlying foreign investments, which is not contemplated at this time. Exchange gains and losses from transactions in a currency other than the local currency of the entity involved, and translation adjustments in countries with highly inflationary economies, are included in net income.

SUBSEQUENT EVENTS – The Company has evaluated subsequent events that have occurred through the date of filing of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014. No subsequent events occurred that required adjustment to or disclosure in these financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration that a company expects to be entitled to in exchange for the goods or services. To achieve this principle, a company must apply five steps including, identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when (or as) the company satisfies the performance obligations. Additional quantitative and qualitative disclosure to enhance the understanding about the nature, amount, timing, and uncertainty of revenue and cash flows is also required. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company has not yet determined the effect that ASU 2014-09 will have on its results of operations, statement of financial position, or financial statement disclosures.

NOTE 2. Deconsolidation of Subsidiary, Acquisitions and Divestitures

DECONSOLIDATION OF SUBSIDIARY – During 2014, the Company and GE Aviation, a non-related party, finalized a joint venture in which the Company sold a 50 percent equity interest in one of its wholly-owned subsidiaries. The sale of the 50 percent equity interest in the wholly-owned subsidiary resulted in a loss of control of the subsidiary, and therefore it was deconsolidated from the Company's financial statements during the second quarter of fiscal 2014. The Company's equity interest in the joint venture with GE Aviation at June 30, 2014 of \$263,246 is accounted for using the equity method of accounting. A significant portion of the underlying net assets of the joint venture are related to goodwill.

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

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

During 2013, the Company completed eight acquisitions whose aggregate sales for their most recent fiscal year prior to acquisition were approximately \$484 million. Total purchase price for the eight acquisitions was approximately \$621 million in cash and \$114 million in assumed debt.

During 2012, the Company completed four acquisitions whose aggregate sales for their most recent fiscal year prior to acquisition were approximately \$141 million. Total purchase price for the four acquisitions in 2012 was approximately \$156 million in cash. Also during 2012, the Company purchased the outstanding shares not previously owned by the Company in two majority-owned subsidiaries. Total purchase price for the two majority-owned subsidiaries was approximately \$147 million in cash.

The results of operations for all acquisitions are included as of the respective dates of acquisition. The initial purchase price allocation and subsequent purchase price adjustments for acquisitions in 2014, 2013 and 2012 are presented below. Some of the 2014 acquisitions are still subject to purchase price adjustments.

	2014	2013	2012
Assets:			
Accounts receivable	\$ 954	\$ 91,668	\$ 24,833
Inventories	2,184	93,915	29,102
Prepaid expenses	57	4,672	1,541
Deferred income taxes	189	(1,713)	5,679
Plant and equipment	11,211	74,439	28,929
Intangible and other assets	5,646	280,001	59,576
Goodwill	3,195	317,879	68,144
	23,436	860,861	217,804
Liabilities and equity:			
Notes payable	—	11,920	1,887
Accounts payable, trade	915	46,596	7,189
Accrued payrolls and other compensation	263	12,099	3,672
Accrued domestic and foreign taxes	1	7,073	2,882
Other accrued liabilities	3,864	16,805	5,984
Long-term debt	—	102,122	4,365
Pensions and other postretirement benefits	—	2,125	11,396
Deferred income taxes	—	39,214	24,062
Other liabilities	800	689	111
Noncontrolling interests	—	1,074	—
	5,843	239,717	61,548
Net assets acquired	\$ 17,593	\$ 621,144	\$ 156,256

DIVESTITURES – During 2013, the Company completed several divestitures, the primary ones being the automotive businesses of its Mobile Climate Systems division and its Turkey refrigeration components business. Under the segment structure effective July 1, 2013, both of these businesses would have been part of the Diversified Industrial Segment and had combined revenues of approximately \$158 million for fiscal 2012. The Company recorded a net pre-tax gain during 2013 of approximately \$18 million related to these divestitures. The gain is reflected in the (gain) on disposal of assets caption in the Consolidated Statement of Income.

NOTE 3. Charges Related to Business Realignment

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

Business realignment charges by business segment are as follows:

	2014	2013	2012
Diversified Industrial	\$101,524	\$12,234	\$14,321
Aerospace Systems	925	—	—

Work force reductions by business segment are as follows:

	2014	2013	2012
Diversified Industrial	1,581	725	521
Aerospace Systems	44	—	—

The charges primarily consist of severance costs related to plant closures as well as general work force reductions implemented by various operating units throughout the world, with the majority of charges relating to realignment activities in Europe. In addition, \$1,331 of fixed asset write-downs were recognized in connection with plant

closures in the Diversified Industrial Segment, and are reflected in the other (income) expense caption in the Business Segment information for 2014. During 2013, \$1,918 of severance costs for 98 people were recognized in connection with the Company's divestiture of its Turkey refrigeration components business and is reflected in the other (income) expense caption in the Business Segment Information. The business realignment charges in 2012 also included charges related to enhanced retirement benefits. The Company believes the realignment actions taken will positively impact future results of operations, but will have no material effect on liquidity and sources and uses of capital.

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

	2014	2013	2012
Cost of sales	\$63,575	\$8,354	\$12,669
Selling, general and administrative expenses	38,874	3,880	1,020
(Gain) on disposal of assets	1,331	1,918	632

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 \$62 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 4. Income Taxes

Income before income taxes was derived from the following sources:

	2014	2013	2012
United States	\$ 1,115,010	\$ 653,622	\$ 810,150
Foreign	441,710	657,379	766,548
	\$1,556,720	\$1,311,001	\$1,576,698

Income taxes include the following:

	2014	2013	2012
Federal			
Current	\$ 377,404	\$ 167,350	\$ 255,991
Deferred	(45,643)	26,523	(48,252)
Foreign			
Current	168,177	176,739	191,167
Deferred	(28,016)	(28,472)	(29)
State and local			
Current	43,860	19,496	30,500
Deferred	(480)	581	(8,171)
	\$ 515,302	\$ 362,217	\$ 421,206

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

	2014	2013	2012
Statutory Federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes	1.8	1.0	0.9
Goodwill and intangible asset impairment	4.5	—	—
Tax related to international activities	(5.6)	(5.8)	(5.8)
Cash surrender value of life insurance	(0.9)	(0.7)	0.1
Federal manufacturing deduction	(1.0)	(1.0)	(1.6)
Research tax credit	(0.3)	(1.1)	(0.4)
Other	(0.4)	0.2	(1.5)
Effective income tax rate	33.1%	27.6%	26.7%

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

	2014	2013
Retirement benefits	\$ 550,034	\$ 535,260
Other liabilities and reserves	128,848	113,257
Long-term contracts	46,006	26,714
Stock-based incentive compensation	64,267	59,274
Loss carryforwards	340,676	286,180
Unrealized currency exchange gains and losses	25,182	14,639
Inventory	18,668	15,570
Foreign tax credit carryforward	51,875	25,195
Depreciation and amortization	(571,107)	(527,860)
Valuation allowance	(348,837)	(273,413)
Net deferred tax asset	\$ 305,612	\$ 274,816
Change in net deferred tax asset:		
Provision for deferred tax	\$ 74,139	\$ 1,368
Items of other comprehensive (loss)	(49,882)	(194,746)
Acquisitions and other	6,539	(81,067)
Total change in net deferred tax	\$ 30,796	\$(274,445)

As of June 30, 2014, the Company has recorded deferred tax assets of \$340,676 resulting from \$1,212,459 in loss carryforwards. A valuation allowance of \$323,358 related to the loss carryforwards has been established due to the uncertainty of realizing certain deferred tax assets. Of this valuation allowance, \$296,598 relates to non-operating entities whose loss carryforward utilization is considered to be remote. Some of the loss carryforwards can be carried forward indefinitely; others can be carried forward from three to 20 years. In addition, a valuation allowance of \$25,479 related to future deductible items has been established due to the uncertainty of their realization. These future deductible items are recorded in the other liabilities and reserves line in the table above.

Provision has not been made for additional U.S. or foreign taxes on undistributed earnings of certain international operations as those earnings will continue to be reinvested. It is not practicable to estimate the additional taxes, including applicable foreign withholding taxes, that might be payable on the eventual remittance of such earnings. Accumulated undistributed earnings reinvested in international operations amounted to approximately \$2,800,000 at June 30, 2014.

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

	2014	2013	2012
Balance July 1	\$107,440	\$109,735	\$ 81,156
Additions for tax positions related to current year	7,752	10,285	66,500
Additions for tax positions of prior years	55,136	10,719	11,047
Reductions for tax positions of prior years	(1,359)	(20,683)	(23,456)
Reductions for settlements	(1,856)	(4,266)	(23,434)
Reductions for expiration of statute of limitations	(5,005)	(437)	(1,636)
Effect of foreign currency translation	2,705	2,087	(442)
Balance June 30	\$164,813	\$107,440	\$109,735

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$71,898, \$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 offset against an asset currently recorded in the Consolidated Balance Sheet. The accrued interest related to the gross unrecognized tax benefits, excluded from the amounts above, was \$8,198, \$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 state, local and foreign tax returns have been examined for fiscal years through 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. Earnings Per Share

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

	2014	2013	2012
Numerator:			
Net income attributable to common shareholders	\$1,041,048	\$948,427	\$1,151,823
Denominator:			
Basic – weighted-average common shares	149,099,448	149,218,257	151,222,033
Increase in weighted-average common shares from dilutive effect of stock-based awards	2,344,655	2,369,774	3,442,477
Diluted – weighted-average common shares, assuming exercise of stock-based awards	151,444,103	151,588,031	154,664,510
Basic earnings per share	\$ 6.98	\$ 6.36	\$ 7.62
Diluted earnings per share	\$ 6.87	\$ 6.26	\$ 7.45

For 2014, 2013 and 2012, 1.2 million, 1.3 million, and 0.7 million common shares, respectively, subject to stock-based awards were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

NOTE 6. Inventories

Inventories are stated at the lower of cost or market. The majority of domestic inventories are valued by the last-in, first-out (LIFO) cost method and the balance of the Company's inventories are valued by the first-in, first-out 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 \$61,958 in 2014 and \$42,446 in 2013 are netted against inventories.

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

June 30,	2014	2013
Finished products	\$ 532,968	\$ 531,897
Work in process	732,294	733,025
Raw materials	106,419	112,483
Total	\$1,371,681	\$1,377,405

NOTE 7. Goodwill and Intangible Assets

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

	Diversified Industrial Segment	Aerospace Systems Segment	Total
Balance June 30, 2012	\$ 2,827,182	\$ 98,674	\$ 2,925,856
Acquisitions	316,857	—	316,857
Divestitures	(20,105)	—	(20,105)
Foreign currency translation and other	1,241	(334)	907
Balance June 30, 2013	\$ 3,125,175	\$ 98,340	\$ 3,223,515
Acquisitions	3,195	—	3,195
Impairment	(140,334)	—	(140,334)
Foreign currency translation and other	84,688	361	85,049
Balance June 30, 2014	\$3,072,724	\$ 98,701	\$ 3,171,425

Acquisitions represent the original goodwill allocation, purchase price adjustments, and final adjustments to the purchase price allocation for the acquisitions during the measurement period subsequent to the applicable acquisition dates. The Company's previously reported results of operations and financial position would not be materially different had the goodwill adjustments recorded during 2014 and 2013 been reflected in the same reporting period that the initial purchase price allocations for those acquisitions were made.

Divestitures represent goodwill associated with businesses divested during 2013 as more fully discussed in Note 2 to the Consolidated Financial Statements.

During the second quarter of fiscal 2014, the Company made a decision to restructure and change the strategic direction of its Worldwide Energy Products Division (EPD). The Company calculated the fair value of EPD using assumptions reflecting the Company's updated strategic direction for this reporting unit, the results of which indicated that the carrying value of EPD exceeded its fair value. As a result, the Company estimated the implied fair value of EPD's goodwill, which resulted in a

non-cash impairment charge of \$140,334. The impairment charge is reflected in the goodwill and intangible asset impairment caption in the Consolidated Statement of Income and in the other (income) expense caption in the Business Segment Information. The fair value of EPD was calculated using both a discounted cash flow analysis and estimated fair market values of comparable businesses with each valuation method having equal weight. Fair value calculated using a discounted cash flow analysis is classified within level 3 of the fair value hierarchy and requires several assumptions including a risk-adjusted interest rate and future sales and operating margin levels.

The Company's annual impairment tests performed in 2014, 2013, and 2012 resulted in no impairment loss being recognized.

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

	2014		2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 160,030	\$ 86,708	\$ 141,160	\$ 75,175
Trademarks	391,268	174,114	386,619	148,319
Customer lists and other	1,481,560	583,754	1,468,243	482,029
Total	\$2,032,858	\$844,576	\$1,996,022	\$705,523

During 2014, the Company acquired intangible assets, either individually or as part of a group of assets, with an initial purchase price allocation and weighted-average life as follows:

	Purchase Price Allocation	Weighted-Average Life
Patents	\$ 15,727	10 years
Trademarks	160	5 years
Customer lists and other	6,686	11 years
Total	\$22,573	10 years

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, \$105,222, \$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 \$43,664. The impairment charge is reflected in the goodwill and intangible asset impairment caption in the Consolidated Statement of Income and in the other (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 line of credit 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 right to request a one-year extension of the expiration date on an annual basis, which request may result in changes to the current terms and conditions of the credit agreement. Advances from the credit agreement can be used for general corporate purposes, including acquisitions, and for the refinancing of existing indebtedness. The credit agreement requires the payment of an annual facility fee, the amount of which 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 debt, it would not limit the Company's ability to use the credit agreement nor would it accelerate the repayment of any outstanding borrowings.

The Company is currently authorized to sell up to \$1,850,000 of short-term commercial paper notes. At June 30, 2014 and 2013, \$816,100 and \$1,331,445 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 locations in the ordinary course of business may enter into financial guarantees through financial institutions which enable customers to be reimbursed in the event of nonperformance by the Company.

The Company's credit agreements and indentures governing certain debt agreements contain various covenants, the violation of which would limit or preclude the use of the applicable agreements for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the applicable agreements. At the Company's present rating level, the most restrictive covenant contained in the credit agreements and the indentures provides that the ratio of secured debt to net tangible assets be less than 10 percent. As of June 30, 2014, the Company does not have any secured debt outstanding. The Company is in compliance with all covenants.

NOTE 9. Debt

June 30,	2014	2013
Domestic:		
Fixed rate medium-term notes 3.50% to 6.55%, due 2018-2038	\$1,175,000	\$1,175,000
Foreign:		
Bank loans, including revolving credit 1% to 11.75%, due 2015	322	2,045
Euro bonds 4.125%, due 2016	273,860	260,200
Japanese Yen credit facility JPY Libor plus 55 bps, due 2017	59,220	60,540
Other long-term debt, including capitalized leases	236	556
Total long-term debt	1,508,638	1,498,341
Less long-term debt payable within one year	496	2,381
Long-term debt, net	\$1,508,142	\$1,495,960

Principal amounts of long-term debt payable in the five years ending June 30, 2015 through 2019 are \$496, \$273,891, \$59,236, \$450,014 and \$100,000, respectively.

LEASE COMMITMENTS – Future minimum rental commitments as of June 30, 2014, under non-cancelable operating leases, which expire at various dates, are as follows: 2015 – \$91,435; 2016 – \$60,672; 2017 – \$40,591; 2018 – \$22,126; 2019 – \$14,967 and after 2019 – \$61,810.

Rental expense in 2014, 2013 and 2012 was \$131,948, \$133,478 and \$124,546, respectively.

NOTE 10. Retirement Benefits

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

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

Benefit cost	2014	2013	2012
Service cost	\$ 99,929	\$ 107,519	\$ 84,663
Interest cost	190,999	174,152	185,550
Expected return on plan assets	(226,884)	(211,694)	(201,845)
Amortization of prior service cost	14,644	14,472	14,016
Amortization of unrecognized actuarial loss	159,584	200,849	105,788
Amortization of initial net obligation (asset)	19	22	(60)
Net periodic benefit cost	\$ 238,291	\$ 285,320	\$ 188,112

Change in benefit obligation	2014	2013
Benefit obligation at beginning of year	\$ 4,382,563	\$ 4,506,521
Service cost	99,929	107,519
Interest cost	190,999	174,152
Actuarial loss (gain)	277,098	(241,674)
Benefits paid	(286,066)	(157,838)
Plan amendments	(3,503)	11,236
Acquisitions	—	1,283
Foreign currency translation and other	88,427	(18,636)
Benefit obligation at end of year	\$ 4,749,447	\$ 4,382,563

Change in plan assets	2014	2013
Fair value of plan assets at beginning of year	\$ 3,096,616	\$ 2,700,050
Actual gain on plan assets	469,984	278,862
Employer contributions	146,237	291,018
Benefits paid	(286,066)	(157,838)
Acquisitions	—	285
Foreign currency translation and other	72,503	(15,761)
Fair value of plan assets at end of year	\$ 3,499,274	\$ 3,096,616
Funded status	\$ (1,250,173)	\$ (1,285,947)

Amounts recognized on the Consolidated Balance Sheet	2014	2013
Other accrued liabilities	\$ (11,333)	\$ (20,643)
Pensions and other postretirement benefits	(1,238,840)	(1,265,304)
Net amount recognized	\$ (1,250,173)	\$ (1,285,947)

Amounts recognized in Accumulated Other Comprehensive (Loss)	2014	2013
Net actuarial loss	\$ 1,434,645	\$ 1,537,549
Prior service cost	37,137	54,630
Transition obligation	143	166
Net amount recognized	\$ 1,471,925	\$ 1,592,345

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

During 2014, the Company offered a lump-sum distribution to certain participants in one of its U.S. defined benefit plans. Included in benefits paid in 2014 is \$110,000 related to participants who elected to receive a lump-sum distribution. No settlement charge was required to be recognized.

The estimated amount of net actuarial loss, prior service cost and transition obligation that will be amortized from accumulated other comprehensive (loss) into net periodic benefit pension cost in 2015 is \$158,471, \$7,668 and \$19, respectively.

The accumulated benefit obligation for all defined benefit plans was \$4,258,743 and \$3,944,921 at June 30, 2014 and 2013, respectively. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$4,691,350, \$4,206,557 and \$3,443,515, respectively, at June 30, 2014, and \$4,351,955, \$3,920,218 and \$3,070,157, respectively, at June 30, 2013. The projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets were \$4,709,493 and \$3,459,097, respectively, at June 30, 2014, and \$4,381,914 and \$3,095,942, respectively, at June 30, 2013.

The Company expects to make cash contributions of approximately \$63 million to its defined benefit pension plans in 2015, the majority of which relates to non-U.S. defined benefit plans. Estimated future benefit payments in the five years ending June 30, 2015 through 2019 are \$189,307, \$235,993, \$219,266, \$225,421 and \$251,678, respectively and \$1,391,819 in the aggregate for the five years ending June 30, 2020 through June 30, 2024.

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

	2014	2013	2012
U.S. defined benefit plans			
Discount rate	4.52%	3.91%	5.45%
Average increase in compensation	5.13%	5.21%	5.21%
Expected return on plan assets	8.0%	8.0%	8.0%
Non-U.S. defined benefit plans			
Discount rate	1.5 to 4.59%	1.75 to 4.7%	2.0 to 5.87%
Average increase in compensation	2.0 to 6.0%	2.0 to 6.0%	2.0 to 5.0%
Expected return on plan assets	1.0 to 6.25%	1.0 to 6.4%	1.0 to 7.5%

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

	2014	2013
U.S. defined benefit plans		
Discount rate	4.05%	4.52%
Average increase in compensation	5.12%	5.13%
Non-U.S. defined benefit plans		
Discount rate	0.9 to 4.2%	1.5 to 4.59%
Average increase in compensation	2.0 to 5.0%	2.0 to 6.0%

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

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

	2014	2013
Equity securities	42%	57%
Debt securities	48%	30%
Other	10%	13%
	100%	100%

The weighted-average target asset allocation as of June 30, 2014 is 41 percent equity securities, 47 percent debt securities and 12 percent other investments. The investment strategy for the Company's worldwide defined benefit pension plan assets focuses on achieving prudent actuarial funding ratios while maintaining acceptable levels of risk in order to provide adequate liquidity to meet immediate and future benefit requirements. This strategy requires investment portfolios that are broadly diversified across various asset classes and external investment managers. Assets held in the U.S. defined benefit plans account for approximately 72 percent of the Company's total defined benefit plan assets. The Company's overall investment strategy with respect to the Company's U.S. defined benefit plans is to opportunistically migrate from its traditional mix between growth seeking assets (primarily consisting of global public equities in developed and emerging countries and hedge fund of fund strategies) and income generating assets (primarily consisting of high quality bonds, both domestic and global, emerging market bonds, high yield bonds and Treasury Inflation Protected Securities) to an allocation more heavily weighted toward income generating assets. Over time, long duration fixed income assets are being added to the portfolio. These securities are highly correlated with the Company's pension liabilities and will serve to hedge a portion of the Company's interest rate risk.

The fair values of pension plan assets at June 30, 2014 and at June 30, 2013, by asset class, are as follows.

	Total	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 46,297	\$ 45,976	\$ 321	\$ —
Equity securities				
U.S. based companies	346,145	346,145	—	—
Non-U.S. based companies	220,911	220,911	—	—
Fixed income securities				
Corporate bonds	234,719	101,227	133,492	—
Government issued securities	161,131	101,083	60,048	—
Mutual funds				
Equity funds	192,293	191,301	992	—
Fixed income funds	223,662	189,375	34,287	—
Common/Collective trusts				
Equity funds	695,195	85,461	609,734	—
Fixed income funds	1,069,207	48,649	1,020,558	—
Limited Partnerships	289,013	777	288,236	—
Miscellaneous	20,701	—	20,701	—
Total at June 30, 2014	\$3,499,274	\$1,330,905	\$2,168,369	\$ —

	Total	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 65,170	\$ 64,208	\$ 962	\$ —
Equity securities				
U.S. based companies	366,692	366,692	—	—
Non-U.S. based companies	223,764	223,764	—	—
Fixed income securities				
Corporate bonds	191,266	80,959	110,307	—
Government issued securities	108,212	57,278	50,934	—
Mutual funds				
Equity funds	334,370	333,695	675	—
Fixed income funds	57,109	32,926	24,183	—
Common/Collective trusts				
Equity funds	826,654	2,743	823,911	—
Fixed income funds	587,023	2,979	584,044	—
Limited Partnerships	302,913	—	302,913	—
Miscellaneous	33,443	772	32,671	—
Total at June 30, 2013	\$3,096,616	\$ 1,166,016	\$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 \$126,834 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 on the active market on which the individual securities are traded.

Mutual funds are valued using both 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 instruments.

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 Partnership 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 but not settled in the asset portfolio of the Company's U.S. defined benefit pension plans. Insurance contracts are valued at the present value of future cash flows promised under the terms of the insurance contracts.

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

EMPLOYEE SAVINGS PLAN – The Company sponsors an employee stock ownership plan (ESOP) as part of its existing savings and investment 401(k) plan. The ESOP is available to eligible domestic employees. Company 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.

	2014	2013	2012
Shares held by ESOP	8,944,697	9,686,238	10,216,738
Company contributions to ESOP	\$63,441	\$61,067	\$58,067

In addition to shares within the ESOP, as of June 30, 2014, employees have elected to invest in 2,510,535 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 each year, the amount of which is based on the participant's age and years of service. Participants do not contribute to the RIA. The Company recognized \$25,247, \$22,046 and \$19,372 in expense related to the RIA in 2014, 2013 and 2012, respectively.

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

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:

Benefit cost	2014	2013	2012
Service cost	\$ 623	\$ 825	\$ 728
Interest cost	2,971	2,826	3,482
Net amortization and deferral	884	1,279	480
Net periodic benefit cost	\$4,478	\$ 4,930	\$ 4,690

Change in benefit obligation	2014	2013
Benefit obligation at beginning of year	\$ 75,544	\$ 83,654
Service cost	623	825
Interest cost	2,971	2,826
Actuarial loss (gain)	1,963	(6,752)
Benefits paid	(4,894)	(5,009)
Benefit obligation at end of year	\$ 76,207	\$ 75,544
Funded status	\$(76,207)	\$(75,544)

Amounts recognized on the Consolidated Balance Sheet		
Other accrued liabilities	\$ (5,874)	\$ (6,068)
Pensions and other postretirement benefits	(70,333)	(69,476)
Net amount recognized	\$(76,207)	\$(75,544)

Amounts recognized in Accumulated Other Comprehensive (Loss)		
Net actuarial loss	\$ 14,074	\$ 13,115
Prior service (credit)	(797)	(920)
Net amount recognized	\$ 13,277	\$ 12,195

The presentation of the amounts recognized on the Consolidated Balance Sheet and in accumulated other comprehensive (loss) is on a debit (credit) basis and is before the effect of income taxes. The amount of net actuarial loss and prior service (credit) that will be amortized from accumulated other comprehensive (loss) into net periodic postretirement cost in 2015 is \$1,141 and \$(121), respectively.

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

	2014	2013	2012
Discount rate	4.1%	3.62%	5.0%
Current medical cost trend rate	7.75%	8.0%	8.0%
Ultimate medical cost trend rate	5.0%	5.0%	5.0%
Medical cost trend rate decreases to ultimate in year	2021	2019	2019

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, 2015 through 2019 are \$5,903, \$5,991, \$6,076, \$6,044 and \$5,672, respectively, and \$24,941 in the aggregate for the five years ending June 30, 2020 through June 30, 2024.

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

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 83	\$ (72)
Effect on postretirement benefit obligation	2,011	(1,753)

OTHER – The Company has established nonqualified deferred compensation programs, which permit officers, directors and certain management employees annually to elect to defer a portion of their compensation, on a pre-tax basis, until their retirement. The retirement benefit to be provided is based on the amount of compensation deferred, Company matching contributions, and earnings on the deferrals. During 2014, 2013 and 2012, the Company recorded expense relating to deferred compensation of \$24,549, \$19,182 and \$4,499, respectively.

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

NOTE 11. Equity

As of July 1, 2013, the Company adopted the provisions of FASB Accounting Standards Update No. 2013-02, "Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income." As a result of this adoption, the Company has presented the significant items reclassified to net income in their entirety during 2014 in the table below.

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

	Foreign Currency Translation Adjustment	Retirement Benefit Plans	Other	Total
Balance June 30, 2013	\$(68,328)	\$(1,039,072)	\$(433)	\$(1,107,833)
Other comprehensive income before reclassifications	192,948	(20,636)	—	172,312
Amounts reclassified from accumulated other comprehensive (loss)	—	111,818	205	112,023
Balance June 30, 2014	\$124,620	\$(947,890)	\$(228)	\$(823,498)

Reclassifications out of accumulated other comprehensive (loss) in shareholders' equity during 2014:

Details about Accumulated Other Comprehensive (Loss) Components	Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss)	Consolidated Statement of Income Classification
Retirement benefit plans		
Amortization of prior service cost and initial net obligation	\$ (14,535)	See Note 10
Recognized actuarial loss	(160,596)	See Note 10
Total before tax	(175,131)	
Tax benefit	63,313	Income taxes
Net of tax	\$ (111,818)	
Other		
Realized loss on cash flow hedges	\$ (306)	Interest expense
Tax benefit	101	Income taxes
Net of tax	\$ (205)	

SHARE REPURCHASES – The Company has a program to repurchase its common shares. On August 14, 2014, the Board of Directors of the Company approved an increase in the overall maximum number of shares authorized for repurchase under the program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 15 million. Subject to this limitation, the Company is authorized to repurchase, in any single fiscal year, an amount of common shares equal to the greater of 7.5 million shares or five percent of the shares outstanding as of the end of the prior fiscal year. Repurchases are funded primarily from operating cash flows and commercial paper borrowings, and the shares are initially held as treasury stock. The number of common shares repurchased at the average purchase price follows:

	2014	2013	2012
Shares repurchased	1,741,143	3,006,005	6,395,866
Average price per share	\$114.87	\$85.55	\$71.20

NOTE 12. Stock Incentive Plans

The Company's 2009 Omnibus Stock Incentive Plan provides for the granting of share-based incentive awards in the form of nonqualified stock options, stock appreciation rights (SARs), restricted stock units (RSUs) and restricted and unrestricted stock to officers and key employees of the Company. The aggregate number of shares authorized for issuance under the 2009 Omnibus Stock Incentive Plan is 14,700,000. The Company satisfies share-based incentive award obligations by issuing shares of common stock out of treasury, which have been repurchased pursuant to the Company's share repurchase program described in Note 11 to the Consolidated Financial Statements, or through the issuance of previously unissued common stock.

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

The fair value of each stock option and SAR award granted in 2014, 2013 and 2012 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2014	2013	2012
Risk-free interest rate	1.55%	0.8%	0.9%
Expected life of award	5.1 yrs	4.9 yrs	5.2 yrs
Expected dividend yield of stock	1.9%	1.7%	1.6%
Expected volatility of stock	39.1%	39.0%	37.3%
Weighted-average fair value	\$32.57	\$24.76	\$20.30

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):

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding June 30, 2013	9,435,173	\$ 63.48		
Granted	1,478,731	107.53		
Exercised	(2,664,061)	56.43		
Canceled	(41,144)	69.36		
Outstanding June 30, 2014	8,208,699	\$ 72.87	5.3 years	\$434.0
Exercisable June 30, 2014	5,723,728	\$ 63.10	4.1 years	\$358.5

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

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested June 30, 2013	2,933,202	\$22.91
Granted	1,478,731	32.57
Vested	(1,885,703)	22.47
Canceled	(41,259)	29.47
Nonvested June 30, 2014	2,484,971	\$28.89

At June 30, 2014, \$20,602 of expense with respect to nonvested stock option and SAR awards has yet to be recognized and will be amortized into expense over a weighted-average period of approximately 17 months. The total fair value of shares vested during 2014, 2013 and 2012 was \$42,363, \$29,777 and \$37,885, respectively.

Information related to stock options and SAR awards exercised during 2014, 2013 and 2012 is as follows:

	2014	2013	2012
Net cash proceeds	\$ 8,013	\$ 32,204	\$10,599
Intrinsic value	155,903	208,426	57,567
Income tax benefit	37,993	47,659	14,008

During 2014, 2013 and 2012, the Company recognized stock-based compensation expense of \$49,998, \$33,018 and \$26,585, respectively, relating to stock option and SAR awards. The Company derives a tax deduction measured by the excess of the market value over the grant

price at the date stock-based awards are exercised. The related tax benefit is credited to additional capital as the Company is currently in a windfall tax benefit position.

Shares surrendered upon exercise of stock options and SARs: 2014 – 775,163; 2013 – 1,947,148; 2012 – 321,266.

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

The fair value of each RSU award granted in 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:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested June 30, 2013	466,241	\$ 73.55
Granted	282,565	106.15
Vested	(259,307)	69.44
Canceled	(17,969)	93.42
Nonvested June 30, 2014	471,530	\$ 94.59

During 2014, 2013 and 2012, the Company recognized stock-based compensation expense of \$21,475, \$17,852 and \$12,393, respectively, relating to RSU awards. At June 30, 2014, \$18,615 of expense with respect to nonvested RSU awards has yet to be recognized and will be amortized into expense over a weighted-average period of approximately 21 months. The total fair value of RSU awards vested during 2014, 2013 and 2012 was \$18,007, \$12,488 and \$8,642, respectively. The Company recognized a tax benefit of \$2,509, \$976 and \$1,673 relating to the issuance of common stock for RSU awards that vested during 2014, 2013 and 2012, respectively.

LTIP/RESTRICTED STOCK – The Company's Long Term Incentive Plans (LTIP) provide for the issuance of unrestricted stock to certain officers and key employees based on the attainment of certain goals relating to the Company's revenue growth, earnings per share growth and return on invested capital during the 3-year performance period. No dividends or dividend equivalents are paid on unearned shares. For awards granted prior to the 2010-11-12 LTIP, restricted stock was earned and awarded, and an estimated value was accrued, based upon attainment of criteria specified in the LTIP over the cumulative years of each 3-year plan. The shares of restricted stock issued to plan participants after the end of the performance period are entitled to cash dividends and to vote their respective shares, but transferability of the restricted stock is restricted for 3 years following issuance.

Stock issued for LTIP	2014	2013	2012
LTIP 3-year plan	2011-12-13	2010-11-12	2009-10-11
Number of shares issued	298,813	792,428	243,266
Average share value on date of issuance	\$126.17	\$ 83.64	\$ 69.10
Total value	\$37,701	\$66,278	\$16,810

Under the Company's 2012-13-14 LTIP, a payout of unrestricted stock will be issued in April 2015.

The fair value of each LTIP 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 relating to the LTIP and the related average price per share follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested June 30, 2013	1,001,393	\$ 83.59
Granted	305,247	113.07
Vested	(375,176)	79.86
Canceled	(11,368)	89.18
Nonvested June 30, 2014	920,096	\$ 94.83

During 2014, 2013 and 2012, the Company recorded stock-based compensation expense of \$31,688, \$34,127 and \$41,886, respectively, relating to the LTIP.

Shares surrendered in connection with the LTIP: 2014 – 140,406; 2013 – 311,110; 2012 – 76,427.

In 2014, 2013 and 2012, 12,353, 14,580 and 15,010 restricted shares, respectively, were issued to certain non-employee members of the Board of Directors. Transferability of these shares is restricted for one to three years following issuance. These shares vest ratably, on an annual basis, over the term of office of the director. The fair value of the restricted shares issued in 2014, 2013, and 2012 was based on the fair market value of the Company's common stock on the date of grant. During 2014, 2013 and 2012, the Company recognized expense of \$1,304, \$1,137, and \$1,200, respectively, related to restricted shares.

During 2014, 2013 and 2012, the Company recognized a tax (cost) benefit of \$(6,770), \$17,395, and \$426, respectively, relating to the LTIP and restricted shares issued to non-employee members of the Board of Directors.

At June 30, 2014, the Company had approximately 14 million common shares reserved for issuance in connection with its stock incentive plans.

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

NOTE 14. Research and Development

Research and development costs amounted to \$410,132 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:

	2014	2013
Carrying value of long-term debt (excluding capital leases)	\$1,508,420	\$1,498,025
Estimated fair value of long-term debt (excluding capital leases)	1,708,723	1,654,886

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. The Company does not hold or issue derivative financial instruments for trading purposes.

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

Derivative financial instruments are recognized on the balance sheet as either assets or liabilities and are measured at fair value. Derivatives consist of forward exchange, costless collar and cross-currency swap contracts the fair value of which is calculated using market observable inputs including both spot and forward prices for the same underlying currencies. The fair value of the cross-currency swap contracts is calculated using a present value cash flow model that has been adjusted to reflect the credit risk of either the Company or the counterparty.

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

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

Balance Sheet Caption		2014	2013
Net investment hedges			
Cross-currency swap contracts	Other liabilities	\$45,790	\$22,438
Cash flow hedges			
Costless collar contracts	Non-trade and notes receivable	3,508	1,422
Forward exchange contracts	Non-trade and notes receivable	(41)	41
Costless collar contracts	Other accrued liabilities	378	953

The cross-currency swap and costless collar contracts are reflected on a gross basis in the Consolidated Balance Sheet. The presentation of forward contracts is on a net basis, the effect of which is immaterial to the Consolidated Balance Sheet. The Company has not entered into any master netting arrangements.

The fair values at June 30, 2014 and 2013 are classified within Level 2 of the fair value hierarchy. There are no other financial assets or liabilities that are marked to market on a recurring basis. Fair values are transferred between levels of the fair value hierarchy when facts and circumstances indicate that a change in the method of estimating the fair value of a financial asset or financial liability is warranted.

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

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

	2014	2013	2012
Forward exchange contracts	\$ (81)	\$(1,821)	\$(4,156)
Costless collar contracts	7,052	502	5,111

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

	2014	2013
Cross-currency swap contracts	\$(14,426)	\$(12,622)
Foreign denominated debt	7,611	4,743

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 recorded based upon the best estimate of costs to be incurred in light of the progress made in determining the magnitude of remediation costs, the timing and extent of remedial actions required

by governmental authorities and the amount of the Company's liability in proportion to other responsible parties.

The Company's estimated total liability for environmental matters ranges from a minimum of \$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)

2014	1st	2nd	3rd	4th	Total
Net sales	\$3,226,144	\$3,106,006	\$3,358,406	\$3,525,415	\$13,215,971
Gross profit	749,735	686,035	752,513	839,461	3,027,744
Net income attributable to common shareholders	244,316	253,288	242,406	301,038	1,041,048
Diluted earnings per share	1.61	1.66	1.60	1.98	6.87

2013	1st	2nd	3rd	4th	Total
Net sales	\$3,214,935	\$3,065,495	\$3,307,041	\$3,428,233	\$13,015,704
Gross profit	737,488	643,523	737,852	810,166	2,929,029
Net income attributable to common shareholders	239,741	180,962	256,560	271,164	948,427
Diluted earnings per share	1.57	1.19	1.68	1.78	6.26

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

NOTE 18. Stock Prices and Dividends (Unaudited)

(In dollars)		1st	2nd	3rd	4th	Fiscal Year
2014	High	\$110.21	\$129.77	\$129.40	\$130.44	\$130.44
	Low	94.81	103.36	108.66	118.46	94.81
	Dividends	0.45	0.45	0.48	0.48	1.86
2013	High	\$ 87.71	\$ 87.04	\$ 98.15	\$101.88	\$101.88
	Low	70.42	75.80	86.51	84.50	70.42
	Dividends	0.41	0.41	0.43	0.45	1.70
2012	High	\$ 92.01	\$ 85.84	\$ 91.47	\$ 89.45	\$ 92.01
	Low	60.36	59.26	76.92	71.90	59.26
	Dividends	0.37	0.37	0.39	0.41	1.54

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

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.

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.

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

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:

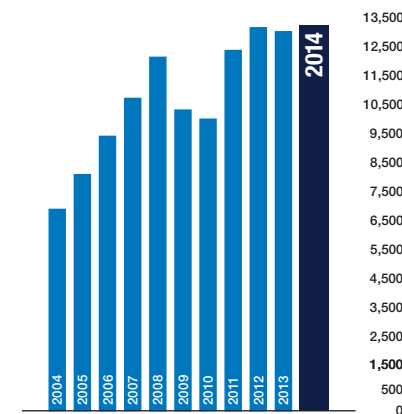
- changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments, disputes regarding contract terms or significant changes in financial condition, changes in contract cost and revenue estimates for new development 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 divest businesses planned for divestiture and realize the anticipated benefits of such divestitures;
- the determination to undertake business realignment activities and the expected costs thereof and, if undertaken, the ability to complete such activities and realize the anticipated cost savings from such activities;
- 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.

Eleven-Year Financial Summary

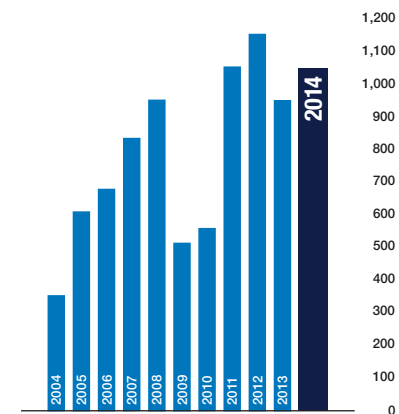
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE INFORMATION)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net sales	\$13,215,971	\$13,015,704	\$13,145,942	\$12,345,870	\$9,993,166	\$10,309,015	\$12,145,605	\$10,718,059	\$9,385,888	\$8,068,805	\$6,887,596
Cost of sales	10,188,227	10,086,675	9,958,337	9,387,457	7,847,067	8,181,348	9,339,072	8,272,949	7,367,618	6,391,477	5,577,888
Selling, general and administrative expenses	1,633,992	1,554,973	1,519,316	1,467,773	1,277,080	1,290,379	1,364,082	1,226,861	1,036,646	860,278	765,570
Goodwill and intangible asset impairment	188,870	—	—	—	—	—	—	—	—	—	1,033
Interest expense	82,566	91,552	92,790	99,704	103,599	112,071	98,996	83,414	75,763	66,869	73,144
Income taxes	515,302	362,217	421,206	356,751	198,452	172,939	377,058	329,236	261,682	205,105	140,871
Income - continuing operations	1,041,048	948,427	1,151,823	1,049,130	554,065	508,515	949,466	830,046	638,276	533,166	332,085
Net Income attributable to common shareholders	1,041,048	948,427	1,151,823	1,049,130	554,065	508,515	949,466	830,046	673,167	604,692	345,783
Basic earnings per share - continuing operations	6.98	6.36	7.62	6.51	3.44	3.15	5.64	4.75	3.57	2.99	1.88
Diluted earnings per share - continuing operations	6.87	6.26	7.45	6.37	3.40	3.13	5.53	4.68	3.52	2.95	1.86
Basic earnings per share	6.98	6.36	7.62	6.51	3.44	3.15	5.64	4.75	3.76	3.39	1.96
Diluted earnings per share	\$ 6.87	\$ 6.26	\$ 7.45	\$ 6.37	\$ 3.40	\$ 3.13	\$ 5.53	\$ 4.68	\$ 3.71	\$ 3.35	\$ 1.94
Average number of shares outstanding - Basic	149,099	149,218	151,222	161,126	160,910	161,564	168,285	174,643	178,817	178,193	176,562
Average number of shares outstanding - Diluted	151,444	151,588	154,665	164,798	162,902	162,719	171,644	177,495	181,326	180,674	178,509
Cash dividends per share	\$ 1.860	\$ 1.700	\$ 1.540	\$ 1.250	\$ 1.010	\$ 1.000	\$.840	\$.692	\$.612	\$.520	\$.507
Net income attributable to common shareholders as a percent of net sales	7.9%	7.3%	8.8%	8.5%	5.5%	4.9%	7.8%	7.7%	7.2%	7.5%	5.0%
Return on average assets	8.1%	8.0%	10.4%	10.1%	5.6%	5.0%	10.1%	10.0%	9.0%	9.3%	5.7%
Return on average shareholders' equity	16.8%	17.8%	22.4%	21.5%	12.8%	10.7%	19.1%	18.5%	17.8%	19.1%	12.6%
Book value per share	\$ 44.72	\$ 38.44	\$ 32.72	\$ 34.71	\$ 27.09	\$ 26.59	\$ 31.35	\$ 27.14	\$ 23.64	\$ 18.76	\$ 16.83
Working capital	\$ 2,818,784	\$ 2,010,983	\$ 2,012,101	\$ 1,914,213	\$1,383,905	\$ 1,118,027	\$ 1,912,369	\$ 1,460,930	\$ 1,457,873	\$ 1,454,883	\$1,260,036
Ratio of current assets to current liabilities	1.9	1.6	1.8	1.8	1.6	1.6	1.9	1.8	1.9	2.1	2.0
Plant and equipment, net	\$ 1,824,294	\$ 1,808,240	\$ 1,719,968	\$ 1,797,179	\$1,697,881	\$ 1,880,554	\$ 1,926,522	\$ 1,736,372	\$1,693,794	\$1,581,348	\$1,574,988
Total assets	13,274,362	12,540,898	11,170,282	10,886,805	9,910,382	9,855,902	10,386,854	8,441,413	8,173,432	6,860,703	6,194,701
Long-term debt	1,508,142	1,495,960	1,503,946	1,691,086	1,413,634	1,839,705	1,952,452	1,089,916	1,059,461	938,424	953,796
Shareholders' equity	\$ 6,659,428	\$ 5,738,426	\$ 4,896,515	\$ 5,383,854	\$4,367,965	\$ 4,268,199	\$ 5,251,553	\$ 4,712,680	\$4,240,904	\$3,340,157	\$2,982,454
Debt to debt-shareholders' equity percent	25.9%	33.0%	26.1%	24.7%	28.9%	35.2%	28.3%	21.4%	21.1%	22.5%	24.9%
Depreciation	\$ 214,965	\$ 213,722	\$ 210,508	\$ 229,238	\$ 245,295	\$ 252,599	\$ 257,570	\$ 245,058	\$ 245,681	\$ 245,206	\$ 239,106
Capital expenditures	\$ 216,340	\$ 265,896	\$ 218,817	\$ 207,294	\$ 129,222	\$ 270,733	\$ 280,327	\$ 237,827	\$ 198,113	\$ 154,905	\$ 138,291
Number of employees	57,447	58,151	59,331	58,409	54,794	51,639	61,722	57,338	57,073	50,019	47,433
Number of shares outstanding at year-end	148,903	149,289	149,631	155,091	161,256	160,489	167,512	173,618	179,417	178,034	177,252



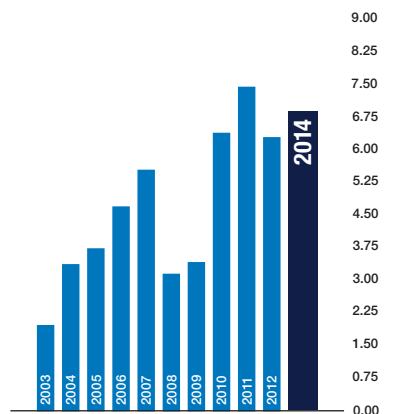
Net Sales

Millions of Dollars



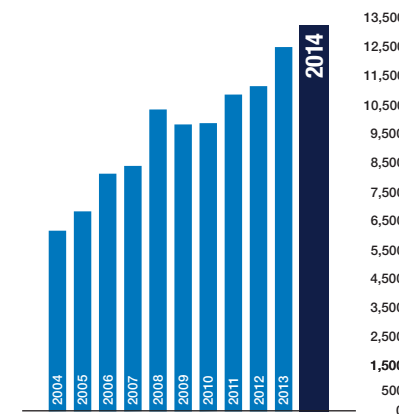
Net Income Attributable To Common Shareholders

Millions of Dollars



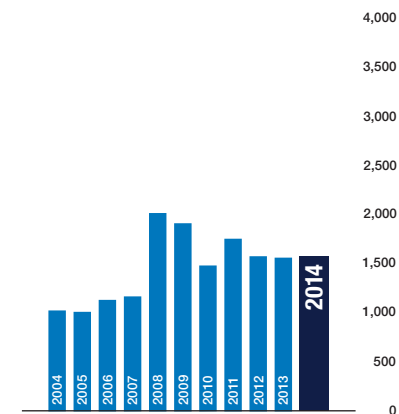
Diluted Earnings Per Share

Dollars



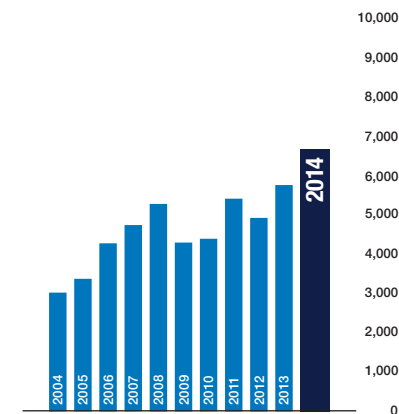
Total Assets

Millions of Dollars



Long-Term Debt

Millions of Dollars



Shareholders' Equity

Millions of Dollars

Corporate Management

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: 55
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. CULLMAN
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. SHERRARD
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

CORPORATE OFFICERS



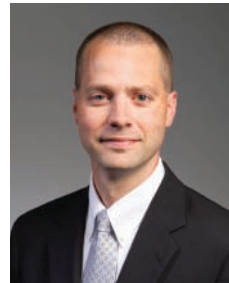
JOHN G. DEDINSKY, JR.
Vice President –
Global Supply Chain
and Procurement
Age: 57
Years of Parker service: 35



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



PAMELA J. HUGGINS
Vice President and Treasurer
Age: 60
Years of Parker service: 30



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: 56
Years of Parker service: 18



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

Board of Directors

CHAIRMAN OF THE BOARD



DONALD E. WASHKEWICZ
Chairman, Chief Executive Officer and President
Parker Hannifin Corporation
Age: 64, Director since 2000
Chairman since 2004



KLAUS-PETER MÜLLER 3, 4
Chairman of the Supervisory Board
Commerzbank AG
(international banking)
Age: 69, Director since 1998

DIRECTORS



ROBERT G. BOHN 1, 2
Former Chairman of the Board and Chief Executive Officer (retired)
Oshkosh Corporation
(specialty vehicles)
Age: 61, Director since 2010



CANDY M. OBOURN 2, 3
Chairman
Isoflux Incorporated
(coatings technologies)
Age: 64, Director since 2002



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



JOSEPH SCAMINACE 2, 3
Chief Executive Officer and Director
OM Group, Inc.
(metal-based specialty chemicals)
Age: 61, Director since 2004



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



WOLFGANG R. SCHMITT 1, 3
Chief Executive Officer
Trends 2 Innovation
(strategic growth consultants)
Age: 70, Director since 1992



ROBERT J. KOHLHEPP 2, 3
Chairman of the Board
Cintas Corporation
(uniform rental)
Age: 70, Director since 2002



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



KEVIN A. LOBO 1, 4
Chairman, Chief Executive Officer and President
Stryker Corporation
(medical technologies)
Age: 49, Director since 2013



JAMES L. WAINCOTT 2, 4
Chairman, Chief Executive Officer and President
AK Steel Holding Corporation
(steel producer)
Age: 57, Director since 2009

COMMITTEES OF THE BOARD

- (1) **AUDIT**
Chair: L. S. Harty
- (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. Waincott

With Appreciation



Thomas A. Piraino, Jr.
The Board of Directors and Management of Parker Hannifin acknowledge the retirement of Thomas A. Piraino, Jr., after 32 years of dedicated service. Mr. Piraino led Parker's global legal affairs and corporate governance for 16 years as Vice President, General Counsel and Secretary. He also directed the activities of the Parker Hannifin Foundation, which donates millions of dollars each year. He is noted for his passion for Parker and its history, and his legacy of preserving our company's enviable reputation.



Charly Saulnier
The Board of Directors and Management of Parker Hannifin acknowledge the retirement of Charly Saulnier after 43 years of dedicated service. Mr. Saulnier 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.

EQUAL OPPORTUNITY

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

It is the policy of Parker Hannifin to provide all employees with a working environment free from all forms of discrimination and harassment. Parker Hannifin will not tolerate discrimination or harassment against any person for any reason.

Parker Hannifin's policy is to make all employment decisions on the basis of an individual's job related qualifications, abilities and performance – not on the basis of personal characteristics unrelated to successful job performance.

ANNUAL MEETING

The 2014 Annual Meeting of Shareholders will be held on Wednesday, October 22, 2014, at Parker Hannifin Global Headquarters, 6035 Parkland Blvd., Cleveland, Ohio 44124-4141, at 9:00 a.m. EDT.
Telephone 216 896 3000

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 44124-4141.

TRANSFER AGENT & REGISTRAR

Wells Fargo Bank, N.A.
Shareowner 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.
Shareowner 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

6035 Parkland Boulevard
Cleveland, Ohio 44124-4141
216 896 3000

PRODUCT INFORMATION & DISTRIBUTOR LOCATIONS

North America:
1-800-C-PARKER (1 800 272 7537)

Outside North America:
00800-C-PARKER-H (0800 2727 5374)

Visit us online at: www.parker.com

STOCK INFORMATION

New York Stock Exchange
Ticker symbol: PH
On the Internet at:
www.phstock.com



As of July 31, 2014, Parker Hannifin's number of shareholders of record was 4,031.

WORLDWIDE CAPABILITIES

Parker Hannifin is the world's leading diversified manufacturer of motion and control technologies and systems. The company's engineering expertise spans the core motion technologies – electromechanical, hydraulic and pneumatic – with a full complement of fluid handling, filtration, sealing and shielding, climate control, process control and aerospace technologies. The company partners with its customers to increase their productivity and profitability.

See our capabilities online at: www.parker.com

INVESTOR CONTACT

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

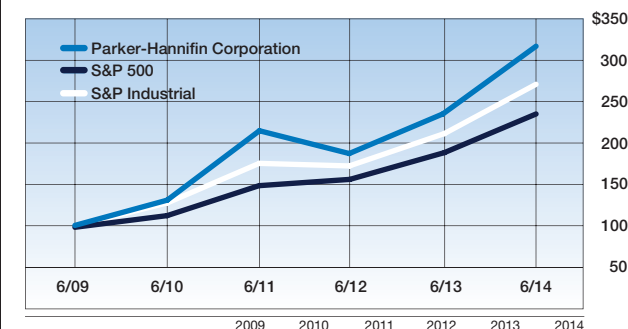
MEDIA CONTACT

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*
Among Parker-Hannifin Corporation, the S&P 500 Index and the S&P Industrial Index



	2009	2010	2011	2012	2013	2014
Parker-Hannifin Corporation	100.00	131.44	215.96	188.61	238.67	319.76
S&P 500	100.00	114.43	149.55	157.70	190.18	236.98
S&P Industrial	100.00	127.47	176.00	173.86	212.56	273.31

*\$100 invested on 6/30/09 in stock or index, including reinvestment of dividends.
Fiscal year ending June 30.

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Diversified Industrial Segment Global Technology Platforms

Motion Systems



Flow & Process Control



Filtration & Engineered Materials



Aerospace Systems Segment

Aerospace



Product Groups

Hydraulics

Key Markets

Aerial lift
Agriculture
Air conditioning
Construction machinery
Entertainment
Forestry
Industrial machinery
Machine tools
Marine
Material handling
Mining
Oil & gas
Power generation
Recreational vehicles
Refuse vehicles
Renewable energy
Truck hydraulics
Turf equipment

Key Products

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

Automation

Key Markets

Automotive
Conveyor & material handling
Factory automation
Fluid controls
Food & beverage
Industrial machinery
Life sciences
Machine tools
Medical
Mobile
Oil & gas
Packaging machinery
Paper machinery
Plastics machinery
Primary metals
Process
Renewable energy
Safety & security
Semiconductor & electronics
Transportation

Key Products

AC/DC drives & systems
Air preparation
Diesel emissions products
Electric actuators, gantry robots & slides
Human machine interfaces
Inverters
Manifolds
Miniature fluidics
Pneumatic actuators & grippers
Pneumatic valves & controls
Rotary actuators
Solenoid valves
Stepper motors, servo motors, drives & controls
Structural extrusions
Vacuum generators, cups & sensors
Valves

Fluid Connectors

Key Markets

Aerial lift
Agriculture
Bulk chemical handling
Construction machinery
Food & beverage
Fuel & gas delivery
Industrial machinery
Life sciences
Marine
Mining
Mobile
Oil & gas
Renewable energy
Transportation

Key Products

Check valves
Connectors for low pressure fluid conveyance
Deep sea umbilicals
Diagnostic equipment
Hose couplings
Industrial hose
Mooring systems & power cables
PTFE hose & tubing
Quick couplings
Rubber & thermoplastic hose
Tube fittings & adapters
Tubing & plastic fittings

Instrumentation

Key Markets

Air conditioning
Alternative fuels
Biopharmaceuticals
Chemical
Food & beverage
Industrial refrigeration
Life sciences
Microelectronics
Mining
Oil & gas
Pharmaceuticals
Power generation
Precision cooling
Refining
Refrigeration
Water/wastewater

Key Products

Accumulators
Analytical instruments & sample conditioning systems
CNG dispensers
CO₂ controls
Electronic controllers
Electronic valves
Filter driers
Fluid system fittings, valves, regulators & manifold valves
Fluid system mass flow meters/ controllers
Fluoropolymer chemical delivery fittings, valves & pumps
High pressure fittings, valves, pumps & systems
High purity gas delivery fittings, valves & regulators
Medical devices
Natural gas on-board fuel systems
Pressure regulating valves
Refrigeration electronic controls & monitoring
Safety relief valves
Thermostatic & electronic expansion valves

Filtration

Key Markets

Aerospace
Food & beverage
Industrial machinery
Life sciences
Marine
Mobile
Oil & gas
Power generation
Renewable energy
Transportation
Water purification

Key Products

Analytical gas generators
Aviation fuel filters
Compressed air & gas treatment solutions
Engine fuel, oil, air & CCV filtration systems
Fluid condition monitoring systems
Hydraulic & lubrication filters
Instrumentation filters
Liquid, air & gas filters
Membrane & fiber filters
Nitrogen & hydrogen generators
Sterile air filtration
Water desalination and purification filters & systems

Engineered Materials

Key Markets

Aerospace
Chemical processing
Consumer
Fluid power
General industrial
Information technology
Life sciences
Microelectronics
Military
Oil & gas
Power generation
Renewable energy
Telecommunications
Transportation

Key Products

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

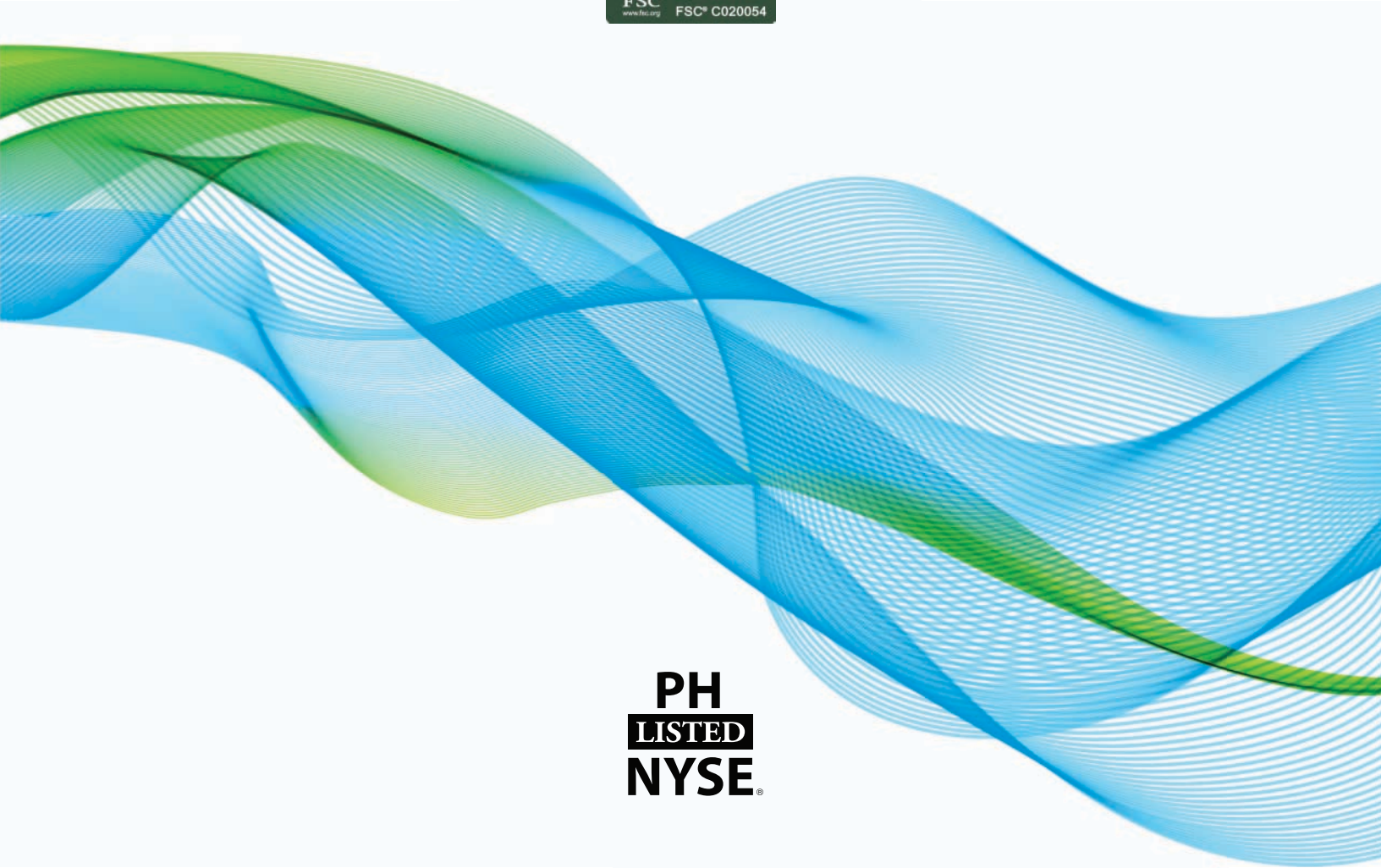
Aerospace

Key Markets

Aftermarket services
Business jets
Commercial transports
Engines
General aviation
Helicopters
Military aircraft
Missiles
Power generation
Regional transports
Unmanned aerial vehicles

Key Products

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



PH
LISTED
NYSE