

Parker Hannifin Corporation  
Annual Report

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June 30, 1998



# Contents

Comparative Highlights .....	1
Letter to Shareholders .....	2
Special Report:	
Worldwide Customer Support .....	6
Parker Overview .....	8
Group Operations Reviews:	
Aerospace .....	10
Fluid Connectors .....	11
Hydraulics .....	12
Automation .....	13
Climate & Industrial Controls .....	14
Seal .....	15
Filtration .....	16
Instrumentation .....	17
Regional Group Reviews:	
Asia Pacific .....	18
Latin American .....	19
Financial Section .....	20
Eleven-Year Summary .....	38
Directors and Management .....	40

## Parker's Charter

To be a leading worldwide manufacturer of components and systems for the builders and users of durable goods. More specifically, we will design, market and manufacture products controlling motion, flow and pressure. We will achieve profitable growth through premier customer service.

## Corporate Profile

Parker Hannifin products control motion in a broad spectrum of essential uses for hundreds of industrial and aerospace markets.

## Company Highlights:

- Offers more than 1,400 product lines for hydraulic, pneumatic, electromechanical and instrumentation applications
- Serves more than 1,000 industrial and aerospace markets
- Employs 39,873
- Operates 190 manufacturing plants and 147 administrative and sales offices, company stores, and warehouses around the world
- Sells through 7,500 distributors
- Serves nearly 400,000 customers worldwide

## Additional Parker strengths:

- No single competitor offers as broad a product line.
- Parker has the largest distribution network in the field of motion control.
- Traditionally, sales are about equally divided between original equipment manufacturer (OEM) and maintenance, repair and overhaul (MRO) customers. (For a summary of the products and markets of Parker's operating groups, see Page 8.)



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# Comparative Highlights

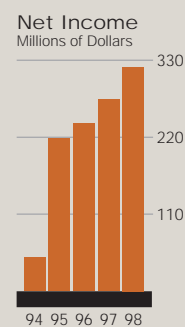
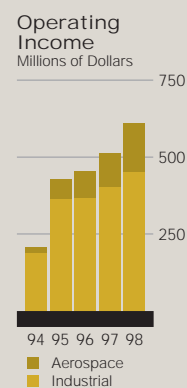
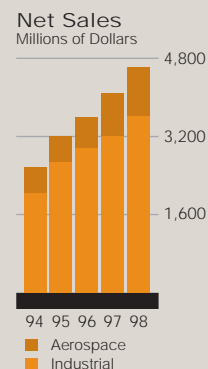
(Dollars in thousands, except per share amounts)	1998	1997	1996
<b>Operating Data</b>			
Net sales	\$ 4,633,023	\$ 4,091,081	\$ 3,586,448
Income from operations	549,897	462,913	404,656
Net income	319,551	274,039	239,667
<b>Per Share Data</b>			
Diluted earnings per share	\$ 2.85	\$ 2.44	\$ 2.14
Dividends	.60	.51	.48
Book value	15.32	13.87	12.42
<b>Ratios</b>			
Return on sales	6.9%	6.7%	6.7%
Return on average assets	9.8	9.3	9.2
Return on average equity	19.8	18.7	18.6
Debt to debt-equity	31.6%	24.5%	30.7%
<b>Other</b>			
Number of shareholders	44,250	43,014	35,403
Number of employees	39,873	34,927	33,289

Income from operations and Net income for 1998 include a non-cash, non-recurring pretax charge of \$15.8 million or \$12.0 million after tax (\$.11 per share) for in-process R&D purchased as part of two acquisitions. The 1998 results also include a charge of \$3.7 million (\$.03 per share) for the early retirement of \$100 million 10.375% debentures.

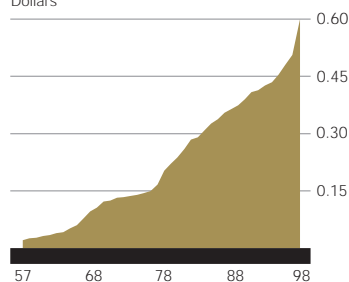
NYSE\* Price Range, Dividends

Fiscal Year		1st	2nd	3rd	4th	Full Year
1998	High	\$ 48-7/8	\$ 51-1/4	\$ 52-5/8	\$ 52-3/8	\$ 52-5/8
	Low	39-1/4	39-13/16	41-1/2	36-15/16	36-15/16
	Dividends	.150	.150	.150	.150	.600
1997	High	\$ 29-3/8	\$ 28-1/4	\$ 30-7/8	\$ 41	\$ 41
	Low	22-1/4	24 1/8	24-7/8	27	22-1/4
	Dividends	.120	.120	.133	.133	.506
1996	High	\$ 27-5/8	\$ 25-5/8	\$ 26-1/2	\$ 29-3/8	\$ 29-3/8
	Low	23-5/8	20-5/8	21-1/4	24-5/8	20-5/8
	Dividends	.120	.120	.120	.120	.480

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



Parker's 42-Year  
Dividend Record  
Dollars



## Progress in Parker's global growth strategy

# Letter To Shareholders

**P**arker made major strides in its drive for global growth during fiscal 1998. Sales and earnings were at an all-time high, with vigorous worldwide customer service efforts increasing market penetration and shareholder value.

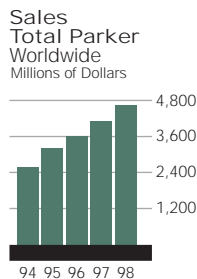
### Record sales, earnings

Parker achieved record sales and earnings for the fiscal year ended June 30. Sales were 13.2 percent higher and income was 16.6 percent above last year.

	1997	1998	Increase
Total sales (\$ millions)	\$4,091	\$4,633	13.2%
Net income (\$ millions)	274	320	16.6%
Earnings per share (dollars)	\$ 2.44	\$ 2.85	16.8%

### Strong demand continued

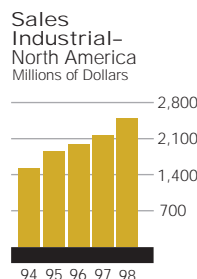
The year's excellent financial results reflected Parker's ability to leverage continued strong demand for both aerospace and industrial products while providing premier customer service. The results contributed to a five-year compound growth rate of 13.2 percent.



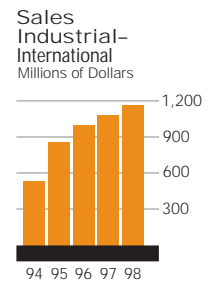
### Strong industrial markets

Industrial customer demand was strongest among manufacturers of heavy-duty trucks, agricultural and construction equipment, machine tools plus refrigeration, telecommunications and processing industries.

North American Industrial sales were up 15.0 percent over last year, and operating income was 11.6 percent higher. Acquisitions accounted for about one-fifth of the sales increase.



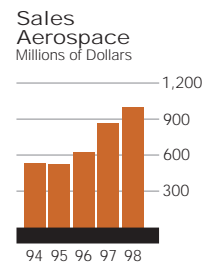
International Industrial sales were 8.2 percent above the previous year, while operating income rose 12.8 percent. Acquisitions represented two-thirds of the sales increase. Without the effect of currency rate changes, volume increased more than 17.0 percent over the prior year.



### Soaring aerospace markets

Parker's Aerospace Segment sales were robust during the year, 15.1 percent ahead of last year's pace. Segment operating income exceeded the prior year by 45.3 percent.

The Aerospace Segment reflected high volumes of commercial aircraft deliveries, a favorable product mix and global expansion of commercial repair and overhaul business.



### Acquisition activity continues

Parker continued to fuel its growth through the recent acquisition of 11 companies. Each provides quality products that enhance and broaden the Company's product lines. Together, they represent nearly a quarter-billion dollars in additional annual sales.

As detailed on page 3, these acquired businesses not only added to Parker's product depth, they enhanced its global presence. For example, the UCC group of companies is an innovative developer of technology-based filtration products in England. Sempres Pneumatics in the Netherlands added to our pneumatic cylinder and valve offerings, while in Sweden, Temeto AB provided a major distributor of connector components there.

**The Asia-Pacific** region's troubled economies also offered timely opportunities for Parker. In Korea, the

Company became 100 percent owner of two joint ventures: H.S. Parker Company Ltd. and H.S. Parker Air Conditioning Components Company Ltd. These manufacturers of hydraulic hose and fittings and air conditioning assemblies are now helping to improve Parker's

#### Recent Parker acquisitions

- Skinner Valve (U.S.) and Lucifer S.A. (Europe) solenoid valve business acquired from Honeywell (9/97).
- EWAL Manufacturing Co., Belleville, N.J., producer of precision fittings and valves for ultra-high-purity and semiconductor markets (8/97).
- H.S. Parker Ltd., Yangsan, Korea, maker of fluid connectors (3/98).
- H.S. Parker Air Conditioning Components Co. Ltd., Chonan, Korea, designer and manufacturer of air conditioning hose assemblies and accumulators (3/98).
- UCC group of companies, Thetford, England, maker of technology based filtration products (4/98).
- Temeto AB, Flen, Sweden, a major distributor of hydraulic components (3/98).
- Computer Technology Corporation, Milford, Ohio, developer of industrial PC workstations bundled with software for operator-machine interfaces for factory floor applications (2/98).
- Sempres Pneumatics, Rotterdam, the Netherlands, leading maker of pneumatic cylinders and valves (4/98).
- Extrudit, a Buxton, England, tubing company (5/98).
- Dynamic Valves, Inc., Palo Alto, Calif., maker of high-performance electrohydraulic and electropneumatic servo valves (4/98).
- Veriflo Corp., Richmond, Calif., maker of high-purity valves and regulators (7/98).

customer service and product support in this region.

In the U.S., the acquisition of Skinner Valve, and Lucifer S.A. in Europe, extended Parker's solenoid valve lines, while the recent acquisition of Veriflo Corporation in July and EWAL Manufacturing gave Parker precision fittings and valves for the ultra-high-purity and semiconductor markets.

**The addition** of Computer Technology Corporation (CTC) to the Automation Group elevated Parker to the next level of motion control technology. CTC is a pioneer in developing industrial PC workstations bundled with software to produce advanced human-machine interface solutions for the factory floor. CTC's product line, combined with Parker's Compumotor, Daedal, actuator and pneumatic products, enables the Company to provide total system solutions.

#### Parker's proven growth objectives

Three major objectives drive Parker's strategy for profitable growth that will increase shareholder value:

- Deliver premier customer service
- Sustain solid financial performance
- Expand product lines, globalize

First and foremost of these is customer service. Delivering outstanding service is the vital step in building the Company's market share. Parker strives to be the preferred supplier; the company called first by customers because of its reliable performance record. This is increasingly important as the number of suppliers declines and customer expectations rise.

Outstanding service helps Parker grow from a solid core of highly satisfied customers who become "advocates." The objective is to make each of our 400,000 customers enthusiastic supporters of Parker Hannifin.

Elements of sound financial performance Parker's sustained growth is due in large part to man-

agement's emphasis on several strategic financial goals. The measurement universally applied to both the Company and its individual business units is the extent to which returns exceed the cost of capital.

In fiscal 1998, Parker exceeded its target 14.0 percent return on equity by achieving a 19.8 percent return. Other goals and the Company's performance for recent years are reported in the accompanying table.

**Strong cash flows** have long been a powerful growth engine for Parker, enabling it to make important investments in efficient plants and equipment as well as acquiring attractive companies. The largest source of cash is provided by operating activities, which over the past three years have provided more than \$1 billion.

It is this solid foundation of financial performance and healthy cash flows that supports Parker Hannifin's growth.

Elements of Parker's growth:

A three-pronged strategy

The record of Parker's growth over the past five years shows that sales almost doubled from \$2.5 billion to \$4.6 billion. Three main initiatives are responsible for this growth:

- Internal growth — best products and services
- Acquisitions — fill niches and markets
- Globalization — geographic penetration

Internal growth

One of the rewards for consistently delivering outstanding customer service is internal growth, which is often reflected in better market shares. Parker also strives to

## Financial Goals and Performance

	Goal	1995	1996	1997	1998
Five-year compound sales growth (%)	7.5	5.6	8.0	11.5	13.2
Net income on sales (%)	6.0	6.8	6.7	6.7	6.9
Average assets/sales (\$)	.70	.66	.72	.72	.70
Return on average assets (%)	7.2	10.3	9.2	9.3	9.8
Return on average equity (%)	14.0	20.2	18.6	18.7	19.8
Debt to debt-equity (%)	30 - 33	21.9	30.7	24.5	31.6
Dividend payout ratio (%)	33.0	22.9	22.2	20.6	20.8

grow by developing innovative new products: the "better mousetraps" that meet or exceed customers'

ever-increasing expectations. A number of such exciting new product developments are featured in the Group business reviews starting on page 10.

## Acquisitions

Historically, acquisitions have accounted for about a third of the Company's growth. Internal activities represent two-thirds. Over the last five fiscal years, the Company made more than 40 acquisitions that added more than \$1 billion in annual sales.

Parker has traditionally focused on friendly acquisitions that fit comfortably with its core businesses. These "bolt-on" companies generally are assimilated quickly and soon begin contributing to results.

## Globalization

As Parker enters more markets worldwide, globalization is increasing. Both acquisitions and new facilities are helping the Company serve customers in over 120 countries from our operations in 38 nations. And, through upgraded systems, Parker will be able to conduct its worldwide business in either dollars, local currencies or the new Euro.

## Year 2000 update

The Company's program to assure that its computer systems are capable of processing periods for the year 2000 and beyond is on schedule. Conversion efforts have been underway since early 1996 and we expect that our standard application systems will be compliant by July 1999.



Employees are pivotal in delivering premier customer service. More than 39,000 Parker Hannifin employees, who own over 10 percent of the Company's stock, are responsible for making premier customer service a reality. Progress at Parker is a very personal thing. It is our employees who create the new products, identify and negotiate valuable acquisitions, manufacture quality products, and consistently meet or exceed our customers' expectations.

We are proud of Parker people and salute them for their outstanding accomplishments.

#### In memoriam

As this report was being completed, the Company was saddened to learn that Larry Hopcraft, President of the Climate & Industrial Controls Group, and his wife Polly, died in a plane crash while en route to Europe. An important member of our management team for 25 years, he made innumerable contributions to the success of Parker Hannifin. We mourn his passing, and extend our sympathy to his family and friends.

#### The outlook for Parker:

##### Momentum for the 21<sup>st</sup> century

Parker's sustained and healthy financial performance validates our strategy and provides a proven blueprint for continued success. All the ingredients are in place for Parker Hannifin to build on this year's outstanding financial performance during fiscal year 1999 and beyond.

For the short term, indications are that the recent robust rates of economic growth will slow to a more moderate pace because many market segments are peaking. We do not expect to see recent double-digit growth rates continue. Many of our core markets remain



Parker's new headquarters, which houses the Company's advanced electronic communications hub, was built to facilitate global growth and improve the speed of administrative functions. Chairman Patrick Parker, right; with members of the Office of the President: left to right, Vice President Lawrence Zeno, Executive Vice President Dennis Sullivan and President and Chief Executive Officer Duane Collins.

sound, and we are optimistic that certain global economic problems will be resolved.

The current disinflationary environment, in which price increases are resisted, makes maintaining margins difficult. Successful companies, therefore, are ones that manage their costs effectively, a practice that Parker has stressed for many years.

Parker is in business for the long-term, and its strategy remains to pursue attractive opportunities that beckon from many markets of the world. Such markets as automation and motion-control are destined to grow, as are maintenance, repair and overhaul activities. The \$18.5 billion in Parker aerospace components installed on aircraft flying today, for example, assures a solid base for our future repair and overhaul activity.

In the meantime, Parker Hannifin will aggressively pursue attractive acquisition opportunities, enlarge our worldwide network of manufacturing plants, sales and service offices, while stressing new customer-pleasing products. Recent investments made in highly efficient plants in Poland, China, the Czech Republic and elsewhere will continue. Further progress is expected in expanding our businesses in target geographic markets worldwide. Typical is the Asia Pacific region, where long-term prospects are very attractive.

In summary, Parker is a sound Company, with a sound financial record and sound future prospects.

Respectfully Submitted,

A handwritten signature in dark ink, appearing to read "P. Parker".

Patrick S. Parker  
Chairman of the Board

A handwritten signature in dark ink, appearing to read "D.E. Collins".

Duane E. Collins  
President and Chief  
Executive Officer

September 2, 1998

# Growing Globally: Parker's Worldwide Customer Support

## Parker's global advantage

Wherever in the world our customers operate, Parker is there to support them with premier customer service and support. Today, customers are demanding single-source global suppliers, a trend favoring Parker. Also, customers are demanding support beyond the product alone, and Parker is responding with a variety of valuable services. Among them:

### Global communications

All Parker facilities are linked by the Company's global query communication system, a virtual warehouse that enables employees to check the availability of components worldwide and place orders.



#### inPHorm

A series of user-friendly software packages for designing, selecting and ordering Parker components is available to help our customers' design engineers quickly create optimum motion-control systems.

### Kitting services

Parker streamlines delivery to manufacturers and distributors by pre-assembling and packaging components into a single kit that ships and invoices as a single unit.



### Supplier reduction

Many customers can order a wide spectrum of Parker products and services from one location, billed on a single invoice, via the Company's global communication network. Some large accounts can be handled by a strategic account manager, who serves as the customer's main contact.

### Technical services

Parker provides systems support through on-site engineering, system design, prototype development, maintenance and improving customers' machine performance, helping customers gain a competitive edge. This year we produced over 700 prototypes and systems for customers.

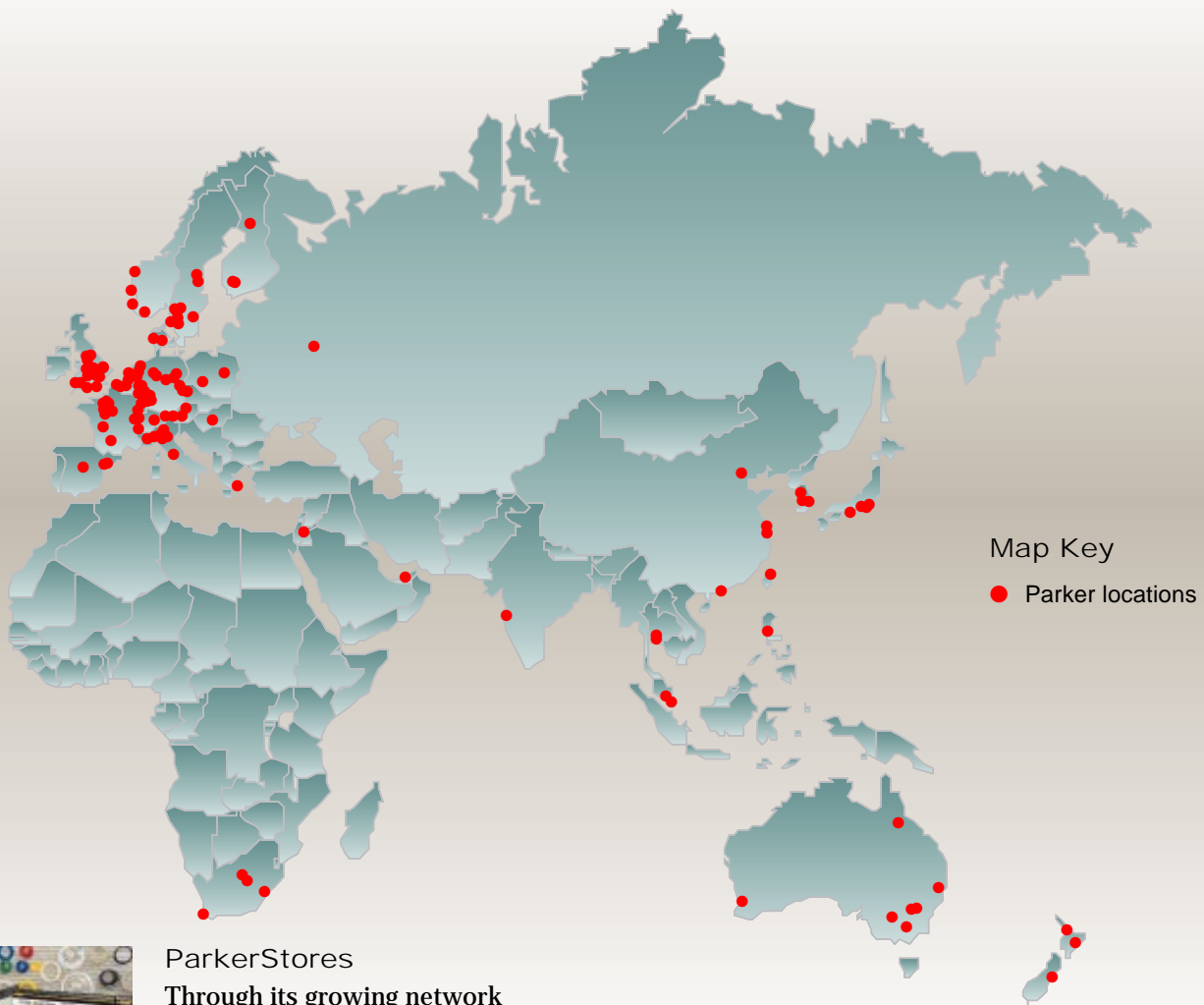


### Sales leads and cross-selling

#### Parker's broad product line

Parker generates up to 12,000 sales leads every month. Leads are sent daily to distributors and Parker's 1,100 direct field sales representatives. Through a formalized system, Parker sales reps receive attractive incentives for sharing information and reporting additional potential business for the Company's broad product line.





**ParkerStores**  
Through its growing network of ParkerStores in more than 15 countries, customers are supplied with products along with expert advice. ParkerStores retain the personal, hands-on approach that keeps us in touch with customers' needs.

Toll-free help 24 hours a day  
Customers in North America and Europe can receive help identifying part numbers, locating distributors or answering application questions 24 hours a day, 7 days a week by calling Parker toll-free.

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

**In Europe:** 00800-C-PARKER-H (00800-2727-5374)



**The Hose Doctor**  
Parker's mobile service, supported by its vast distributor network, brings 24-hour emergency service directly to the customer's location.



**Parker on the Internet**  
www.parker.com, the Company's homepage, provides design engineers with instant access to a wealth of engineering information including inPHorm design, selection and ordering software. More than 30,000 people access Parker's Web site each month.

# A summary of Parker's operating groups, markets, products and facilities

## Parker Overview



### Aerospace Group

Markets: Serves all major aerospace markets, including:

- Commercial transport
- Military aircraft & missiles
- Regional transports
- General aviation

Products: The aerospace industry's most complete line of hydraulic, fuel and pneumatic systems and components, including:

- Flight control actuation
- Thrust-reverser actuation
- Electrohydraulic servovalves
- Utility hydraulic systems & components
- Pumps
- Fuel systems & components
- Pneumatic controls
- Heat exchangers
- Fluid metering delivery & atomization devices
- Wheels & brakes

Facilities: Operates 26 facilities worldwide, including customer service centers, in:

- United States
- Germany
- Brazil
- Japan
- Singapore
- China



### Fluid Connectors Group

Markets: Serves a wide range of industrial and aerospace markets, including:

- Construction
- Automotive
- Agriculture
- Transportation
- Military
- Mobile
- Natural resources
- Machine tools

Products: Offers customers the broadest line of fluid connector products in the industry, including:

- Rubber & thermoplastic hose
- Tube fittings & adapters
- Tubing & plastic fittings
- Brass fittings & valves
- Hose couplings
- Quick disconnects
- Check valves
- Expert systems
- Custom couplings & fittings

Facilities: Operates 52 plants and 32 Company-owned stocking facilities, with more than 2,500 distributors worldwide. Facilities in:

- United States
- Canada
- Mexico
- Austria
- United Kingdom
- France
- Germany
- Netherlands
- Poland
- Australia
- New Zealand
- China
- Brazil
- Venezuela
- Thailand
- Korea
- Czech Republic



### Hydraulics Group

Markets: Serves all major industrial markets, including:

- Construction
- Aerial lift
- Farm machinery
- Automotive
- Pulp & paper
- Machine tools
- Conveyors
- Plastic machinery
- Mining equipment
- Hoists & cranes

Products:

- Hydraulic cylinders
- Accumulators
- Rotary actuators
- Hydraulic valves
- Hydraulic motors & pumps
- Hydrostatic steering
- Power units
- Electrohydraulic systems
- Metering pumps
- Integrated hydraulic circuits
- inPHorm sizing and selection software

Facilities: Operates 36 manufacturing plants, 24 sales offices and warehouses around the world, with more than 900 distributors worldwide. Facilities in:

- United States
- Canada
- Mexico
- Brazil
- United Kingdom
- France
- Germany
- Sweden
- Italy
- Australia
- New Zealand
- Austria



### Automation Group

Markets: Serves all major automation markets, including:

- Industrial machinery
- Machine tools
- Conveyors
- Pulp & paper
- Metalworking
- Process control
- Printing
- Medical instruments
- Computer manufacturing
- Packaging

Products: Offers the broadest line of automation components by a single manufacturer, including:

- Pneumatic valves
- Air preparation units
- Indexers, stepper & servo drives
- Multi-axis positioning tables
- Electric & pneumatic cylinders
- Structural extrusions
- Vacuum products
- Pneumatic logic
- Human/machine interface hardware & software

Facilities: Operates 31 manufacturing plants, 21 sales offices and five warehouses, with more than 1,000 distributors worldwide.

Facilities located in:

- United States
- Canada
- Mexico
- United Kingdom
- France
- Germany
- Sweden
- Brazil
- Netherlands
- Belgium
- Spain



## Climate & Industrial Controls Group

### Markets:

- Mobile air conditioning
- Mobile & industrial gerotors
- Industrial refrigeration
- Supermarket refrigeration
- Appliances (freezers & refrigerators)
- Commercial refrigeration
- Residential air conditioning
- Fuel dispensing
- Process control

### Products:

- Hose & hose assemblies
- Tube assemblies
- Thermostatic & electronic expansion valves
- Refrigeration & general-purpose solenoid valves
- Flo-raters & distributors
- Pressure regulators
- Filter dryers
- Accumulators & receivers
- Mufflers
- Spun copper components
- High-pressure steam valves
- Gerotors

Facilities: Operates 22 manufacturing plants and five sales centers worldwide. Facilities located in:

- United States
- Canada
- Mexico
- Italy
- Germany
- United Kingdom
- Korea
- Brazil
- Switzerland
- Czech Republic



## Seal Group

### Markets:

- Automotive
- Aerospace
- Mobile hydraulics
- Semiconductor
- Chemical processing
- Telecommunications
- Information systems
- Industrial

Products: Offers the broadest line of sealing systems and components by a single manufacturer, consisting of:

- O-rings & molded shapes
- Hydraulic & pneumatic seals & packings
- Extruded & precision cut seals
- Metal/rubber combinations
- Teflon® seals
- EMI shielding/grounding
- Thermal management materials

Facilities: Operates 21 manufacturing plants, with more than 200 distributors worldwide. Joint ventures in Mexico and China. Facilities in:

- United States
- Canada
- Mexico
- Denmark
- United Kingdom
- France
- Germany
- Italy
- Spain
- Czech Republic
- Argentina
- Brazil

Teflon® is a registered trademark of the E.I. du Pont de Nemours & Co.



## Filtration Group

Markets: Network of distributors serves markets worldwide, including:

- Industrial
- Process
- Mobile
- Marine
- Aviation
- Environmental
- Semiconductor manufacturing

Products: Offers one of the broadest product lines of any single manufacturer, including:

- Hydraulic, lubrication and coolant filters
- Process, chemical and microfiltration filters
- Compressed air and gas purification filters
- Lube oil and fuel filters
- Fuel-conditioning filters
- Fuel filters/water separators
- Cabin air filters
- Condition monitoring

Facilities: Operates 13 manufacturing facilities with a network of more than 300 distributors worldwide and technical assistance in every major industrial area. Facilities located in:

- United States
- United Kingdom
- Finland
- Brazil
- France
- Germany
- Korea
- Switzerland
- Australia



## Instrumentation Group

### Markets:

- Power generation
- Oil & gas exploration
- Petrochemical & chemical processing
- Pulp & paper
- Semiconductor manufacturing
- Medical & bio/pharmaceutical
- Analytical applications

Products: Components made from steel, stainless steel, brass, Teflon®, and exotic metals, including:

- Instrumentation fittings
- Ultra-high-purity fittings
- Ball, plug & needle valves
- Packless UHP valves
- Teflon® fittings & valves
- Teflon® spray guns
- Miniature solenoid valves
- Multi-solenoid manifolds
- Regulators & transducers
- Quick connects & hose products
- CGA, DIN, JIS cylinder connections

Facilities: Operates 11 manufacturing plants and five sales offices, Company stores and customer service centers, with more than 300 distributors worldwide. Facilities in:

- United States
- Canada
- United Kingdom
- Germany
- France

## High-flying global markets Aerospace Group

A record year: Parker Aerospace established record sales volume in fiscal 1998. Commercial transport, business jet and general aviation segments were very strong, while the military market remained flat.

All product lines grew, including hydraulics, flight control actuation, fuel, pneumatics and general aviation.

The Group benefited from a favorable product mix, with the commercial aftermarket, both in repair and spares, growing significantly.

**Global strategy:** Our goal is to participate on all aircraft built throughout the world. An example is Parker's significant win with British Aerospace. We are supplying the fuel control and monitoring system for the new Airbus A340 500/600.

Our strategy is to build similar alliances with international aerospace customers, expanding Parker's role on aircraft built worldwide.

In support of this effort, offices were opened in Beijing, China, and Toulouse, France, plus a new facility in Yokohama, Japan. These join customer service centers and manufacturing facilities in São Paulo, Brazil; Mainz Kastel, Germany; and Singapore.

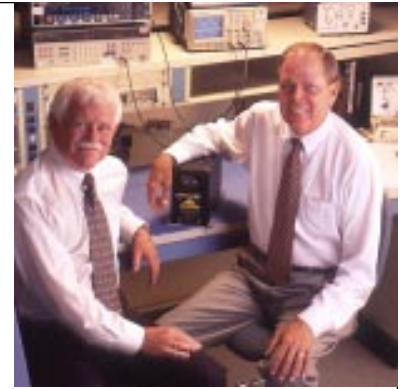
Parker completed a 15,000-square-foot facility in Yokohama, Japan, to enhance regional customer service. It houses both Aerospace and Industrial administrative functions and maintenance, repair, and overhaul support for Parker Aerospace products.

**Investments for growth:** Expansion of Parker's systems capability in hydraulics, flight control actuation and fuel continued, providing a strong advantage over component-only suppliers. To meet record-level ramp-ups in commercial aircraft production and to reduce costs, major investments were made in equipment and facilities.

Integration of Abex NWL into our organization was completed during the year. We expect consolidation to benefit Parker in the future.

**Aerospace outlook:** Near-term prospects are excellent. Demand for commercial transports, regional and general aviation aircraft is at an all-time high and is expected to continue for some time.

While it is uncertain what the real impact of the Asian economic situation will be on commercial aviation, it will undoubtedly result in the delay or cancellation of scheduled aircraft deliveries. However, the long-term market potential of the fast-growing Asian region is enormous. The current situation may well provide opportunities for a more sustained long-term commercial transport business cycle.



**Stephen L. Hayes, Group President** (right), with Roy Langton, Group Vice President of Engineering and Integrity, in a Parker electronics lab. Parker produces many electronic products and systems including the black box shown here, a fuel management quantity gauging computer for the Global Express business jet.



The second Lockheed Martin-Boeing F-22 Raptor fighter and its Pratt & Whitney F119-PW-100 engines produced for the U.S. Air Force contain many Parker products, including flight controls, utility hydraulics, fuel and pneumatic valves, heat exchangers, lubrication pumps, fuel nozzles, and the nozzle actuators that control the aircraft's thrust vectoring.





## Adding value for global customers

### Fluid Connectors Group

A strong economy, and vigorous demand in major markets, enabled the Group to achieve significant growth during the year. Strongest segments were construction, heavy-duty trucks and agriculture. Australasian markets were soft, reflecting the economic problems in the region.

**Strategic acquisitions:** The addition of Temeto AB, a leading Swedish distributor of hydraulic components, improves the Group's position there. And the acquisition of Extrudit, a leading British tubing company, enables Parker to increase its share of the European beverage and industrial tubing markets.

**Value-added services:** Technical assistance and prototypes with customers led to a



Dennis Group has standardized on Parker connector components and systems for all its chassis units for buses, coaches and fire engines, including the Trident 3 double-decker bus for City Bus of Hong Kong shown in the background. Parker distributor Hopespare provides value-added inventory management services to Dennis.

number of new partnerships during the year. The Group's quick-response service is producing non-standard items for a growing number of customers, while the global network of ParkerStores — walk-in hose and fitting outlets — are so successful their number grew by 50 percent. Equally popular is Parker's Kitting Service — preassembled packages of connectors and

related components that are shipped and invoiced as a single unit.

Steyr Motorentechnik, a leader in vehicle-engine engineering based in St. Valentin, Austria, uses Parker steel-reinforced oil cooler hose assemblies on a prototype Steyr four-cylinder marine-diesel engine that will be produced in quantity in Russia by Gaz.

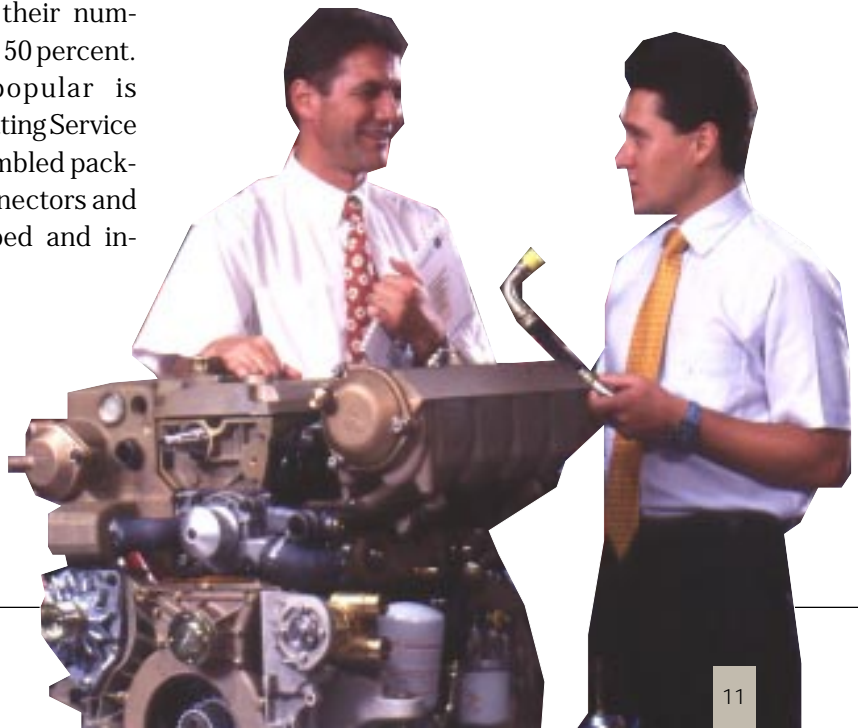
**Capacity added:** Several investments improved our capacity to provide added value and service to fluid connector customers worldwide. Newly opened: a hose fittings plant in the Czech Republic; a service center in Brisbane, Australia; an enlarged quick coupling plant in Wisconsin; and an additional warehouse in Canada.

To better serve Mexico's booming markets, the Group expanded its production capability. In Wroclaw, Poland, the Group expanded fittings production for the European market.

**Group outlook:** Further gains in sales next year are expected in such high-volume target markets as machine tools, agriculture, automotive, aerospace and oil field equipment. Transportation will be flat, and Australasia will be slow.



**Jack D. Myslenski, Group President** (left), with Bob Wilkerson, President of Genie Industries, a leading manufacturer of booms, lifts and platforms, located in Redmond, Washington. After switching to Parker 451 tough cover hose, fittings, adapters, swivels, check valves, ball valves and hydraulic filters, Genie's warranty claims were reduced 91 percent.



## Focusing to grow key markets Hydraulics Group

The Hydraulics Group made significant gains in sales and market share in fiscal 1998, posting double-digit results in the U.S. and Europe. Strong markets included forestry, machine tools, lawn equipment, energy and construction.

Strategy for growing the business: As the trend to reduce suppliers continues, customers increasingly seek total systems capabilities.



Parker and distributor Mayo Hydraulics provide complete hydraulic systems for the Zond Z-750 kW Series wind turbines, the largest manufactured in the U.S. Zond Energy Systems, Inc. is a subsidiary of Enron Wind Corp., a vertically integrated wind company that is a pioneer and world leader in wind power generation — a renewable, environmentally friendly source of electricity.

The Group is positioning itself to service these needs globally. For example, we re-focused our sales, marketing, distribution and systems engineering to better serve industrial and mobile markets. This enabled us to take advantage of our broad product line and leverage our position as a global single-source supplier. Several market development managers — experts in their fields and the complete

Parker product line — were added to pursue total systems opportunities in attractive emerging global industries and niche markets. Two world-class engineering centers were added in Mt. Prospect, Ill., and Borås, Sweden, to assist customers in creating optimum-performance motion-control systems. In addition, the Group is working with its distributors to establish regional Hydraulic Technology Centers to provide customers with local systems engineering expertise and advanced training.

Parker hydraulic controls featuring new low-watt technology are supplied to Heller Maschinenfabrik, Nürtingen, Germany, for its complete range of metal-cutting machinery. This new technology allows Heller to reduce assembly time and provides customers with greater reliability and reduced maintenance and energy costs.

From existing operations, an Accumulator Division was established in Rockford, Ill., to grow this critical product line.

Adding high-tech product lines: Acquiring Dynamic Valve increased the Group's servo valve offering, providing a strategic fit to Parker's broad electro-hydraulic control product line.

The Group embarked on an aggressive investment program to enhance productivity. Two plants were opened to increase capacity: a precision pump and valve facility in Monterrey, Mexico; and a cylinder operation in Atlanta, Ga. Throughout the Group, advanced machine tools and manufacturing cells were installed to meet growing demand and ensure that Parker maintains "best in the industry" lead times and customer service.

The outlook: The Group expects moderate growth in all key markets in fiscal 1999. We anticipate that our new organizational structure will be instrumental in increasing market penetration. Many of the costs associated with integrating acquisitions in Europe are complete.

We expect to begin realizing their benefits next year.



**Donald E. Washkewicz, Group President** (left), and Robert Bergman, Barko Hydraulics Manager of Engineering, are on-site at Strickland Logging to review the performance of Barko's new line of knuckleboom loaders. Parker and Barko worked together to design more efficient machines and a full system solution.





## Systems solutions for productivity

### Automation Group

Volume increased modestly despite a relatively volatile market during fiscal 1998. Factory automation remained strong. Demand was highest for compact, high-speed components. But overall business was affected by a sluggish semiconductor equipment market and the impact of Asian economic problems on many customers.

Parker's automation business is driven by our customers' pressing need for production efficiency, better product quality and consistency through process automation.

Our strategy: Develop innovative pneumatic and electromechanical components and systems solutions that meet these needs. During the year, specific solutions were developed for customers



Polaris Industries Inc. relies on Parker valves, cylinders and Parframe structural framing on a carrier used in the assembly of its new Victory motorcycle that was introduced this spring. Polaris designs, engineers, manufactures and markets recreation and sport vehicles.

in the packaging, transportation, automotive, aluminum, and semiconductor chip-handling industries.

**Systems supplier:** The acquisition of Computer Technology Corporation (CTC) and Sempress Pneumatics added to the Group's systems capabilities. CTC gives Parker a human-machine interface

line of hardware and software that enables it to integrate current Compumotor, Daedal, Actuator and Pneumatic products into automation packages. Sempress, based in Rotterdam, the

Parker is a preferred supplier of pneumatic cylinders and also provides an array of automation, fluid connector and instrumentation components to Tetra Pak Worldwide, a leading supplier of packaging systems for liquid foods.

Netherlands, increases Parker's market share in Europe and adds additional pneumatic systems capabilities.

**Producing new product lines:** A very aggressive multi-divisional product research program is also stimulating growth. Such introductions as brushless servo motors, short-stroke cylinders, a series of miniature pneumatic valves and new precision positioning tables expand Parker's role in medical, semiconductor and light manufacturing markets. And software support, such as product sizing and selection programs and the ParFrame "StrucSure" aluminum structural framing system, offers customers time-saving, value-added services.

**The Automation outlook:** Forecasts indicate an accelerating demand for factory automation as industry seeks improved quality and output as an antidote for skilled labor shortages. Short-term, while the slow semiconductor market may affect some automation suppliers, the overall effect on the market should be minimal.



**John K. Oelslager, Group President** (left), with Sam Patrei, President of Assembly Machines Inc. (AMI), a division of DT Industries. Parker is the single-source supplier of complete motion solutions including pneumatic, electromechanical and human-machine interface technology to AMI, a leading producer of high-speed assembly machines for consumer products, medical devices and electronic components.



## Acquisition enhances business mix

# Climate & Industrial Controls Group

Sales were up significantly this year. Industrial controls, refrigeration, and commercial and automotive air conditioning markets posted healthy gains. The residential air conditioning market was down.

**Strategically balancing the business:** The acquisition of Skinner Valve in the U.S. and Lucifer S.A. in Europe significantly enhanced the Group's product mix. In addition, this line of industrial controls offers a broad customer base and reduces the reliance on the automotive industry's business cycles.

Acquiring full ownership of joint venture HS Parker Air Conditioning Components in Korea provides a low-cost manufacturing base in Asia

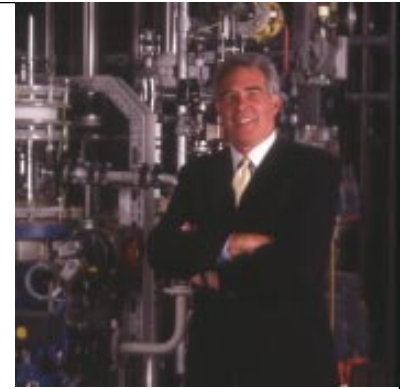
for both residential and automotive air conditioning components. A new plant opened in Jacarei, Brazil, to serve that nation's booming automotive industry. The combination gives Parker a competitive advantage in supporting global contracts as customers reduce their vendor bases.

All divisions received ISO-9000 and QS-9000 quality system certifications that are crucial to winning contracts.

**Growth through new products:** The Group is benefiting from new applications for existing products and working with customers to create system solutions. For example, Parker gerotors are being used in the Gerodisc limited slip differ-

ential and coupling that improves the handling and safety of cars, vans, sport utility vehicles and trucks. And, by working with a leading manufacturer of refrigerant reclamation and recycling systems, the Group jointly developed an integrated system of refrigerant control and protection devices.

**The outlook:** Sales are expected to grow moderately in fiscal 1999. However, we anticipate that our ability to support customers globally will give us a distinct advantage. Prospects are bright for the broader industrial controls product line, which serves a diverse customer base.



**Lawrence J. Hopcraft, Group President,** at Novartis in Basel, Switzerland. Novartis uses Parker Lucifer three- and four-way solenoid valves to control pneumatic actuators in the production of chemical agents, pharmaceutical specialties and other medicines used worldwide.



Parker supplies air conditioning accumulators, hose assemblies, and gerotors to Ford for its Expedition, a top-selling large sport-utility vehicle. In addition, many other Parker components are used by Ford on its in-plant equipment that manufactures the Expedition and the F-150 pickup truck.

Parker is the sole supplier of a family of related products including accumulators, dryers, solenoid valves and mufflers to Carrier for its environmentally friendly, non-ozone-depleting line of commercial and residential air conditioning units.





## Providing full-spectrum solutions Seal Group

Record worldwide results were achieved by the Group during the year. Sharply higher revenues reflected market share gains in North American automotive and industrial markets. Telecommunication sales were particularly strong, as Parker's Cho-Form technology gains global acceptance as an electromagnetic interference sealing solution for cellular phones.

In Europe, higher sales volume was due in part to the strong rebound of the German economy and expanded market share in hydraulic and pneumatic sealing system applications.

**Market focus:** The Seal Group's "Build with the best" marketing program is focusing on large blocks of business in markets

and applications relying on world-class manufacturing expertise.

The application of information technology, such as Seal's Web site availability of its inPHorm seal selection software, will be critical to future success.

**Investments in productivity:** The Group enlarged and upgraded a number of facilities during the year. New plants in Mexico and the Czech Republic expanded capacity and increased efficiency while upgrading support for global customers.

In addition to developing new products that created new sales, the Group also concentrated on improving manufacturing efficiencies. Examples include integrated molding and finishing techniques, world-class toolrooms and modular mixing systems. These investments enable us to serve unique needs of specialized customers as well as the full spectrum of sealing system requirements of major automotive, aerospace and mobile hydraulic manufacturers.

**Future prospects:** Fiscal Year 1999 should offer a number of growth opportunities and pay-offs from key improvements in technology, systems and facilities. We are encouraged by prospects for further penetration of such attractive markets as telecommunications, machine tools and automotive.



**Nickolas W. Vande Steeg, Group President** (left), and **Kurt Müller, European Group President**, at a new O-ring compression molding press in Pleidelsheim, Germany. This year, the plant celebrated its 30<sup>th</sup> anniversary and was outfitted with new machinery to enhance manufacturing flexibility and quality.



TRW Automotive Systems Ltd. in Sunderland, England, uses hundreds of thousands of Parker JBL cut seals on the multi-function relay units it supplies for Rover and Land Rover vehicles. The seal is molded and cut to match the exact size of the relay unit and placed between the body and end cap to keep moisture and dirt out.



Parker is the single-source supplier of a non-standard-size hydraulic cylinder sealing system used on Orenstein & Koppel's RH 400, the world's largest excavator, which is being used in rugged open-pit mines in Canada. O&K Mining, in Dortmund, Germany, is a leading manufacturer of large hydraulic mining shovels.

## Stressing clean, quality solutions Filtration Group

Solid results, with a continuation of double-digit growth, were achieved by Parker's Filtration Group during the year. U.S. volume was strong, with major activity in energy, automotive, food and beverage, agriculture and diesel engine markets.

Softer markets included machine tools, compressed natural gas, power generation, Asia Pacific regions and Brazil.

**A boost from UCC:** The Group's technology base and global presence benefited from Parker's acquisition of the UCC group of companies. The England-based UCC line of advanced technology hydraulic filtration products, plus its valuable technical strengths in system measurement and contamination monitoring, broadens Parker's filtration offerings worldwide.



Caterpillar has standardized on Parker's CM20 oil contamination monitor for measuring cleanliness levels during factory production and dealer field maintenance worldwide, as shown here at Finning (UK) Ltd., Caterpillar's dealer in England, Scotland and Wales. The CM20 is a product of UCC, which was acquired by Parker in Fiscal 1998.

**tool to avoid serious failures in critical fluid systems, the counter helps customers meet more stringent cleanliness requirements.**

Parker developed oxygen and compressed air filtration systems for Nellcor Puritan Bennett's 840 Ventilator System, which provides sensitive, precise breath delivery for critically ill patients. This working partnership resulted in a new product for Nellcor Puritan Bennett and a breakthrough for Parker's Finite Filter Division entering the high-tech medical equipment market.

To monitor air quality, the Finite Filter Division's new AQT-4 unit provides readouts of temperature, pressure, dew point and mass concentrations in parts per million.

Other research projects involve "smart filters" with built-in sensors that signal critical contamination levels and can automatically shut down systems.

**Looking ahead:** Parker's filtration business is expected to continue its double-digit growth, benefiting from more stringent air quality regulations and the demand for cleaner industrial processes across all markets. The Group's ability to respond quickly to customer needs and helping them achieve more efficient filtration solutions, is expected to result in greater market share in the future.



**Mark W. Walters, Group President** (left), with Bobby Green, Parker Racor Division Plant Manager, at Navistar International Transportation Corp., Melrose Park, Ill. Parker is a worldwide supplier of filtration products to Navistar's Engine Division, a global leader in diesel technology and production.



Positioned for growth

## Instrumentation Group

Mixed market conditions made this a challenging year for the Group. Parker successfully added market share in North America and Europe in traditional markets: chemical, petrochemical, oil and gas exploration, power generation, pulp and paper.

In contrast, the Asian financial crisis, coupled with the steep decline in semiconductor manufacturing, had a negative impact on the Group's ultra-high-purity product sales. Despite its current slowdown, semiconductor fabrication offers attractive long-term potential.

**Solid sellers:** Sales of fittings, valves, filters and compression-ended components continued to grow faster than the inflation rate. Despite pressures on prices and margins, the Group improved its market

share, offering broader, full-line packages to customers.

Product developments included an expanded valve line, additional CPI valves, new items for the medical equipment market and a line of PFA diaphragm valves from our Partek unit.

**Focused selling:** The Group expanded and upgraded its sales force during the year. Its dual focus is on serving the traditional process industries plus high-purity semiconductor manufacturing. Training of Parker's regional sales personnel and distributors is stressing systems solu-

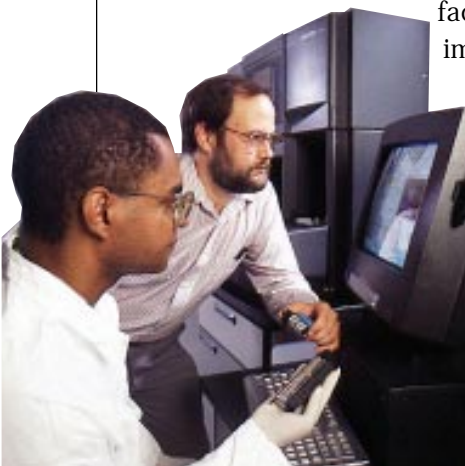
tions and effective partnerships with our customers.

**Investments in productivity:** A major refurbishment of the Barnstaple, England, plant and offices was completed, and three high-purity facilities were added this year. A newly opened instrumentation store and supply center near Paris provides next-day delivery throughout northern France.

**The outlook:** Continued growth of process industries and power generation markets will provide attractive opportunities for Parker. Despite the current semiconductor downturn, the increasing need for microchips will continue, and Parker's additional manufacturing capacity will enable us to serve the future needs of this dynamic industry.



Thomas W. Mackie, Group President (right), with Andy Jones, Contracts Manager for ABB Kent Taylor. Parker supplies instrumentation components, filters and industrial control valves globally to ABB. At its Stonehouse site in England, ABB specializes in analytical and flow instrumentation.



Parker's Pneutronics Division supplies SRS valve manifold assemblies to Beckman Coulter for its new Gen-S™ hematology analysis system, a leading-edge, high-throughput, fully automated multi-parameter blood diagnostic system that increases lab productivity.



Applied Materials, the world's largest semiconductor equipment manufacturer, uses a wide variety of Parker products, including instrumentation valves, fittings, and hose; fluid connectors; and seals in tools that are shipped to customers worldwide.



## Penetrating markets in key regions

### Asia Pacific Group

Parker's Asia Pacific Group enjoyed double-digit growth during fiscal 1998 despite economic downturns in the region. Growth resulted from an emphasis on supplying value-added products and services and payoffs from a variety of investments.

By providing design assistance and turnkey motion and control systems to original equip-



Pohang Iron & Steel Co., Ltd. (POSCO) in Pohang, Korea, depends on Parker hose assemblies in its iron works mill. POSCO has named Parker one of its six best material suppliers based on quality and service levels.

ment manufacturers, Parker has succeeded in penetrating key accounts in China, Taiwan, Hong Kong and Korea.

Acquiring full ownership of two joint ventures in Korea provides a strategic advantage as a high-quality, low-cost producer of hydraulic hose and air condi-

tioning components for the automotive industry.

During the year, additional sales engineers and service technicians were hired to better support customers in the region. In addition, enhanced design and value-added services are providing Parker a competitive advantage with

customers seeking global supplier relationships.

A Cho-Form gasket dispensing production line was installed in Singapore to make electrically conductive seals for cellular phones and computer peripherals. A new building featuring enhanced aircraft test capabilities was opened in Yokohama, Japan, to serve both aerospace and industrial customers.

Long-term strategy for Asia: Parker continues to seek attractive investment opportunities in Asia to position itself for long-term growth. The Group anticipates continued demand for its products in ongoing infrastructure improvement programs in developing markets such as power generation and civil works projects. Over the next year, the Company expects a continued softening of the semiconductor, mobile equipment and automotive machine tool markets. However, the overall outlook is for Parker's continued double-digit growth and increased market share in one of the world's important emerging markets.



Joseph J. Vicic, Group President (left), with Fung King Yiu, Director and Owner of Smetoun Co., Ltd., a Hong Kong-based distributor of Parker hydraulic and connector components and systems to small original equipment manufacturers in Hong Kong and southern China.

Tokyo Gas, Japan's largest city gas company, uses a wide variety of environmentally friendly Parker compressed natural gas components in many applications, including this Senju refueling station.





## Customer service fuels growth Latin American Group

Parker's Latin American business grew in each of the countries in which it operates. Sales were strong in Argentina, Venezuela, Chile, Peru, and moderate in Brazil. Much of the increases were due to demand for in-plant industrial equipment for the automotive industry, mining, beverage, and agricultural markets.

Several significant customer service improvements fueled the growth. For instance, this year the Group was linked to Parker's global query communication system, a virtual warehouse that enables employees to instantly check component

availability online. A Rapid Response Unit was added in Argentina to provide customers with the unique ability to order and receive custom fittings within 24 hours. This unit complements two others installed last year in Brazil and Venezuela.

Acquisitions were integrated to offer a broader product line,

providing us a competitive advantage with global customers operating in the region.

Key accounts were penetrated by offering value-added services such as "kitting," "breadman" and technical services programs. Kitting enables customers to order several pre-assembled components under one part number. Breadman programs reduce customers' costs by

having Parker manage ordering, receiving and just-in-time delivery of its products on-site. Technical services aid customers with prototype design, component installation and assembly training.

The Group made significant investments in world-class manufacturing machinery in several plants to allow us to serve customers quickly and cost-effectively with high-quality products. Parker is benefiting from these local manufacturing capabilities through local content laws and regional trade agreements.

The outlook: The Group anticipates further growth opportunities in fiscal 1999 with economic stability in the region and continuing demand from infrastructure improvements. And, the inflow of global customers serving the large-population markets of South America bodes well for Parker.



Lynn M. Cortright, Group President (right), with Germano Badi, Director President, Bandag Do Brasil Ltda. in Campinas, Brazil. Parker is a system partner that supplies a wide variety of fluid connector, pneumatic and hydraulic components to Bandag, a leading global manufacturer of retread rubber and equipment used in the process of retreading bus and truck tires.



Parker's Automation Division supplies state-of-the-art training systems to SENAI, Brazil's largest technical training school located in Campinas. The systems are built with ParFrame, Parker Structural Framing System, and incorporate the most complete pneumatic and hydraulic technology available from Parker, providing a high-quality tool for fluid power training.

Ciber, in Porto Alegre, Brazil, relies on a wide variety of Parker fluid connector and hydraulic products in its construction equipment, including the asphalt finishing machine shown here. Ciber is a division of German Group Wirtgen, a leading manufacturer of paving equipment.

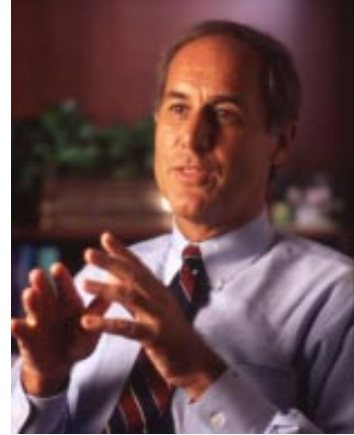


## Financial goals inspire solid returns

### Financial Section

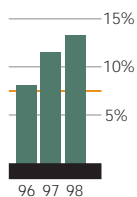
#### Contents:

Consolidated Statement of Income.....	23
Quarterly Information.....	23
Consolidated Balance Sheet .....	25
Consolidated Statement of Cash Flows .....	27
Business Segment Information .....	29
Notes to Financial Statements .....	30
Eleven-Year Financial Summary .....	38

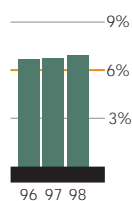


Michael J. Hiemstra,  
Vice President - Finance  
and Administration and  
Chief Financial Officer

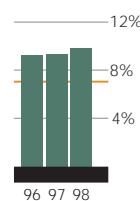
Five-Year  
Compound  
Sales Growth  
Goal: 7.5%



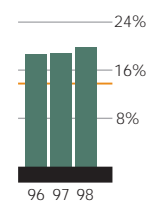
Income as a  
Percentage  
of Sales  
Goal: 6.0%



Return on  
Average  
Assets  
Goal: 7.2%



Return on  
Average  
Equity  
Goal: 14.0%



### Report of Management

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

Management is also responsible for maintaining an internal control system designed to provide reasonable assurance at reasonable cost that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. The system is supported by written policies and guidelines, by careful selection and training of financial management personnel and by an internal audit staff which coordinates its activities with the Company's independent accountants. To foster a strong ethical climate, the Parker Hannifin Code of Ethics is publicized

throughout the Company. This addresses, among other things, compliance with all laws and accuracy and integrity of books and records. The Company maintains a systematic program to assess compliance.

PricewaterhouseCoopers LLP, independent accountants, are retained to conduct an audit of Parker Hannifin's consolidated financial statements in accordance with generally accepted auditing standards and to provide an independent assessment that helps ensure fair presentation of the Company's consolidated financial position, results of operations and cash flows.

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

*D. E. Collins*

Duane E. Collins  
President and  
Chief Executive Officer

*M. J. Hiemstra*

Michael J. Hiemstra  
Vice President -  
Finance and Administration  
and Chief Financial Officer

## Report of Independent Accountants

To the Shareholders and Board of Directors  
Parker Hannifin Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and cash flows present fairly, in all material respects, the financial position of Parker Hannifin Corporation and its subsidiaries at June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



Cleveland, Ohio  
July 30, 1998

## Forward-Looking Statements

This Annual Report and other written reports and oral statements made from time to time by the Company may contain "forward-looking statements", all of which are subject to risks and uncertainties. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to growth, operating margin performance, earnings per share or statements expressing general opinions about future operating results, are forward-looking statements.

These forward-looking statements rely on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside the Company's control, that could cause actual results to differ materially from such statements. Such factors include:

- continuity of business relationships with and purchases by major customers, including among others, orders and delivery schedules for aircraft components,
- ability of suppliers to provide materials as needed,
- uncertainties surrounding timing, successful completion or integration of acquisitions,
- competitive pressure on sales and pricing,
- increases in material and other production costs which cannot be recovered in product pricing,
- uncertainties surrounding the year 2000 issues and the new Euro currency,
- difficulties in introducing new products and entering new markets, and
- uncertainties surrounding the global economy and global market conditions, including among others, the economy of the Asia Pacific region and the potential devaluation of currencies.

Any forward-looking statements are made based on known events and circumstances at the time. The Company undertakes no obligation to update or publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this Report.

# Management's Discussion & Analysis and Financial Statements

## Discussion of Statement of Income

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

Net Sales of \$4.63 billion for 1998 were 13.2 percent higher than the \$4.09 billion for 1997. Acquisitions accounted for approximately one-fifth of this increase. The Industrial operations experienced continued strong order demand within the heavy-duty truck, construction equipment, factory automation, telecommunications and refrigeration markets. The European operations continued to grow and the Company continued to penetrate markets in Asia Pacific and Latin American regions. Volume increases within International operations were partially offset by currency rate changes. The Aerospace operations experienced strong demand within the commercial transport, business jet and general aviation markets.

Net sales for 1997 were 14.1 percent higher than the \$3.59 billion sales in 1996. Acquisitions accounted for more than half of this increase. North American Industrial operations achieved strong order demand, especially within the factory automation, machine tool, and agricultural and construction equipment markets. There was also increased demand for sealing products, and light-truck and automotive products. International Industrial operations' results were relatively flat, with Europe experiencing a soft economy for most of the year. Volume increases were partially offset by currency rate changes. The Aerospace operations achieved the majority of the sales growth as demand was strong within the OEM commercial and general aviation industries and the maintenance, repair and overhaul business.

The Company is anticipating moderate growth for the next year as growth in Industrial markets within North America is expected to be less than the current pace. European markets are expected to continue to improve and the Company expects to increase market penetration in Latin America. The Aerospace operations expect some moderation in the recent robust growth within the commercial aviation OEM, and repair and overhaul businesses. A strong backlog and participation on nearly every currently flown aircraft provide a very positive outlook.

Gross profit margin was 23.4 percent in 1998. Cost of sales for 1998 includes a non-cash, non-recurring charge of \$15.8 million for in-process R&D purchased as part of two acquisitions. Before these charges, the gross profit margin for 1998 was 23.7 percent, compared to 22.9 percent in 1997 and 23.1 percent in 1996. The improvement in 1998 is primarily the result of better absorption of fixed costs due to higher volume and the benefits of continued integration of prior-year acquisitions. The improvement was partially offset by recently acquired operations contributing lower margins, as their integration continues. In addition, gross margins were affected by the Asian financial crisis and the depressed worldwide semiconductor market.

The decrease in gross profit margin in 1997 was due to newly acquired operations contributing lower margins. In addition, weak demand throughout Europe in 1997 resulted in lower capacity utilization and reduced gross profit for the International operations. Partially offsetting these declines, the higher volume in 1997 improved capacity utilization and provided higher margins for most of the North American Industrial and Aerospace operations.

Selling, general and administrative expenses as a percent of sales decreased to 11.5 percent, from 11.6 percent in 1997, and 11.9 percent in 1996. As volume increased these expenses

remained relatively unchanged, except for increased costs from acquisitions, incentive programs and initiatives to enter new markets.

Interest expense increased by \$6.1 million in 1998 and \$10.0 million in 1997 due to increased borrowings to complete acquisitions.

Interest and other income, net was \$6.8 million in 1998 compared to \$5.6 million in 1997. Fiscal 1998 income included \$3.8 million of interest from a settlement with the IRS. Fiscal 1996 income of \$8.5 million included income received from several minor Corporate investments.

Gain (loss) on disposal of assets was less than \$.1 million in 1998, a \$3.0 million gain in 1997 and a \$2.0 million loss in 1996. The 1997 gain includes \$17.1 million income from the sale of real estate in California. This income was substantially offset by \$13.3 million accrued for exit costs and charges for impaired assets related to the relocation of the corporate headquarters.

Income taxes increased to an effective rate of 35.9 percent in 1998, compared to 35.5 percent in 1997. The rate in 1996 was 36.0 percent. The increased 1998 rate is the result of receiving no tax benefit for one of the R&D charges. The reduction in the rate for 1997, as compared to 1996, is the result of increased tax benefits based on the export of product manufactured in the U.S.

Extraordinary item - extinguishment of debt — On June 30, 1998 the Company called for redemption all of its outstanding \$100 million, 10.375 percent debentures due 1999-2018.

Net income of \$319.6 million for 1998 was 16.6 percent higher than 1997. Before the 1998 extraordinary item - extinguishment of debt, income increased 17.9 percent over 1997. Net income of \$274.0 million for 1997 was 14.3 percent higher than 1996. Net income as a percentage of sales, before the extraordinary item, was 7.0 percent in 1998, compared to 6.7 percent in 1997 and 1996.

Year 2000 considerations — The Company has been taking actions to assure that its computerized products and systems and all external interfaces are Year 2000 compliant. The Company expects to have all internal standard application systems compliant by July 1999 by modifying present systems, installing new systems and monitoring third-party interfaces. The cost for these actions is not material to the Company's results of operations.

In addition, the Company is currently contacting its key suppliers, customers, distributors and financial service providers regarding their Year 2000 status and anticipates this survey will be substantially complete by January 1999. If it is determined any key third party may not be prepared, the Company will develop an alternative contingency plan.

While management does not expect that the consequences of any unsuccessful modifications would significantly affect the financial position, liquidity, or results of operations of the Company, there can be no assurance that failure to be fully compliant by 2000 would not have an impact on the Company.

Euro preparations — The Company is in the process of upgrading its systems to accommodate the Euro currency by January 1, 1999. The cost of this upgrade is immaterial to the Company's financial results. Although difficult to predict, any competitive implications and any impact on existing financial instruments are also expected to be immaterial to the Company's results of operations, financial position or liquidity.



## Consolidated Statement of Income

(Dollars in thousands, except per share amounts)	For the years ended June 30,	1998	1997	1996
<b>Net sales</b>		<b>\$ 4,633,023</b>	<b>\$ 4,091,081</b>	<b>\$ 3,586,448</b>
Cost of sales		3,550,992	3,152,988	2,756,343
Gross profit		1,082,031	938,093	830,105
Selling, general and administrative expenses		532,134	475,180	425,449
<b>Income from operations</b>		<b>549,897</b>	<b>462,913</b>	<b>404,656</b>
Other income (deductions):				
Interest expense		(52,787)	(46,659)	(36,667)
Interest and other income, net		6,783	5,623	8,537
Gain (loss) on disposal of assets		95	2,990	(2,047)
		(45,909)	(38,046)	(30,177)
Income before income taxes		503,988	424,867	374,479
Income taxes (Note 3)		180,762	150,828	134,812
Income before extraordinary item		323,226	274,039	239,667
Extraordinary item – extinguishment of debt (Note 7)		(3,675)		
<b>Net income</b>		<b>\$ 319,551</b>	<b>\$ 274,039</b>	<b>\$ 239,667</b>
<b>Earnings per share (Note 4)</b>				
Basic earnings per share before extraordinary item		\$ 2.91	\$ 2.46	\$ 2.15
Extraordinary item – extinguishment of debt		(.03)		
Basic earnings per share		\$ 2.88	\$ 2.46	\$ 2.15
Diluted earnings per share before extraordinary item		\$ 2.88	\$ 2.44	\$ 2.14
Extraordinary item – extinguishment of debt		(.03)		
Diluted earnings per share		\$ 2.85	\$ 2.44	\$ 2.14

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

## Quarterly Information

(Dollars in thousands, except per share amounts)

1998 <sup>(a)(b)</sup>	1st	2nd	3rd	4th	Total
Net sales	\$ 1,083,169	\$ 1,114,948	\$ 1,196,548	\$ 1,238,358	\$ 4,633,023
Gross profit	256,030	252,739	284,226	289,036	1,082,031
Income before extraordinary item	78,261	71,314	83,225	90,426	323,226
Net income	78,261	71,314	83,225	86,751	319,551
Diluted earnings per share before extraordinary item	.70	.63	.75	.80	2.88
Diluted earnings per share	.70	.63	.75	.77	2.85

1997 <sup>(a)</sup>	1st	2nd	3rd	4th	Total
Net sales	\$ 959,328	\$ 969,587	\$ 1,047,100	\$ 1,115,066	\$ 4,091,081
Gross profit	204,830	208,264	246,522	278,477	938,093
Net income	51,105	52,564	77,964	92,406	274,039
Diluted earnings per share	.45	.47	.70	.82	2.44

(a) Quarterly Information is unaudited.

(b) Results for the third and fourth quarters include a non-cash, non-recurring pretax charge of \$5.2 million and \$10.6 million, respectively, for in-process R&D purchased as part of two acquisitions. The after-tax impact was \$5.2 million (\$.05 per share) and \$6.8 million (\$.06 per share), respectively.

## Discussion of Balance Sheet

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

The effect of currency rate changes during the year caused a \$32.7 million decrease in the Foreign currency translation adjustments equity account. These rate changes also caused significant decreases in accounts receivable, inventories, goodwill and plant and equipment, as well as significant decreases in accounts payable and the various accrual accounts.

Working capital and the current ratio were as follows:

Working Capital (millions)	1998	1997
Current Assets	\$ 1,780	\$ 1,500
Current Liabilities	989	716
Working Capital	791	784
Current Ratio	1.8	2.1

Accounts receivable are primarily due from customers for sales of product (\$642.3 million at June 30, 1998, compared to \$554.5 million at June 30, 1997). The current year increase in accounts receivable is primarily due to acquisitions and increased volume. Days sales outstanding for the Company increased slightly from 1997. An increase in the allowance for doubtful accounts in 1998 is primarily due to receivables obtained through acquisitions.

Inventories increased to \$944.3 million at June 30, 1998, compared to \$727.8 million a year ago, partially due to acquisitions and increased volume. Additional increases occurred, primarily within work in process and finished goods, in order to improve customer service response time. Months supply of inventory on hand at June 30, 1998 increased to 3.7 months from 3.4 months at June 30, 1997.

Plant and equipment, net of accumulated depreciation, increased \$114.5 million in 1998 as a result of acquisitions and capital expenditures which exceeded annual depreciation.

Investments and other assets increased \$20.5 million in 1998 primarily as a result of increases in pension assets and the cash surrender value of corporate-owned life insurance contracts, partially offset by a reduction in investments due to the acquisition and consolidation of two joint ventures.

Excess cost of investments over net assets acquired increased \$114.4 million in 1998 as a result of acquisitions, partially offset by currency rate fluctuations and amortization. The additional excess cost of investments in 1998 is being amortized over 15 years.

Notes payable and long-term debt payable within one year increased \$195.7 million due to increased investment in commercial paper and the currently payable \$100 million 10.375% debentures called for redemption in June 1998.

Accounts payable, trade increased \$71.4 million in 1998 due to the timing of payments, acquisitions and the increased volume. The majority of the increase was within North American Industrial operations.

Accrued payrolls and other compensation increased \$19.4 million in 1998 primarily as a result of increased headcount and incentive plans which are based on sales and earnings.

Accrued domestic and foreign taxes decreased to \$34.4 million in 1998 from \$51.4 million in 1997 primarily due to higher estimated income tax payments made in 1998.

Long-term debt increased \$80.1 million in 1998 primarily due to increased borrowings to fund acquisitions. See the Cash Flows From Financing Activities section on page 26 for further discussion.

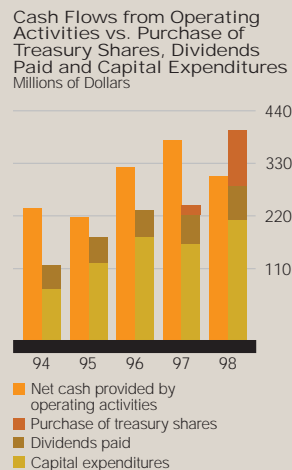
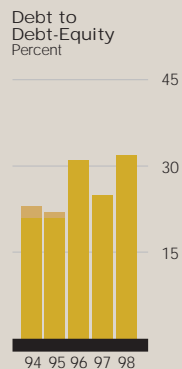
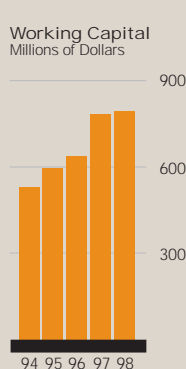
The Company's goal is to maintain no less than an "A" rating on senior debt to ensure availability and reasonable cost of external funds. To meet this objective, the Company has established a financial goal of maintaining a ratio of debt to debt-equity of 30 to 33 percent.

Debt to Debt-Equity Ratio (millions)	1998	1997
Debt	\$ 778	\$ 503
Debt & Equity	2,462	2,050
Ratio	31.6%	24.5%

In fiscal 1999 additional borrowings are not anticipated for the stock repurchase program, capital investments, or for working capital purposes, but may be utilized for acquisitions.

Pensions and other postretirement benefits increased 5.1 percent in 1998. These costs are explained further in Note 8 to the Consolidated Financial Statements.

Other liabilities increased to \$44.2 million in 1998 from \$24.0 million in 1997 primarily due to increases in deferred compensation plans.





# Consolidated Balance Sheet

(Dollars in thousands)

	June 30,	1998	1997
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$	30,488	\$ 68,997
Accounts receivable, less allowance for doubtful accounts (1998 – \$9,004; 1997 – \$5,904)		699,179	601,724
Inventories (Notes 1 and 5):			
Finished products		416,034	317,494
Work in process		392,880	304,743
Raw materials		135,357	105,610
		944,271	727,847
Prepaid expenses		22,035	17,366
Deferred income taxes (Notes 1 and 3)		84,102	83,627
<b>Total Current Assets</b>		1,780,075	1,499,561
Plant and equipment (Note 1):			
Land and land improvements		113,774	96,995
Buildings and building equipment		552,177	486,655
Machinery and equipment		1,560,016	1,443,820
Construction in progress		119,142	111,121
		2,345,109	2,138,591
Less accumulated depreciation		1,209,884	1,117,848
		1,135,225	1,020,743
Investments and other assets (Note 1)		194,632	174,142
Excess cost of investments over net assets acquired (Note 1)		399,681	285,264
Deferred income taxes (Notes 1 and 3)		15,208	19,236
<b>Total Assets</b>	\$	3,524,821	\$ 2,998,946
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Notes payable and long-term debt payable within one year (Notes 6 and 7)	\$	265,485	\$ 69,738
Accounts payable, trade		338,249	266,848
Accrued payrolls and other compensation		163,879	144,481
Accrued domestic and foreign taxes		34,374	51,374
Other accrued liabilities		186,783	183,570
<b>Total Current Liabilities</b>		988,770	716,011
Long-term debt (Note 7)		512,943	432,885
Pensions and other postretirement benefits (Notes 1 and 8)		265,675	252,709
Deferred income taxes (Notes 1 and 3)		29,739	26,007
Other liabilities		44,244	24,033
<b>Total Liabilities</b>		1,841,371	1,451,645
<b>Shareholders' Equity</b> (Note 9)			
Serial preferred stock, \$.50 par value, authorized 3,000,000 shares; none issued			
Common stock, \$.50 par value, authorized 600,000,000 shares; issued 111,812,025 shares in 1998 and 111,809,085 shares in 1997 at par value		55,906	55,905
Additional capital		139,726	150,702
Retained earnings		1,631,316	1,378,297
Foreign currency translation adjustments		(60,026)	(27,345)
		1,766,922	1,557,559
Common stock in treasury at cost; 1,938,762 shares in 1998 and 282,915 shares in 1997		(83,472)	(10,258)
<b>Total Shareholders' Equity</b>		1,683,450	1,547,301
<b>Total Liabilities and Shareholders' Equity</b>	\$	3,524,821	\$ 2,998,946

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

## Discussion of Cash Flows

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

Cash and cash equivalents decreased \$38.5 million in 1998 after increasing \$5.0 million in 1997.

**Cash Flows From Operating Activities** — The Company's largest source of cash continues to be net cash provided by operating activities. Net cash provided by operating activities in 1998 was \$320.6 million compared to \$392.3 million in 1997. This decrease of \$71.7 million is principally due to Inventories using cash of \$185.6 million in 1998 compared to \$27.0 million in 1997. Other accrued liabilities used cash of \$9.1 million in 1998 compared to providing cash of \$16.0 million in 1997. Accrued domestic and foreign taxes also used cash in 1998 of \$15.3 million after providing cash of \$4.3 million in 1997. These uses of cash in 1998 were partially offset with cash provided by an increase of \$45.5 million in Net income in 1998 and a \$52.9 million increase in Accounts payable in 1998 compared to an increase of \$31.7 million in 1997. In addition, the 1998 write-off of purchased in-process R&D of \$15.8 million was a non-cash charge added back to Net income to reconcile to the net cash provided by operating activities.

The net cash provided by operating activities in 1997 increased \$54.3 million compared to 1996. This increase is principally the result of an increase of \$34.4 million in Net income and the non-cash expenses of Depreciation and Amortization increasing \$28.5 million. Accounts receivable used cash of \$76.1 million in 1997 as a result of increased volume, compared to providing cash of \$8.7 million in 1996. Inventories also used cash of \$27.0 million in 1997, an increase of \$12.0 million compared to the cash used in 1996. Partially offsetting these uses of cash, Accounts payable, trade provided cash of \$31.7 million in 1997 compared to using cash of \$15.5 million in 1996. Increases in Other accrued liabilities also provided cash of \$16.0 million in 1997 compared to using cash of \$31.8 million in 1996.

**Cash Flows From Investing Activities** — Net cash used in investing activities was \$264.4 million greater in 1998 than 1997, primarily due to Acquisitions using \$201.5 million more cash in 1998. Also, Capital expenditures increased \$47.8 million in 1998. These investments to support growth and efficient manufacturing technology demonstrate the Company's commitment to improving shareholder value.

Net cash used in investing activities for 1997 was \$359.8 million lower than in 1996 primarily due to less cash used for Acquisitions. The most significant use of cash in 1997 was Capital expenditures, which at \$189.2 million was \$12.5 million less than the previous year.

To complete Acquisitions the Company utilized cash of \$233.0 million and treasury shares valued at \$11.9 million in 1998; cash of \$31.5 million in 1997; and cash of \$359.4 million and treasury shares valued at \$6.2 million in 1996. The net assets of the acquired companies at their respective acquisition dates consisted of the following:

(In thousands)	1998	1997	1996
<b>Assets acquired:</b>			
Accounts receivable	\$ 39,286	\$ 4,549	\$ 70,916
Inventories	43,847	13,410	77,582
Prepaid expenses	1,393	247	1,459
Deferred income taxes	1,643	1,576	18,942
Plant & equipment	54,718	15,283	124,222
Other assets	3,762	(1,121)	23,515
Excess cost of investments over net assets acquired	162,680	11,596	223,873
	<b>307,329</b>	<b>45,540</b>	<b>540,509</b>
<b>Liabilities assumed:</b>			
Notes payable	8,690	2,050	13,256
Accounts payable	21,841	2,418	26,880
Accrued payrolls	4,418	471	10,377
Accrued taxes	2,840	941	11,620
Other accrued liabilities	11,421	4,582	47,820
Long-term debt	9,706	2,454	8,235
Pensions and other postretirement benefits	477	1,163	49,798
Other liabilities	3,033		6,900
	<b>62,426</b>	<b>14,079</b>	<b>174,886</b>
Net assets acquired	<b>\$ 244,903</b>	<b>\$ 31,461</b>	<b>\$ 365,623</b>

**Cash Flows From Financing Activities** — In 1998 the Company increased its outstanding borrowings by a net total of \$264.9 million primarily to fund acquisitions. The majority of the funding was through the issuance of commercial paper. Additional funds were obtained through the issuance of \$50 million of medium-term notes in December 1997. In July 1998 the Company issued another \$100 million of medium-term notes.

In 1997 the Company decreased its outstanding borrowings by a net total of \$121.3 million. As of June 30, 1997, the Company paid off all commercial paper and selected notes payable attributable to the International operations.

Common share activity includes the repurchase of stock and the exercise of stock options. During 1998 the Company purchased 2,522,971 shares for treasury. In July 1998, the Board of Directors of the Company increased the authorization for future repurchases to 5.05 million shares.

Dividends have been paid for 192 consecutive quarters, including a yearly increase in dividends for the last 42 fiscal years. The current annual dividend rate is \$.60 per share.

In summary, based upon the Company's past performance and current expectations, management believes the cash flows generated from future operating activities, combined with the Company's worldwide financial capabilities, will provide adequate funds to support planned growth and continued improvements in the Company's manufacturing facilities and equipment.

# Consolidated Statement of Cash Flows

(Dollars in thousands)	For the years ended June 30,	1998	1997	1996
<b>Cash Flows From Operating Activities</b>				
Net income	\$	319,551	\$ 274,039	\$ 239,667
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		153,633	146,253	126,544
Amortization		29,046	23,580	14,819
Deferred income taxes		7,680	(1,269)	(3,691)
Foreign currency transaction loss		3,697	1,947	1,733
Loss (gain) on sale of plant and equipment		291	(9,811)	3,506
Write-off of purchased in-process research and development		15,800		
Net effect of extraordinary loss		3,675		
Changes in assets and liabilities, net of effects from acquisitions and dispositions:				
Accounts receivable		(71,034)	(76,081)	8,723
Inventories		(185,569)	(27,007)	(15,046)
Prepaid expenses		(3,473)	(1,234)	(157)
Other assets		(31,620)	(26,130)	(20,444)
Accounts payable, trade		52,947	31,672	(15,503)
Accrued payrolls and other compensation		27,531	23,929	11,586
Accrued domestic and foreign taxes		(15,282)	4,282	(3,589)
Other accrued liabilities		(9,129)	16,026	(31,800)
Pensions and other postretirement benefits		14,276	6,823	19,404
Other liabilities		8,579	5,291	2,229
Net cash provided by operating activities		320,599	392,310	337,981
<b>Cash Flows From Investing Activities</b>				
Acquisitions (less cash acquired of \$4,260 in 1998, \$1,394 in 1997 and \$20,479 in 1996)		(232,953)	(31,461)	(359,447)
Capital expenditures		(236,945)	(189,201)	(201,693)
Proceeds from sale of plant and equipment		7,151	11,307	9,387
Other		3,630	14,624	(2,812)
Net cash (used in) investing activities		(459,117)	(194,731)	(554,565)
<b>Cash Flows From Financing Activities</b>				
(Payments for) common share activity		(96,887)	(10,184)	(1,209)
Proceeds from (payments of) notes payable, net		190,865	(100,655)	81,194
Proceeds from long-term borrowings		87,085	9,390	201,724
(Payments of) long-term borrowings		(13,054)	(30,059)	(9,696)
Dividends paid, net of tax benefit of ESOP shares		(66,501)	(56,570)	(53,325)
Net cash provided by (used in) financing activities		101,508	(188,078)	218,688
Effect of exchange rate changes on cash		(1,499)	(4,457)	(1,981)
Net (decrease) increase in cash and cash equivalents		(38,509)	5,044	123
Cash and cash equivalents at beginning of year		68,997	63,953	63,830
Cash and cash equivalents at end of year	\$	30,488	\$ 68,997	\$ 63,953
<b>Supplemental data:</b>				
Cash paid during the year for:				
Interest, net of capitalized interest	\$	48,105	\$ 46,812	\$ 35,554
Income taxes		175,546	145,663	135,380
Non-cash investing activities:				
Treasury stock issued for acquisitions		11,950		6,176
Non-cash financing activities:				
Principle reduction of ESOP debt guarantee				13,468

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

## Discussion of Business Segment Information

The Business Segment Information presents sales, operating income and assets by the principal industries and geographic areas in which the Company's various businesses operate.

### Industrial Segment

	1998	1997	1996
Operating income as a percent of sales	12.4%	12.5%	12.4%
Return on average assets	19.1%	18.7%	18.3%

Sales for the Industrial North American operations increased to \$2.48 billion in 1998, 15.0 percent over 1997, following 1997's increase of 9.1 percent over 1996. Nearly one-fifth of the increase in both years was due to acquisitions. The growth in 1998 was spread among numerous markets, but primarily was the result of growth in the light and heavy-duty truck, construction equipment, telecommunications, factory automation, machine tool and refrigeration markets.

Recent order entry indicates a continuing, but moderate growth for the North American operations for 1999. In addition to this growth, the Company expects to increase sales through acquisitions.

International Industrial sales increased to a record \$1.16 billion, 8.2 percent over 1997. Without the impact of changes in currency rates, volume for 1998 increased over 17 percent. Acquisitions contributed over half of the 1998 increase. European markets experienced steady growth during the year. The Company also continued to penetrate markets in Asia Pacific and Latin American regions. Further advances within these regions are planned for 1999 in addition to the continuing growth anticipated for Europe.

International sales for 1997 increased 8.5 percent over 1996. Without the impact of changes in currency rates, volume for 1997 increased nearly 15 percent. Net of the currency impact, acquisitions accounted for a majority of the increase. Demand in Europe was relatively weak for the majority of 1997 with some improvement occurring in the fourth quarter. Latin America made an impressive recovery during the year with strength returning in Brazilian markets. Asia Pacific also contributed to the growth in 1997.

Backlog for the Industrial Segment was \$585.2 million at June 30, 1998, compared to \$510.8 million at the end of the prior period. Acquisitions contributed over one-third of this increase. The remaining increase was due to volume growth, primarily within North America. The 1997 increase over backlog of \$464.6 million at June 30, 1996 was also due to increased volume within the North American operations, as well as acquisitions.

Industrial North American operating income, before a \$5.2 million R&D charge in 1998, increased 13.2 percent in 1998 and 11.4 percent in 1997, with Income from operations as a percent of sales at 15.1 percent in 1998, before the R&D charge, compared to 15.3 percent in 1997 and 15.0 percent in 1996. Pricing pressures were experienced throughout most of the Industrial markets. Recently purchased acquisitions, not yet fully integrated, contributed lower margins. On the other hand, previous years' acquisitions, now fully integrated, were able to contribute higher margins, partially offsetting the decline in Income from operations as a percent of sales. Raw material prices remained relatively stable during the year.

International Income from operations, before a \$10.6 million R&D charge in 1998, increased 27.1 percent in 1998 after a 1997 increase

of 2.7 percent over 1996. Income as a percent of sales, before the R&D charge, increased to 8.1 percent after a decrease to 6.9 percent in 1997 from 7.3 percent in 1996. The European Industrial markets performed well during 1998. Increased volume improved capacity utilization and previous acquisitions became more integrated, resulting in improved margins. Recent acquisitions, with lower margins, partially offset these improvements. The Company's direct exposure to Asia Pacific is immaterial, but due to the current financial crisis, extreme pricing pressures were realized in the semiconductor markets, having an indirect effect on the Company.

Operating income for 1997 was affected by acquisitions which contributed lower operating margins primarily within International, but also within North America, because of integration costs incurred without the benefit of synergies yet to be realized.

Assets for the Industrial segment increased 17.9 percent in 1998 after only a slight increase in 1997. The increase in 1998 is primarily due to acquisitions and increases in inventories, partially offset by currency fluctuations. In 1997 currency fluctuations offset increases from acquisitions and increases in accounts receivable and inventories. In both years net plant and equipment increased due to capital expenditures exceeding depreciation.

### Aerospace Segment

	1998	1997	1996
Operating income as a percent of sales	16.0%	12.7%	13.7%
Return on average assets	22.5%	17.7%	19.2%

Sales increased 15.1 percent in 1998 and 38.8 percent in 1997. Increased commercial aircraft deliveries and continued penetration of the commercial repair and overhaul businesses contributed to the higher volume in 1998. Over one-half of the 1997 increase was due to an acquisition. Aerospace markets experienced strong growth during both 1998 and 1997. Gains were primarily within the commercial-transport original equipment market as the military market has remained relatively flat for the past several years.

Backlog at June 30, 1998 was \$1.06 billion compared to \$976.2 million in 1997 and \$866.3 million in 1996, reflecting the strong growth of the commercial aircraft market.

Operating income increased 45.3 percent in 1998 and 28.3 percent in 1997. As a percent of sales 1998 income was 16.0 percent compared to 12.7 percent in 1997 and 13.7 percent in 1996. Current year margins benefited from improved capacity utilization due to higher volume and a more favorable product mix. The 1997 decline in margins was primarily the result of lower margins contributed by the Abex operations which were still in the integration phase. Increases to long-term contract reserves also impacted the 1997 margins.

Assets increased 19.9 percent in 1998 after an 8.0 percent increase in 1997. For both periods the increases were primarily in customer receivables, inventories and property, plant and equipment, partially offset by a decrease in net goodwill.

Corporate assets increased 5.5 percent in 1998 after a 33.2 percent increase in 1997. The increase in 1998 is primarily due to capital additions. The 1997 increase was the result of the construction of a new corporate headquarters, a net receivable resulting from two currency hedges and an increase in short-term investments.

## Business Segment Information

### By Industry

(Dollars in thousands)	1998	1997	1996
<b>Net sales, including intersegment sales:</b>			
Industrial:			
North America	\$ 2,480,231	\$ 2,156,043	\$ 1,976,351
International	1,161,530	1,073,201	989,359
Aerospace	992,994	862,659	621,465
Intersegment sales	(1,732)	(822)	(727)
	<b>\$ 4,633,023</b>	<b>\$ 4,091,081</b>	<b>\$ 3,586,448</b>
<b>Income from operations before corporate general and administrative expenses:</b>			
Industrial:			
North America	\$ 368,314	\$ 329,967	\$ 296,081
International	83,534	74,058	72,093
Aerospace	159,067	109,470	85,329
	<b>610,915</b>	<b>513,495</b>	<b>453,503</b>
Corporate general and administrative expenses	61,018	50,582	48,847
Income from operations	<b>549,897</b>	<b>462,913</b>	<b>404,656</b>
Other deductions	45,909	38,046	30,177
Income before income taxes	<b>\$ 503,988</b>	<b>\$ 424,867</b>	<b>\$ 374,479</b>
<b>Identifiable assets:</b>			
Industrial	\$ 2,555,500	\$ 2,167,820	\$ 2,150,506
Aerospace	771,488	643,694	595,865
	<b>3,326,988</b>	<b>2,811,514</b>	<b>2,746,371</b>
Corporate assets <sup>(a)</sup>	197,833	187,432	140,753
	<b>\$ 3,524,821</b>	<b>\$ 2,998,946</b>	<b>\$ 2,887,124</b>
<b>Property additions:<sup>(b)</sup></b>			
Industrial	\$ 245,995	\$ 173,635	\$ 259,356
Aerospace	33,733	20,608	63,437
Corporate <sup>(c)</sup>	11,935	32,078	3,122
	<b>\$ 291,663</b>	<b>\$ 226,321</b>	<b>\$ 325,915</b>
<b>Depreciation:</b>			
Industrial	\$ 129,183	\$ 119,948	\$ 106,553
Aerospace	17,191	19,517	17,267
Corporate	7,259	6,788	2,724
	<b>\$ 153,633</b>	<b>\$ 146,253</b>	<b>\$ 126,544</b>

(a) Corporate assets are principally cash and cash equivalents, domestic deferred income taxes, investments, headquarters facilities, idle facilities held for sale and the major portion of the Company's domestic data processing equipment.

(b) Includes value of net plant and equipment at the date of acquisition of acquired companies accounted for by the purchase method (1998 – \$54,718; 1997 – \$15,283; 1996 – \$124,222).

(c) Fiscal 1997 includes \$21,837 for real estate acquired in a tax-free exchange of property.

### By Geographic Area

(Dollars in thousands)	1998	1997	1996
<b>Net sales, including interarea sales:</b>			
North America	\$ 3,549,425	\$ 3,062,947	\$ 2,669,201
Europe	1,071,554	1,055,401	918,493
All Other	199,796	190,584	155,963
Interarea	(187,752)	(217,851)	(157,209)
	<b>\$ 4,633,023</b>	<b>\$ 4,091,081</b>	<b>\$ 3,586,448</b>
<b>Income from operations before corporate general and administrative expenses:</b>			
North America	\$ 515,073	\$ 429,432	\$ 381,154
Europe	84,944	70,926	63,083
All Other	10,898	13,137	9,266
	<b>610,915</b>	<b>513,495</b>	<b>453,503</b>
Corporate general and administrative expenses	61,018	50,582	48,847
Income from operations	<b>\$ 549,897</b>	<b>\$ 462,913</b>	<b>\$ 404,656</b>
<b>Identifiable assets:</b>			
North America	\$ 2,199,948	\$ 1,808,154	\$ 1,678,680
Europe	947,880	859,774	933,201
All Other	179,160	143,586	134,490
	<b>3,326,988</b>	<b>2,811,514</b>	<b>2,746,371</b>
Corporate assets <sup>(a)</sup>	197,833	187,432	140,753
	<b>\$ 3,524,821</b>	<b>\$ 2,998,946</b>	<b>\$ 2,887,124</b>



# Notes to Consolidated Financial Statements

(Dollars in thousands, except per share amounts)

## 1. Significant Accounting Policies

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

**Nature of Operations** — The Company is a leading worldwide producer of motion control products, including fluid power systems, electromechanical controls and related components.

The Company operates in two principal business segments: Industrial and Aerospace. The Industrial Segment produces motion-control and fluid power system components for builders and users of various types of manufacturing, packaging, processing, transportation, agricultural, construction, and military machinery, vehicles and equipment. Industrial Segment products are marketed primarily through field sales employees and more than 7,500 independent distributors. The North American Industrial business represents the largest portion of the Company's manufacturing plants and distribution networks and primarily services North America. The International Industrial operations bring Parker products and services to countries throughout Europe, Asia Pacific and Latin America.

The Aerospace Segment produces hydraulic, pneumatic and fuel systems and components which are utilized on virtually every domestic commercial, military and general aviation aircraft. Its components also perform a vital role in naval vessels, land-based weapons systems, satellites and space vehicles. This Segment serves original equipment and maintenance, repair and overhaul customers worldwide. Its products are marketed by field sales employees and are sold directly to the manufacturer and to the end user.

There are no individual customers to whom sales are 6 percent or more of the Company's consolidated sales. Due to the diverse group of customers throughout the world the Company does not consider itself exposed to any concentration of credit risks.

The Company manufactures and markets its products throughout the world. Although certain risks and uncertainties exist, the diversity and breadth of the Company's products and geographic operations mitigate significantly the risk that adverse changes in any event would materially affect the Company's operating results.

**Use of Estimates** — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Basis of Consolidation** — The consolidated financial statements include the accounts of all domestic and foreign subsidiaries. All material intercompany transactions and profits have been eliminated in the consolidated financial statements. Within the Business Segment Information, intersegment and interarea sales are recorded at fair market value.

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

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

**Long-term Contracts** — The Company enters into long-term contracts for the production of aerospace products. For financial statement purposes, sales are recorded as deliveries are made (units of delivery method of percentage-of-completion). Unbilled costs on these contracts are included in inventory. Progress payments are netted against the inventory balances. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

**Plant, Equipment and Depreciation** — Plant and equipment are recorded at cost and are depreciated principally using the straight-line method for financial reporting purposes. Depreciation rates are based on estimated useful lives of the assets. Improvements which extend the useful life of property are capitalized, and maintenance and repairs are expensed. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in current income.

**Investments and Other Assets** — Investments in joint-venture companies in which ownership is 50% or less are stated at cost plus the Company's equity in undistributed earnings. These investments and the related earnings are not material to the consolidated financial statements.

**Excess Cost of Investments** — The excess cost of investments over net assets acquired is being amortized, on a straight-line basis, primarily over 15 years and not exceeding 40 years. Unamortized cost in excess of associated expected operating cash flows is considered to be impaired and is written down to fair value.

**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.

**Foreign Currency Translation** — Assets and liabilities of most foreign subsidiaries are translated at current exchange rates, and income and expenses are translated using weighted average exchange rates. The effects of these translation adjustments, as well as gains and losses from certain intercompany transactions, are reported in a separate 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 income.



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

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

Gains or losses on forward contracts which hedge dividends from consolidated subsidiaries are accrued in Shareholders' equity. Gains or losses on forward contracts which hedge specific transactions are recognized in Net income, offsetting the underlying foreign currency gains or losses.

Cross-currency swap agreements are recorded in Long-term debt as dollar-denominated receivables with offsetting foreign-currency payables. If the receivables more than offset the payables, the net difference is reclassified to an asset. Gains or losses are accrued monthly as an adjustment to Net income, offsetting the underlying foreign currency gains or losses. The differential between interest to be received and interest to be paid is accrued monthly as an adjustment to Interest expense.

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

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

**Stock Options** — The Company applies the intrinsic-value based method to account for stock options granted to employees or outside Directors to purchase common shares. The option price equals the market price of the underlying common shares on the date of grant, therefore no compensation expense is recognized.

**Recently Issued Accounting Pronouncements** — The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income". SFAS No. 130 requires an additional disclosure for comprehensive income. It will not change Net income or Shareholders' equity. The Company must adopt SFAS No. 130 in the first quarter of 1999.

The FASB has also issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". This standard requires segment information to be disclosed based upon how management internally evaluates the operating performance of its business units. Application of this standard, required by year-end 1999, is not expected to result in materially different disclosures for the Company.

The FASB has also issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard establishes a new model for accounting for derivatives and hedging activities. Due to the immaterial amount of derivative and hedging activity within the Company, application of this standard, required in the first quarter of 2000, is not expected to have a material impact on results.

In March 1998 the Accounting Standards Executive Committee issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 requires expenses incurred during the application development stage of a software implementation project to be capitalized and amortized over the useful life of the project. Application of this standard, required beginning with the first quarter of 2000, is not expected to have a material impact on the results of the Company.

## 2. Acquisitions and Write-offs of Purchased In-process Research & Development

On May 1, 1998 the Company acquired the equity of Extrudit Ltd., a tubing manufacturer located in Buxton, England. On April 30, 1998 the Company purchased the equity of UCC Securities Limited of Thetford, Norfolk, England, a manufacturer of technology-based hydraulic filtration products. On April 1, 1998 the Company acquired the equity of Sempres Pneumatics, a manufacturer of pneumatic cylinders and valves located near Rotterdam, the Netherlands. On March 31, 1998 the Company acquired the assets of Temeto AB located in Flen, Sweden, a distributor of hydraulic components. On March 26, 1998 the Company purchased the remaining 51% of two Korean joint ventures — HS Parker Company Ltd., in Yangsan, and the HS Parker Air Conditioning Components Company Ltd., in Chonan, manufacturers of hydraulic hose, fittings, hose assemblies and accumulators. On February 27, 1998 Computer Technology Corporation of Milford, Ohio, a manufacturer of human-machine interface solutions, was merged into the Company. On September 26, 1997 the Company acquired the assets of the Skinner solenoid valve division of Honeywell Inc. and the equity of Honeywell Lucifer, S.A. Skinner is headquartered in New Britain, Connecticut, and Lucifer is headquartered in Geneva, Switzerland. On August 4, 1997 the Company acquired the assets of EWAL Manufacturing of Belleville, New Jersey, a leading producer of precision fittings and valves. Combined annual sales for operations acquired in fiscal 1998, for their most recent fiscal year prior to acquisition, were approximately \$243 million. Total purchase price for these businesses was approximately \$236.5 million cash and 263,279 shares of common stock valued at \$11.9 million.

The purchase price allocations of Computer Technology Corporation and UCC Securities Limited, as determined by independent appraisal, included a \$15.8 million asset for purchased in-process research and development. Generally accepted accounting principles do not allow the capitalization of R&D of this nature, therefore, a write-off of \$15.8 million (\$12.0 million after tax or \$.11 per share) is included in Cost of sales in 1998.

On June 4, 1997 the Company acquired the remaining 50 percent of SAES-Parker UHP Components Corp., a manufacturer of valves for ultra-pure gas used in semiconductor manufacturing. On February 3, 1997 the Company purchased Hydroflex S.A. de C.V., a leading Mexican manufacturer of hydraulic hose, fittings and adapters located in Toluca, Mexico. On September 5, 1996 the Company purchased the assets of the

industrial hydraulic product line of Hydraulik-Ring AG, of Nürtingen, Germany. Total purchase price for these businesses was approximately \$29.3 million cash. Combined annual sales for these operations, for their most recent fiscal year prior to acquisition, were approximately \$52 million.

Effective April 15, 1996 the Company acquired the aerospace assets of the Abex NWL Division of Pneumo Abex Corporation, a major international producer of aerospace hydraulic and electromechanical actuation equipment, engine thrust-reverser actuators, hydraulic pumps, and electrohydraulic servovalves headquartered in Kalamazoo, Michigan, for approximately \$201 million cash. On February 29, 1996 the Company acquired VOAC Hydraulics AB, a worldwide leader in manufacturing mobile hydraulic equipment located in Borås, Sweden for approximately \$163 million cash. Sales by these operations for their most recent fiscal year prior to acquisition approximated \$366 million.

In June 1996 the Company acquired the remaining 60 percent of Schrader Bellows Parker, S.A. de C.V., a Mexico City-based manufacturer of pneumatic and hydraulic products. On August 4, 1995 the Company purchased inventory and machinery from Teledyne Fluid Systems consisting of the Republic Valve product line, the Sprague double-diaphragm pump line and the Sprague airborne accumulator product line. On July 31, 1995 the Company purchased the assets of General Valve Corp. of Fairfield, New Jersey, a leading producer of miniature solenoid valves for high-technology applications. Total purchase price for these businesses was approximately \$9.2 million cash and 228,000 shares of common stock valued at \$6.2 million. Sales by these operations for their most recent fiscal year prior to acquisition approximated \$24.8 million.

These acquisitions were accounted for by the purchase method, and results are included as of the respective dates of acquisition.

### 3. Income Taxes

Income taxes include the following:

	1998	1997	1996
Federal	\$ 129,462	\$ 113,819	\$ 95,127
Foreign	27,847	27,411	29,635
State and local	16,928	13,587	14,897
Deferred	6,525	(3,989)	(4,847)
	<b>\$ 180,762</b>	<b>\$ 150,828</b>	<b>\$ 134,812</b>

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

	1998	1997	1996
Statutory Federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes	2.1	2.0	2.3
FSC income not taxed	(1.7)	(1.8)	(1.1)
Foreign tax rate difference	.3	.3	.7
Recognized loss carryforwards	(.1)	(.6)	(1.1)
Other	.3	.6	.2
Effective income tax rate	<b>35.9%</b>	<b>35.5%</b>	<b>36.0%</b>

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:

	1998	1997
Postretirement benefits	\$ 63,277	\$ 48,320
Other liabilities and reserves	52,430	63,700
Long-term contracts	14,816	16,349
Operating loss carryforwards	9,440	23,286
Foreign tax credit carryforwards	3,773	1,405
Valuation allowance	(1,591)	(1,768)
Depreciation	(80,508)	(84,853)
Inventory	11,088	11,852
Net deferred tax asset (liability)	<b>\$ 72,725</b>	<b>\$ 78,291</b>
Change in net deferred tax asset (liability):		
Provision for deferred tax	\$ (6,525)	\$ 3,989
Translation adjustment	175	(2,932)
Acquisitions	784	(2,418)
Total change in net deferred tax	<b>\$ (5,566)</b>	<b>\$ (1,361)</b>

The classifications of deferred tax balances for 1997 have been revised to be consistent with 1998.

At June 30, 1998, foreign subsidiaries had benefits for operating loss carryforwards of \$11,624 for tax and \$13,215 for financial reporting, most of which can be carried forward indefinitely. Use of operating loss carryforwards and currency adjustments reduced the valuation allowance.

Non-current deferred income tax assets include a \$7,529 tax benefit for the net operating loss carryforwards of the Company's German operations. The Company has not provided a valuation allowance that would be required under SFAS No. 109 if it is more likely that these benefits would not be realized. Although future events cannot be predicted with certainty, management continues to believe these benefits will be realized because the tax loss carryforward period is unlimited and the Company's German operations are currently profitable.

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.

### 4. Earnings Per Share

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

	1998	1997	1996
Numerator:			
Net income applicable to common shares	\$ 319,551	\$ 274,039	\$ 239,667
Denominator:			
Basic – weighted average common shares	110,868,834	111,601,484	111,260,717
Increase in weighted average from dilutive effect of exercise of stock options	1,090,437	916,569	928,000
Diluted – weighted average common shares, assuming exercise of stock options	111,959,271	112,518,053	112,188,717
Basic earnings per share	\$ 2.88	\$ 2.46	\$ 2.15
Diluted earnings per share	\$ 2.85	\$ 2.44	\$ 2.14

## 5. Inventories

Inventories valued on the last-in, first-out cost method are approximately 36% of total inventories in 1998 and 1997. The current cost of these inventories exceeds their valuation determined on the LIFO basis by \$139,011 in 1998 and \$140,364 in 1997. Progress payments of \$23,454 in 1998 and \$20,728 in 1997 are netted against inventories.

## 6. Financing Arrangements

The Company has committed lines of credit totaling \$450,000 through several multi-currency unsecured revolving credit agreements with a group of banks, of which \$226,525 was available at June 30, 1998. The majority of these agreements expire October 2002. The interest on borrowings is based upon the terms of each specific borrowing and is subject to market conditions. The agreements also require facility fees of up to 8/100ths of one percent of the commitment per annum. Covenants in some of the agreements include a limitation on the Company's ratio of secured debt to net tangible assets.

The Company has other lines of credit, primarily short-term, aggregating \$108,584, from various foreign banks, of which \$72,013 was available at June 30, 1998. Most of these agreements are renewed annually.

During March 1998 the Company registered additional medium-term notes bringing the total available for issuance to \$755,000 at June 30, 1998. Subsequently, in July 1998, the Company issued \$100,000 of these medium-term notes.

The Company is authorized to sell up to \$400,000 of short-term commercial paper notes, rated A-1 by Standard & Poor's, P-1 by Moody's and D-1 by Duff & Phelps. At June 30, 1998 there were \$191,250 of commercial paper notes outstanding which were supported by the available domestic lines of credit. Of the total commercial paper, \$100,000 has been classified in the Balance Sheet as Long-term debt, as further discussed in Note 7. There were no commercial paper notes outstanding at June 30, 1997.

Commercial paper, along with short-term borrowings from foreign banks, primarily make up the balance of Notes payable. The balance and weighted average interest rate of the Notes payable at June 30, 1998 and 1997 were \$155,259 and 6.1%, and \$58,945 and 5.7%, respectively.

## 7. Debt

	June 30,	1998	1997
Domestic:			
Debentures and notes			
9.75%, due 2002-2021		\$ 100,000	\$ 100,000
7.3%, due 2011		100,000	100,000
10.375%, due 1999-2018		100,000	100,000
9.6%, due 1998			1,714
Medium-term notes			
6.35% to 7.39%, due 2004-2010		145,000	95,000
Commercial paper		100,000	
Variable rate demand bonds			
3.85% to 3.95%, due 2010-2025		20,035	20,035
Foreign:			
Bank loans, including revolving credit			
1.0% to 17.25%, due 1999-2018		54,653	25,704
Other long-term debt, including capitalized leases		3,481	1,225
Total long-term debt		623,169	443,678
Less long-term debt payable within one year		110,226	10,793
Long-term debt, net		\$ 512,943	\$ 432,885

On June 30, 1998, the Company called for redemption its outstanding \$100 million, 10.375 percent debentures due 1999-2018. The after-tax extraordinary loss for this transaction, including an early-redemption premium and the write-off of deferred issuance costs, was \$3,675 or \$.03 per share. As a result of the call, these debentures have been reclassified to long-term debt payable within one year. The retirement of the debt was financed on July 15, 1998, through the issuance of \$100,000 of medium-term notes, due 2018, at an annual interest rate of 6.55 percent. As of June 30, 1998, \$100,000 of commercial paper was classified as long-term debt, recognizing management's intentions.

Principal amounts of long-term debt payable in the five years ending June 30, 1999 through 2003 are \$10,226, \$20,217, \$16,598, \$19,917, and \$19,825, respectively. The carrying value of the Company's long-term debt (excluding leases and cross-currency swaps) was \$519,688 and \$443,673 at June 30, 1998 and 1997, respectively, and was estimated to have a fair value of \$545,140 and \$454,689, at June 30, 1998 and 1997, respectively. The estimated fair value of the Long-term debt was estimated using discounted cash flow analyses based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

Lease Commitments — Future minimum rental commitments as of June 30, 1998, under noncancelable operating leases, which expire at various dates, are as follows: 1999-\$46,175; 2000-\$25,390; 2001-\$14,531; 2002-\$7,066; 2003-\$5,414 and after 2003-\$24,278.

Rental expense in 1998, 1997 and 1996 was \$37,065, \$33,305, and \$29,899, respectively.



## 8. 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 contractual arrangements with certain key employees which provide for supplemental retirement benefits. In general, the Company's policy is to fund these plans based on legal requirements, tax considerations, local practices and investment opportunities. The Company also sponsors defined contribution plans and participates in government-sponsored programs in certain foreign countries.

Pension costs for all plans were \$19,989, \$22,773 and \$22,514 for 1998, 1997 and 1996, respectively. Pension costs for all defined benefit plans accounted for using SFAS No. 87, Employers' Accounting for Pensions, are as follows:

	1998	1997	1996
Service cost-benefits earned during the period	\$ 28,190	\$ 23,715	\$ 20,731
Interest cost on projected benefit obligation	57,892	52,726	44,384
Actual return on assets	(161,737)	(89,614)	(74,926)
Net amortization and deferral	93,719	33,703	30,111
Net periodic pension costs	\$ 18,064	\$ 20,530	\$ 20,300

The following tables set forth the funded status of all the plans accounted for under SFAS No. 87 and the amounts recognized in the Company's consolidated balance sheet:

	Assets Exceed Accumulated Benefits	
	1998	1997
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ (608,260)	\$ (493,681)
Accumulated benefit obligation	\$ (634,207)	\$ (510,385)
Projected benefit obligation	\$ (745,036)	\$ (593,241)
Plan assets at fair value	974,131	749,386
Projected benefit obligation less than plan assets	229,095	156,145
Unrecognized net (gain) or loss	(135,827)	(61,122)
Unrecognized prior service cost	18,160	15,198
Unrecognized net (asset) obligation	(13,310)	(16,848)
Prepaid pension cost (pension liability) recognized	\$ 98,118	\$ 93,373

	Accumulated Benefits Exceed Assets	
	1998	1997
Actuarial present value of benefit obligations:		
Vested benefit obligation	\$ (101,464)	\$ (79,521)
Accumulated benefit obligation	\$ (112,916)	\$ (95,707)
Projected benefit obligation	\$ (132,716)	\$ (121,458)
Plan assets at fair value	23,782	18,301
Projected benefit obligation in excess of plan assets	(108,934)	(103,157)
Unrecognized net (gain) or loss	10,218	6,000
Unrecognized prior service cost	4,466	4,714
Unrecognized net (asset) obligation	579	1,794
Prepaid pension cost (pension liability) recognized	\$ (93,671)	\$ (90,649)

The majority of the underfunded plans relate to foreign and supplemental executive plans.

The plans' assets consist primarily of listed common stocks, corporate and government bonds, and real estate investments. At June 30, 1998 and 1997, the plans' assets included Company stock with market values of \$20,262 and \$21,502, respectively.

The assumptions used to measure the benefit obligations and to compute the expected long-term return on assets for the Company's significant defined benefit plans are:

	1998	1997	1996
U.S. defined benefit plans			
Discount rate	7.5%	8%	8%
Average increase in compensation	4.9%	5%	5%
Expected long-term return on assets	9.5%	9%	9%
Non-U.S. defined benefit plans			
Discount rate	4.5 to 7%	7 to 8%	7 to 8%
Average increase in compensation	3 to 4.5%	3.5 to 6%	4.5 to 6%
Expected long-term return on assets	5.5 to 9%	7 to 9%	7 to 9%

**Employee Savings Plan** — The Company sponsors an employee stock ownership plan (ESOP) as part of its existing savings and investment 401(k) plan, which is available to eligible domestic employees. Parker-Hannifin Common Stock is used to match contributions made by employees to the savings plan up to a maximum of 5 percent of an employee's annual compensation. A breakdown of shares held by the ESOP is as follows:

	1998	1997	1996
Allocated shares	7,631,677	7,460,378	6,934,194
Committed to be released			60,231
Total shares held by the ESOP	7,631,677	7,460,378	6,994,425

Through June 30, 1996 the ESOP was leveraged and the loan was unconditionally guaranteed by the Company. Company contributions to the ESOP, recorded as compensation and interest expense, were \$23,093 in 1998, \$21,235 in 1997 and \$18,626 in 1996. The interest expense portion (interest on ESOP debt) was \$856 in 1996. Dividends earned by the unallocated shares and interest income within the ESOP, totalling \$218 in 1996, were used to service the ESOP debt. ESOP shares are considered outstanding for purposes of earnings per share computations.

In addition to shares within the ESOP, as of June 30, 1998 employees have elected to invest in 3,011,654 shares of Common Stock within the Company Stock Fund of the Parker Retirement Savings Plan.

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



	1998	1997	1996
Service cost-benefits attributed to service during the period	\$ 4,021	\$ 3,296	\$ 3,515
Interest cost on accumulated postretirement benefit obligations	11,077	11,316	11,126
Net amortization and deferral	(1,815)	(830)	(708)
Net periodic postretirement benefit costs	\$ 13,283	\$ 13,782	\$ 13,933

The following table reconciles the plans' combined funded status to amounts recognized in the Company's consolidated balance sheet:

	1998	1997
Accumulated postretirement benefit obligation:		
Retirees	\$ (62,204)	\$ (78,114)
Fully eligible active plan participants	(38,798)	(31,019)
Other active plan participants	(54,931)	(40,741)
Unrecognized (gain) loss	(2,251)	(15,918)
Unrecognized prior service cost	(15,046)	131
Accrued postretirement benefit costs	\$ (173,230)	\$ (165,661)

The assumptions used to measure the post-retirement benefit obligations are:

	1998	1997	1996
Discount rate	7.5%	8%	8%
Current medical cost trend rate	10.25%	10.5%	10.75%
Ultimate medical cost trend rate	6%	6%	6%
Medical cost trend rate decreases to ultimate in year	2007	2007	2007
Effect of a 1% increase in the medical cost trend rate:			
Increase in benefit obligation	\$ 8,194	\$ 8,161	\$ 9,382
Increase in annual retiree medical cost	\$ 658	\$ 772	\$ 568

Other — The Company has established nonqualified deferred compensation programs which permit officers, directors and certain management employees to annually elect to defer a portion of their compensation, on a pre-tax basis, until their retirement. The retirement benefit to be provided is based on the amount of compensation deferred, Company match, and earnings on the deferrals. Deferred compensation expense was \$20,426, \$4,862 and \$4,129 in 1998, 1997 and 1996, respectively.

The Company has invested in corporate-owned life insurance policies to assist in funding these programs. The cash surrender values of these policies are maintained in an irrevocable rabbi trust and are recorded as assets of the Company.

## 9. Shareholders' Equity

Common Shares	1998	1997	1996
Balance July 1	\$ 55,905	\$ 55,719	\$ 55,502
Shares issued under stock option plans (1998 - 3,650; 1997 - 432,096; 1996 - 513,836)	1	139	189
Shares issued as restricted stock		47	28
Balance June 30	\$ 55,906	\$ 55,905	\$ 55,719

### Additional Capital

Balance July 1	\$ 150,702	\$ 146,686	\$ 139,953
Net (decrease) increase for treasury or common shares issued under stock option plans	(11,481)	1,684	5,481
Shares issued for purchase acquisition	478		(176)
Shares issued as restricted stock	27	2,332	1,428
Balance June 30	\$ 139,726	\$ 150,702	\$ 146,686

### Retained Earnings

Balance July 1	\$1,378,297	\$1,160,828	\$ 974,486
Net income	319,551	274,039	239,667
Cash dividends paid on common shares, net of tax benefit of ESOP shares	(66,501)	(56,570)	(53,325)
Cash payments for stock split fractional shares	(31)		
Balance June 30	\$1,631,316	\$1,378,297	\$1,160,828

### Translation Adjustments

Balance July 1	\$ (27,345)	\$ 20,725	\$ 35,041
Translation adjustments (Note 12)	(32,681)	(48,070)	(14,316)
Balance June 30	\$ (60,026)	\$ (27,345)	\$ 20,725

### Common Stock in Treasury

Balance July 1	\$ (10,258)	\$ —	\$ —
Shares purchased at cost (1998 - 2,522,971; 1997 - 576,021; 1996 - 247,500)	(109,645)	(18,690)	(6,703)
Shares issued under stock option plans (1998 - 559,668; 1997 - 223,184)	23,187	6,676	
Shares issued for purchase acquisition	11,471		6,176
Shares issued as restricted stock	1,773	1,756	527
Balance June 30	\$ (83,472)	\$ (10,258)	\$ —

Shares surrendered upon exercise of stock options: 1998 - 159,869; 1997 - 153,770; 1996 - 136,686.

Share Repurchases — In July 1998 the Board of Directors authorized the repurchase of an additional 4.0 million shares of its common stock, extending the initial repurchase plan started in August 1990. This increased the total number of shares authorized for repurchase to 5.05 million. Repurchases are made on the open market, at prevailing prices, and are funded from operating cash flows. The shares are initially held as treasury stock.

## 10. Stock Incentive Plans

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

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

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, the Company continues to account for its stock option and stock incentive plans in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and makes no charges against capital with respect to options granted. SFAS No. 123 does, however, require the disclosure of pro forma information regarding Net Income and Earnings per share determined as if the Company had accounted for its stock options under the fair value method. For purposes of this pro forma disclosure the estimated fair value of the options is amortized to expense over the options' vesting period.

		1998	1997	1996
Net income:	As reported	\$ 319,551	\$ 274,039	\$ 239,667
	Pro forma	\$ 315,567	\$ 270,758	\$ 238,330
Earnings per share: Basic	As reported	\$ 2.88	\$ 2.46	\$ 2.15
	Pro forma	\$ 2.85	\$ 2.43	\$ 2.14
Diluted	As reported	\$ 2.85	\$ 2.44	\$ 2.14
	Pro forma	\$ 2.82	\$ 2.41	\$ 2.12

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to 1996, the above pro forma effect may not be representative of that to be expected in future years.

The fair value for all options granted in 1998, 1997 and 1996 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Aug/97	Jan/97	Aug/96	Aug/95
Risk-free interest rate	5.6%	6.3%	6.4%	6.4%
Expected life of option	5 yrs	5 yrs	5 yrs	5 yrs
Expected dividend yield of stock	2.3%	2.6%	2.6%	3.0%
Expected volatility of stock	26.9%	26.5%	26.2%	25.2%

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

	1998	1997	1996
Options exercisable	3,476,016	2,905,887	3,195,767
Weighted-average option price per share of options exercisable	\$ 20.57	\$ 16.41	\$ 14.90
Weighted-average fair value of options granted during the year	\$ 11.43	\$ 7.30	\$ 6.44
Shares available for grant	3,256,232	3,304,627	3,295,347

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

	Shares Subject To Options	Average Option Price Per Share
Outstanding June 30, 1996	3,578,492	\$ 16.09
Granted	1,351,500	27.37
Exercised	(655,280)	14.48
Canceled	(50,625)	
Outstanding June 30, 1997	4,224,087	\$ 19.82
Granted	190,815	43.04
Exercised	(721,687)	19.83
Canceled	(31,409)	
Outstanding June 30, 1998	3,661,806	\$ 21.71

The ranges of exercise prices and the remaining contractual life of options as of June 30, 1998 were:

Range of exercise prices	\$12 - \$19	\$20 - \$29	\$43 - \$44
Options outstanding:			
Outstanding as of June 30, 1998	1,390,268	2,085,748	185,790
Weighted-average remaining contractual life	3.8 yrs	7.8 yrs	9.1 yrs
Weighted-average exercise price	\$ 13.54	\$ 25.26	\$ 43.05
Options exercisable:			
Outstanding as of June 30, 1998	1,390,268	2,085,748	
Weighted-average remaining contractual life	3.8 yrs	7.8 yrs	
Weighted-average exercise price	\$ 13.54	\$ 25.26	

**Restricted stock** — Restricted stock was issued, under the Company's 1993 Stock Incentive Program, to certain key employees under the Company's 1995-96-97, 1994-95-96 and 1993-94-95 Long Term Incentive Plans (LTIP). Value of the payments was set at the market value of the Company's common stock on the date of issuance. Shares were earned and awarded, and an estimated value was accrued, based upon attainment of criteria specified in the LTIP over the cumulative years of the 3-year Plans. Plan participants are entitled to cash dividends and to vote their respective shares, but the shares are restricted as to transferability for three years following issuance.

Restricted Shares for LTIP Plan	1998	1997	1996
Number of shares issued	39,619	152,916	73,361
Per share value on date of issuance	\$ 40.00	\$ 25.36	\$ 26.05
Total value	\$ 1,585	\$ 3,878	\$ 1,911

Under the Company's 1996-97-98 LTIP, a payout of 15,774 shares of restricted stock, from the Company's 1993 Stock Incentive Program, will be issued to certain key employees in 1999. The balance of the 1996-97-98 LTIP payout will be made as deferred cash compensation, as individually elected by the participants. The total payout, valued at \$6,359, has been accrued over the three years of the plan.

In addition, non-employee members of the Board of Directors have been given the opportunity to receive all or a portion of their fees in the form of restricted stock. These shares vest ratably, on an annual basis, over the term of office of the director. In 1998, 1997 and 1996, 4,558, 9,923 and 3,243 shares were issued, respectively, in lieu of directors' fees.

**Non-employee Directors' Stock Options** — In August 1996, the Company adopted a stock option plan for non-employee directors to purchase shares of common stock at a price not less than 100 percent of the fair market value of the stock on the dates options are granted. All outstanding options are exercisable one year after the date of grant and expire no more than ten years after grant.

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

	Shares Subject To Options	Average Option Price Per Share
Outstanding June 30, 1997	14,250	\$ 24.85
Granted	8,250	42.96
Exercised	(1,500)	24.67
Outstanding June 30, 1998	21,000	\$ 31.97

As of June 30, 1998, 12,750 options were exercisable and 352,500 shares were available for grant.

At June 30, 1998, the Company had 7,344,328 common shares reserved for issuance in connection with its stock incentive plans.

## 11. Shareholders' Protection Rights Agreement

The Board of Directors of the Company declared a dividend of one Right for each share of Common Stock outstanding on February 17, 1997 in relation to the Company's Shareholder Protection Rights Agreement. As of June 30, 1998, 109,873,263 shares of Common Stock were reserved for issuance under this Agreement. Under certain conditions involving acquisition of or an offer for 15 percent or more of the Company's Common Stock, all holders of Rights, except an acquiring entity, would be entitled to purchase, at an exercise price of \$100, a value of \$200 of Common Stock of the Company or an acquiring entity, or at the option of the Board, to exchange each Right for one share of Common Stock. The Rights remain in existence until February 17, 2007, unless earlier redeemed (at one cent per Right), exercised or exchanged under the terms of the agreement. In the event of an unfriendly business combination attempt, the Rights will cause substantial dilution to the person attempting the merger. The Rights should not interfere with any business combination that is in the best interest of the Company and its shareholders since the Rights may be redeemed.

## 12. Foreign Operations

The Company's major foreign operations are located in Germany, the United Kingdom, France, Sweden, and Italy. Their business activities are conducted principally in their local currency. Net transaction and translation adjustments reduced Net income in 1998 and 1997 by \$2,284 and \$1,267, respectively, and increased Net income in 1996 by \$873.

Net sales, Income before income taxes and Net income include the following amounts from foreign operations:

	1998	1997	1996
Net sales	\$ 1,340,080	\$ 1,234,669	\$ 1,085,676
Income before income taxes	101,307	85,234	70,118
Net income	57,651	50,067	42,563

Net assets of foreign operations at June 30, 1998 and 1997 amounted to \$806,596 and \$734,820, respectively.

Accumulated undistributed earnings of foreign operations reinvested in their operations amounted to \$153,831, \$121,871 and \$103,059, at June 30, 1998, 1997 and 1996, respectively.

## 13. Research and Development

Research and development costs amounted to \$83,117 in 1998, \$103,155 in 1997, and \$91,706 in 1996. Customer reimbursements included in the total cost for each of the respective years were \$15,753, \$35,986 and \$33,018. Costs include those costs related to independent research and development as well as customer reimbursed and unreimbursed development programs.

## 14. Contingencies

The Company is involved in various litigation arising in the normal course of business, including proceedings based on product liability claims, workers' compensation claims and alleged violations of various environmental laws. The Company is self-insured in the U.S. for health care, workers' compensation, general liability and product liability up to predetermined amounts, above which third party insurance applies. The Company purchases third party product liability insurance for products manufactured by its international operations and for products that are used in aerospace applications. Management regularly reviews the probable outcome of these proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and the established accruals for uninsured liabilities. While the outcome of pending proceedings cannot be predicted with certainty, management believes that any liabilities that may result from these proceedings are not reasonably likely to have a material effect on the Company's liquidity, financial condition or results of operations.

**Environmental** — The Company is currently involved in environmental remediation at 19 manufacturing facilities presently or formerly operated by the Company and has been named as a "potentially responsible party", along with other companies, at 11 off-site waste disposal facilities.

As of June 30, 1998, the Company has a reserve of \$8,640 for environmental matters which are probable and reasonably estimable. This reserve is recorded based upon the best estimate of net 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, the amount of the Company's liability in proportion to other responsible parties and any recoveries receivable. This reserve is net of \$555 for discounting, at a 7.5% annual rate, a portion of the costs at 7 locations for established treatment procedures required over periods ranging from 3 to 16 years. The Company also has an account receivable of \$490 for anticipated insurance recoveries.

The Company's estimated total liability for the above mentioned sites ranges from a minimum of \$8,226 to a maximum of \$20,610. The actual costs to be incurred by the Company will be dependent on final delineation of contamination, final determination of remedial action required, negotiations with federal and state agencies with respect to cleanup levels, changes in regulatory requirements, innovations in investigatory and remedial technology, effectiveness of remedial technologies employed, the ultimate ability to pay of the other responsible parties, and any insurance recoveries.

## Eleven-Year Financial Summary

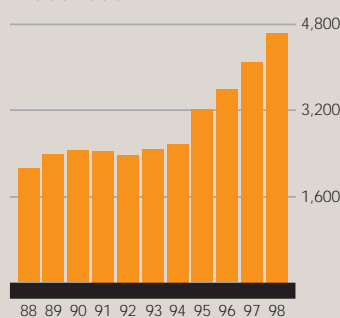
(Amounts in thousands, except per share information)	1998 <sup>(a)</sup>	1997	1996
Net sales	\$ 4,633,023	\$ 4,091,081	\$ 3,586,448
Cost of sales	3,550,992	3,152,988	2,756,343
Selling, general and administrative expenses	532,134	475,180	425,449
Non-recurring charges – Restructuring & Asset impairment			
Interest expense	52,787	46,659	36,667
Income taxes	180,762	150,828	134,812
Income - continuing operations	323,226	274,039	239,667
Net income	319,551	274,039	239,667
Basic earnings per share – continuing operations	2.91	2.46	2.15
Diluted earnings per share – continuing operations	2.88	2.44	2.14
Basic earnings per share	2.88	2.46	2.15
Diluted earnings per share	\$ 2.85	\$ 2.44	\$ 2.14
Average number of shares outstanding – Basic	110,869	111,602	111,261
Average number of shares outstanding – Diluted	111,959	112,518	112,189
Cash dividends per share	\$ .600	\$ .506	\$ .480
Net income as a percent of net sales	6.9%	6.7%	6.7%
Return on average assets	9.8%	9.3%	9.2%
Return on average equity	19.8%	18.7%	18.6%
Book value per share	\$ 15.32	\$ 13.87	\$ 12.42
Working capital	\$ 791,305	\$ 783,550	\$ 635,242
Ratio of current assets to current liabilities	1.8	2.1	1.8
Plant and equipment, net	\$ 1,135,225	\$ 1,020,743	\$ 991,777
Total assets	3,524,821	2,998,946	2,887,124
Long-term debt	512,943	432,885	439,797
Shareholders' equity	\$ 1,683,450	\$ 1,547,301	\$ 1,383,958
Debt to debt-equity percent	31.6%	24.5%	30.7%
Depreciation	\$ 153,633	\$ 146,253	\$ 126,544
Capital expenditures	\$ 236,945	\$ 189,201	\$ 201,693
Number of employees	39,873	34,927	33,289
Number of shareholders	44,250	43,014	35,403
Number of shares outstanding at year-end	109,873	111,527	111,438

(a) Includes an extraordinary item for the early retirement of debt.

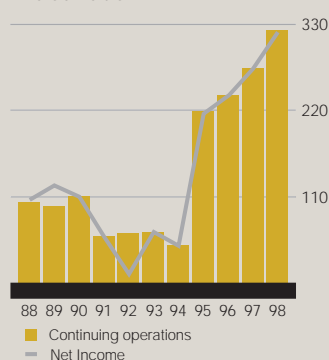
(b) Includes the cumulative effect of changes in accounting principles for SFAS No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions and SFAS No. 109, Accounting for Income Taxes.

(c) Includes the cumulative effect of changes in accounting principles for Overhead Recorded in Inventory and Accounting for Long-Term Research and Development Contracts.

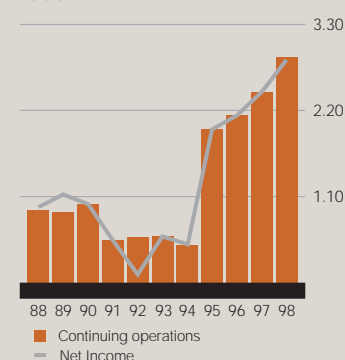
Net Sales  
Millions of Dollars



Net Income  
Millions of Dollars



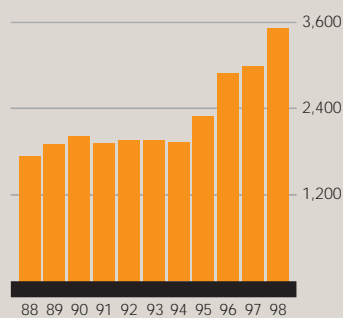
Diluted Earnings Per Share  
Dollars



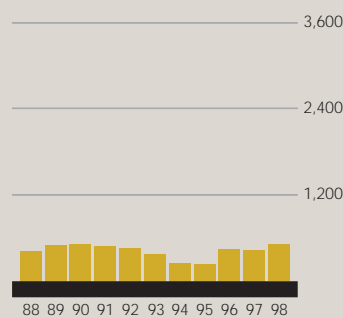


1995	1994 <sup>(a)</sup>	1993	1992 <sup>(b)</sup>	1991	1990 <sup>(a)</sup>	1989 <sup>(c)</sup>	1988
\$ 3,214,370	\$ 2,576,337	\$ 2,489,323	\$ 2,375,808	\$ 2,440,815	\$ 2,452,568	\$ 2,381,789	\$ 2,121,792
2,448,264	2,053,376	2,004,955	1,925,800	1,977,381	1,927,119	1,885,804	1,655,527
384,581	302,668	310,765	282,861	289,535	282,811	279,401	269,501
	54,256	22,879	14,798	14,350		5,535	
30,922	37,832	47,056	52,190	59,369	62,139	53,148	38,985
130,169	60,274	43,010	41,912	44,300	72,827	65,297	55,633
218,238	52,175	65,056	63,479	59,168	110,447	98,347	103,377
218,238	47,652	65,056	11,218	59,168	111,479	124,475	106,539
1.97	.48	.60	.58	.54	1.00	.90	.95
1.96	.48	.59	.58	.54	1.00	.90	.93
1.97	.43	.60	.10	.54	1.01	1.13	.98
\$ 1.96	\$ .43	\$ .59	\$ .10	\$ .54	\$ 1.01	\$ 1.13	\$ .96
110,576	109,661	109,064	108,644	108,632	109,973	109,742	109,193
111,149	110,270	109,379	108,995	109,188	110,799	110,669	110,507
\$ .453	\$ .436	\$ .427	\$ .413	\$ .409	\$ .391	\$ .373	\$ .364
6.8%	1.8%	2.6%	0.5%	2.4%	4.5%	5.2%	5.0%
10.3%	2.5%	3.3%	0.6%	3.0%	5.7%	6.8%	6.6%
20.2%	5.0%	7.0%	1.2%	6.3%	12.5%	14.8%	13.3%
\$ 10.73	\$ 8.78	\$ 8.53	\$ 8.58	\$ 8.70	\$ 8.53	\$ 7.65	\$ 7.72
\$ 593,761	\$ 526,864	\$ 588,189	\$ 672,173	\$ 649,474	\$ 675,818	\$ 630,419	\$ 539,714
1.9	2.0	2.3	2.8	2.8	2.5	2.3	2.3
\$ 815,771	\$ 717,300	\$ 736,056	\$ 752,490	\$ 757,937	\$ 752,668	\$ 710,408	\$ 661,645
2,302,209	1,925,744	1,963,590	1,958,120	1,920,697	2,020,157	1,906,623	1,740,470
237,157	257,259	378,476	446,974	476,586	511,681	494,469	405,779
\$ 1,191,514	\$ 966,351	\$ 932,900	\$ 934,019	\$ 943,475	\$ 938,404	\$ 840,522	\$ 845,741
21.9%	22.7%	33.3%	34.0%	35.4%	39.2%	42.3%	36.7%
\$ 110,527	\$ 106,546	\$ 109,673	\$ 102,628	\$ 98,919	\$ 92,286	\$ 86,829	\$ 76,669
\$ 151,963	\$ 99,914	\$ 91,484	\$ 84,955	\$ 112,047	\$ 125,680	\$ 149,414	\$ 119,494
30,590	26,730	25,646	26,669	27,793	30,408	31,627	31,462
35,629	29,625	30,414	30,836	32,812	34,976	32,156	31,250
111,003	110,115	109,352	108,920	108,461	110,066	109,872	109,607

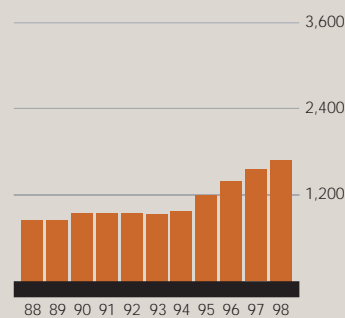
Total Assets  
Millions of Dollars



Long-Term Debt  
Millions of Dollars



Shareholders' Equity  
Millions of Dollars



# Directors and Management

## Board of Directors

### Chairman of the Board

**Patrick S. Parker**  
Chairman of the Board,  
Parker Hannifin Corporation  
Age: 68  
*Director since 1960*  
*Chairman since 1977*

### Directors

**John G. Breen**  
Chairman, Chief Executive  
Officer and Director, Sherwin-  
Williams Company (paints  
and coatings)  
Age: 64  
*Director since 1980*

**Duane E. Collins**  
President and Chief  
Executive Officer, Parker  
Hannifin Corporation  
Age: 62  
*Director since 1992*

**Paul C. Ely, Jr.**  
Former General Partner,  
Alpha Partners (retired)  
(venture capital seed financing)  
Age: 66  
*Director since 1984*

**Allen H. Ford**  
Consultant, former Senior  
Vice President - Finance and  
Administration, The Standard  
Oil Company (Ohio)  
(diversified natural resources  
company)  
Age: 70  
*Director since 1975*

**Dr. Peter W. Likins**  
President, University of Arizona  
Age: 62  
*Director since 1989*

**Hector R. Ortino**  
President and Chief Operating  
Officer, Ferro Corporation  
(manufacturer of specialty  
materials)  
Age: 56  
*Director since 1997*

**Allan L. Rayfield**  
Former President and Chief  
Executive Officer and Director  
(Retired), M/A-COM, Inc.  
(microwave manufacturing)  
Age: 63  
*Director since 1984*

**Paul G. Schloemer**  
Retired President and  
Chief Executive Officer,  
Parker Hannifin Corporation  
Age: 70  
*Director since 1982*

**Wolfgang R. Schmitt**  
Chairman and Chief Executive  
Officer, Rubbermaid Incorporated  
(manufacturer of rubber  
and plastic products)  
Age: 54  
*Director since 1992*

**Debra L. Starnes**  
Senior Vice President,  
Petrochemicals, Lyondell  
Petrochemical Company  
(petrochemical production)  
Age: 45  
*Director since 1997*

**Stephanie A. Streeter**  
Group Vice President, Avery  
Dennison Worldwide Office  
Products (office products)  
Age: 41  
*Director since 1996*

**Dennis W. Sullivan**  
Executive Vice President,  
Parker Hannifin Corporation  
Age: 59  
*Director since 1983*

**Michael A. Treschow**  
President and Chief Executive  
Officer, AB Electrolux  
(electrical appliances)  
Age: 55  
*Director since 1996*

## Corporate Management

### Office of the President

**Duane E. Collins**  
President and Chief  
Executive Officer  
Age: 62  
*Years of Parker service: 37*

**Dennis W. Sullivan**  
Executive Vice President  
Age: 59  
*Years of Parker service: 38*

**Lawrence M. Zeno**  
Vice President  
Age: 56  
*Years of Parker service: 32*

### Corporate Officers

**Stephen L. Hayes**  
Vice President  
Age: 57  
*Years of Parker service: 25*

**Lawrence J. Hopcraft**  
Vice President  
Age: 55  
*Years of Parker service: 25*

**Jack D. Myslenski**  
Vice President  
Age: 47  
*Years of Parker service: 25*

**John K. Oelslager**  
Vice President  
Age: 55  
*Years of Parker service: 31*

**Nickolas W. Vande Steeg**  
Vice President  
Age: 55  
*Years of Parker service: 26*

**Donald E. Washkewicz**  
Vice President  
Age: 48  
*Years of Parker service: 26*

**Michael J. Hiemstra**  
Vice President - Finance  
and Administration and  
Chief Financial Officer  
Age: 51  
*Years of Parker service: 11*

**Paul L. Carson**  
Vice President - Information  
Services  
Age: 62  
*Years of Parker service: 36*

**Daniel T. Garey**  
Vice President - Human  
Resources  
Age: 55  
*Years of Parker service: 26*

**Harold C. Gueritey, Jr.**  
Controller  
Age: 59  
*Years of Parker service: 18*

**Thomas A. Piraino, Jr.**  
Vice President, General  
Counsel and Secretary  
Age: 49  
*Years of Parker service: 17*

**Timothy K. Pistell**  
Treasurer  
Age: 51  
*Years of Parker service: 29*

**William D. Wilkerson**  
Vice President - Technical  
Director  
Age: 62  
*Years of Parker service: 37*

### Committees of the Board

#### Audit

H. R. Ortino, Chairman  
A. H. Ford  
P. W. Likins  
A. L. Rayfield  
S. A. Streeter  
M. A. Treschow

#### Compensation and Management Development

J. G. Breen, Chairman  
P. W. Likins  
A. L. Rayfield  
W. R. Schmitt  
D. L. Starnes

#### Nominating

P. W. Likins,  
Chairman  
J. G. Breen  
P. C. Ely, Jr.  
A. H. Ford  
H. R. Ortino  
A. L. Rayfield  
P. G. Schloemer  
W. R. Schmitt  
D. L. Starnes  
S. A. Streeter  
M. A. Treschow

#### Retirement Planning

P. C. Ely, Jr.,  
Chairman  
J. G. Breen  
A. H. Ford  
D. L. Starnes

### With Appreciation ...

The Board of Directors and Management of Parker Hannifin express their gratitude for the services of two retiring executives who have made important contributions to the Company.

Frank A. LePage, former Director and Executive Vice President (retired) of the Firestone Tire and Rubber Company, served on the Parker Board of Directors for the past 20 years. His counsel was most valuable during a period of rapid expansion and globalization of the Corporation.

Joseph D. Whiteman, Vice President, General Counsel and Secretary of the Corporation retired following a 21-year career with the Company. Mr. Whiteman made valuable contributions to Parker's growth through his insightful counsel and leadership.



Frank A. LePage



Joseph D. Whiteman

# Corporate Information

## Operating Group

### Aerospace

Parker Hannifin Corporation  
18321 Jamboree Road  
Irvine, California 92612  
Telephone (949) 833-3000

### Automation

Parker Hannifin Corporation  
6035 Parkland Blvd.  
Cleveland, Ohio 44124-4141  
Telephone (216) 896-3000

### European Operations

Parker Hannifin plc  
Walkmill Lane  
Bridgtown, Cannock, Staffs  
WS1 13LR England  
Telephone (011) (44) (1543) 456000

### Climate & Industrial Controls

Parker Hannifin Corporation  
6035 Parkland Blvd.  
Cleveland, Ohio 44124-4141  
Telephone (216) 896-3000

### Filtration

Parker Hannifin Corporation  
6035 Parkland Blvd.  
Cleveland, Ohio 44124-4141  
Telephone (216) 896-3000

### Fluid Connectors

Parker Hannifin Corporation  
6035 Parkland Blvd.  
Cleveland, Ohio 44124-4141  
Telephone (216) 896-3000

### European Operations

Parker Hannifin Corporation  
Parker House  
55 Maylands Avenue  
Hemel Hempstead  
Herts, HP2 4SJ England  
Telephone (011) (44) (1442) 238100

## Group President

Stephen L. Hayes

John K. Oelslager

Christopher S. H. Wilkins

Lawrence J. Hopcraft

Mark W. Walters

Jack D. Myslenski

Philip B. Stamp

## Operating Group

### Hydraulics

Parker Hannifin Corporation  
6035 Parkland Blvd.  
Cleveland, Ohio 44124-4141  
Telephone (216) 896-3000

### European Operations

Parker Hannifin Corporation  
Parker House  
55 Maylands Avenue  
Hemel Hempstead  
Herts, HP2 4SJ England  
Telephone (011) (44) (1442) 238100

### Instrumentation

Parker Hannifin Corporation  
6035 Parkland Blvd.  
Cleveland, Ohio 44124-4141  
Telephone (216) 896-3000

### Seal Group

Parker Hannifin Corporation  
18321 Jamboree Road  
Irvine, California 92612  
Telephone (949) 833-3000

### European Operations

Parker Hannifin GmbH  
Postfach 1641  
D-74306 Bietigheim-Bissingen  
Germany  
Telephone (011) (49) (7142) 3510

### Asia Pacific Group

Parker Hannifin Hong Kong Ltd.  
Unit A, 10th Floor  
1-3 Wing Yip Street, Kwai Chung  
New Territory, Hong Kong  
Telephone (011) (852) 2 428-8008

### Latin American Group

Parker Hannifin Corporation  
6035 Parkland Blvd.  
Cleveland, Ohio 44124-4141  
Telephone (216) 896-3000

## Group President

Donald E. Washkewicz

Edward R. Hall

Thomas W. Mackie

Nickolas W. Vande Steeg

Kurt Müller

Joseph J. Vicic

Lynn M. Cortright

## Analyst Contact:

Timothy K. Pistell  
Treasurer  
(216) 896-2130

## News Media Contact:

Devere E. Logan  
Director - Public Relations  
(216) 896-2752

## Certified Public

Accountants:  
PricewaterhouseCoopers LLP  
Cleveland

## Transfer Agent & Registrar:

Wachovia Bank, N.A.  
Shareholder Services  
P.O. Box 8217  
Boston, MA 02266-8217  
(800) 633-4236

## Form 10-K

Shareholders may request a free copy of the Company'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.

## Annual Meeting

The 1998 Annual Meeting of Shareholders will be held on Wednesday, October 28, 1998, at Parker Hannifin Corporate Headquarters, 6035 Parkland Blvd., Mayfield Heights, Ohio 44124-4141, at 9:00 a.m. Eastern Standard Time. Telephone (216) 896-2704.

## Dividend Reinvestment Plan

Parker Hannifin provides a Dividend Reinvestment Plan for its shareholders. Under the Plan, Parker pays all bank service charges and brokerage commissions. Supplemental cash payments are also an option. For information, contact: Wachovia Shareholder Services, P.O. Box 8218, Boston, MA 02266-8218. Phone: (800) 633-4236.

## Ethical Conduct

Observing high ethical standards has contributed to Parker Hannifin's reputation for excellence. The Company Code of Ethics requires compliance with all relevant laws, while acting with honesty, fairness and integrity. Parker is committed to meeting its ethical obligations to customers and suppliers, fellow employees, shareholders and the public.

## Equal Opportunity

Parker Hannifin Corporation is an Equal Opportunity/Affirmative Action Employer. We firmly believe that the dedicated talents of Parker's diverse worldwide employees represent our most important resource. Parker realizes that this EEO and Affirmative Action philosophy is essential to the continued growth and development of the Corporation.

## Product Information

Parker Hannifin's North American and European customers seeking product information, the location of a nearby distributor or repair services will receive prompt attention by calling the Parker Product Information Center at our toll-free numbers: in North America, 1-800-C-PARKER (1-800-272-7537); in Europe, 00800-C-PARKER-H (00800-2727-5374).

## Parker Hannifin Corporation

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6035 Parkland Blvd.  
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Web site: [www.parker.com](http://www.parker.com)