



**PEOPLE  
PLANET  
PRODUCTS**



Sustainability  
Report 2015



# About Parker

Parker can be found on and around everything that moves, providing precision-engineered solutions for a wide variety of mobile, industrial and aerospace markets. With annual sales of approximately \$13 billion in fiscal year 2015, Parker is the world's leading diversified manufacturer of motion and control technologies and systems.

By applying its engineering expertise and broad range of core technologies, Parker partners with its customers to improve their productivity and profitability, while helping to solve the world's greatest engineering challenges.

## CONTACT US

Parker welcomes comments and questions about its sustainability efforts by email: [parkerEHS@parker.com](mailto:parkerEHS@parker.com)

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## ABOUT THIS REPORT

The information in this report addresses how Parker is applying its core technologies to make a positive impact on the world. All data corresponds to Parker's fiscal year 2015 (July 1, 2014 through June 30, 2015) unless otherwise noted. The previous report corresponded to Parker's fiscal year 2014. Parker's intention is to report on an annual basis.

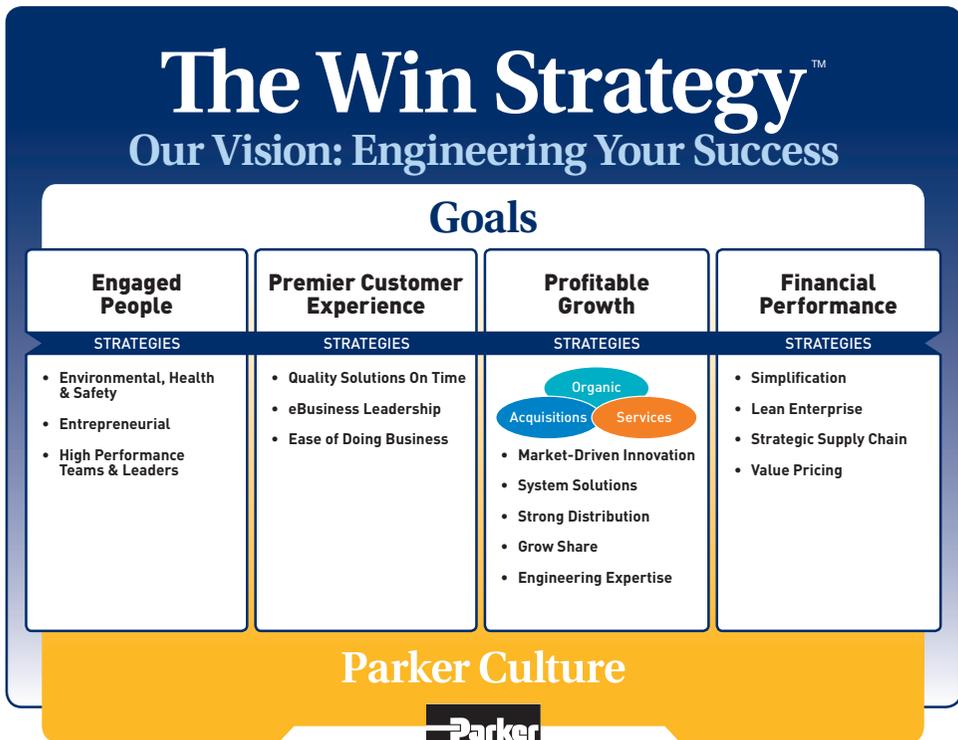
## REPORT SCOPE

The data provided in this document reflects Parker's global manufacturing operations in which Parker has a 50% controlling interest or majority ownership. It also includes employees in those operations and the associated headquarters and distribution centers under Parker ownership. The scope does not include Parker suppliers, customers, distributors, contractors or minority-owned joint ventures.

# Financial Highlights

For the Year Ended June 30 (*dollars in thousands, except per share data*)

	2015
Net sales	\$12,711,744
Gross profit	3,056,499
Net income attributable to common shareholders	1,012,140
Net cash provided by operating activities	1,301,941
Diluted earnings per share	\$ 6.97
Number of employees	54,754



## THE WIN STRATEGY

Introduced in 2001 and recently refreshed under new leadership, the Win Strategy™ is the Parker business system. It focuses on long-established Parker goals of engaged people, premier customer experience, profitable growth and financial performance, and will continue to be instrumental in transforming the company and improving operations.

# Leadership Message

This year marked the introduction of the new Win Strategy, an update to the Parker business system which has been instrumental in transforming the company's operations and optimizing performance since it was first introduced in 2001.

In developing the new Win Strategy, with valuable input from many Parker stakeholders and team members, we had an opportunity to redefine what it will take for Parker to be successful in a rapidly changing global business environment. In addition to strategies for growing the business and achieving strong financial performance, the new Win Strategy reinforces our commitment to responsible operations. It reflects Parker's determination to create a positive impact in the lives of our team members, to always be good stewards of the environment and to support the communities around the world which we call home.

Our approach prioritizes safety, because nothing is more important than making sure every Parker team member returns home safely after each work day. We are now more focused than ever on establishing a safety-first culture and achieving our goal of zero accidents. While this may seem an ambitious target considering Parker's size and scope, our accident rate continues to decline year after year. Parker leaders and team members around the world are highly engaged in improving our safety performance, and our near-term goal is to reduce workplace accidents by 50%. However, we will continue to study best-in-class safety practices, optimize our equipment and operations and diligently train our team members in pursuit of an accident-free workplace.

With hundreds of manufacturing facilities around the world, Parker must also play a role in proper environmental stewardship and we are

in a unique position to lead by example with our sustainability efforts. With guidance from corporate sustainability leaders, Parker is developing and implementing creative initiatives to reduce energy consumption and water use, and to minimize waste sent to landfills by reusing or recycling materials. We accomplish this in part through a series of distinctive programs designed by team members to address local sustainability goals. Their efforts are not only placing Parker on a path to reach our sustainability goals, but also are making us more efficient, and the results have been remarkable. Today Parker recycles 82% of the waste generated from our manufacturing operations. We are targeting an additional 20% reduction of waste sent to landfills by 2020.

Parker engineers are continuing to leverage innovative technologies to advance the way our products are made and how they operate.



Without sacrificing performance, they are creating components and systems that are lighter and more compact, and designed to operate with unmatched efficiency. Exciting new sensor capabilities fueling the Internet of Things (IoT) provide critical data that will enable us to help customers to streamline maintenance and minimize equipment downtime. The benefits of such rapidly advancing technologies are being

seamlessly integrated into Parker's proven products and systems. We are constantly improving our ability to help our customers increase their productivity and profitability, while at the same time minimizing their environmental impact.

With the introduction of the new Win Strategy, this year Parker has not only reestablished the strategies the company will employ to achieve its

financial performance goals, but strengthened our commitment to social responsibility and environmental stewardship. Throughout this report you will see examples of what Parker team members are doing to improve safety, conserve resources and support their local communities, and learn about our long-term plan to help make the world a better place.

**Thomas L. Williams**  
Chairman and Chief Executive Officer

**Lee C. Banks**  
President and Chief Operating Officer

March 2016

# Sustainability

The fundamental elements of a sustainable business have been in place throughout Parker's history. For nearly a century the company has strived to develop products that help customers increase productivity, and to create a positive impact on employees and in local communities. These ambitions have always been central to Parker's identity.

To align and reinforce efforts across its global operations, Parker recently defined its sustainability commitment as:

To responsibly solve the world's greatest engineering challenges to foster enduring success for the company, customers and communities.

## PEOPLE

Parker views sustainability through a human lens, and measures the success of its sustainability efforts by the company's impact on the lives of people it reaches.

Creating a safety-first work environment in pursuit of zero accidents;

engaging employees and helping them thrive in their personal and professional lives; strengthening local communities and supporting organizations that make the world a better place. These opportunities to make a difference inspire Parker to be better every day.

## PLANET

As a global manufacturer Parker must also act responsibly with the planet's natural resources. By using eco-friendly materials, minimizing waste and reducing the consumption of resources such as energy and water, Parker is actively minimizing its environmental footprint.





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## **PRODUCTS**

Used in countless applications by a diverse range of partners, Parker's products and systems offer an immense opportunity for the company to fulfill its commitment to sustainability. Using sustainable materials in manufacturing, improving operating efficiency and engineering products that can be reused or recycled are all approaches Parker is taking to help preserve the planet.

# Earth Day Challenge

In celebration of the 45th anniversary of Earth Day, Parker challenged all employees to work together to reduce energy and water use, establish recycling programs and initiate other projects to help minimize the company's environmental footprint. Demonstrating the collective power of many individual efforts, this year Parker employees around the world responded overwhelmingly to the Earth Day Challenge by:

Decreasing water consumption by  
**21.5**  
**MILLION GALLONS**

Preventing more than  
**6 TONS OF WASTE**  
from reaching landfills

Reducing energy use by  
**12 MILLION kWh**

## POTENTIAL RISKS AND BOUNDARIES

Parker must address a number of risks related to the manufacture, sale and application of its products. The transition away from a carbon-based economy could impact demand for Parker's products, and scarcity of raw materials such as metals and organic compounds could interfere with the company's ability to deliver those products. Parker also assumes the operational risk of a disruption to

manufacturing due to the inability of supply chain partners, or even the company itself, to meet environmental or social standards. Failure to meet the expectations of stakeholders related to environmental and social accountability also creates a long-term risk for the company.

The boundary condition of these risks varies based on the area of focus. For the People initiative of its sustainability strategy, Parker's boundary condition encompasses its employees, partners

and the communities around the world in which the company operates. The boundary condition of the Planet initiative is largely the company's manufacturing footprint, with additional focus on select areas of the supply chain. Lastly, the Product initiative focuses primarily on internal innovation, but the boundary condition also extends to the customer and target markets.

## **STAKEHOLDER ENGAGEMENT**

With a focus on continuous improvement, Parker engages a number of stakeholders to help strengthen the strategies in place to reach its sustainability objectives.

Parker receives valuable input through direct feedback from: its marketing and sales teams; suppliers on their compliance with Parker's sustainability requirements through the company's supply chain web portal; the Parker leadership team; and ratings from the investor community. Parker also analyzes information from benchmarking efforts within its diversified industrial peer group.

## **SUPPLIER PARTNERSHIPS**

Parker partners with world-class suppliers which share its commitment to reducing resource consumption and waste, while maintaining the highest standards for premier customer experience, quality and on-time delivery. With an annual supplier spend exceeding



\$6 billion, continuing to improve the supply chain in these areas of focus presents a compelling opportunity for Parker to reduce its global footprint and improve the resilience of its suppliers.

As a supplier itself, Parker is also responsible for conserving resources, optimizing manufacturing processes, upholding human rights and creating highly efficient and reliable products and systems which enable customers to minimize their own environmental impact.

# Governance, Ethics & Compliance

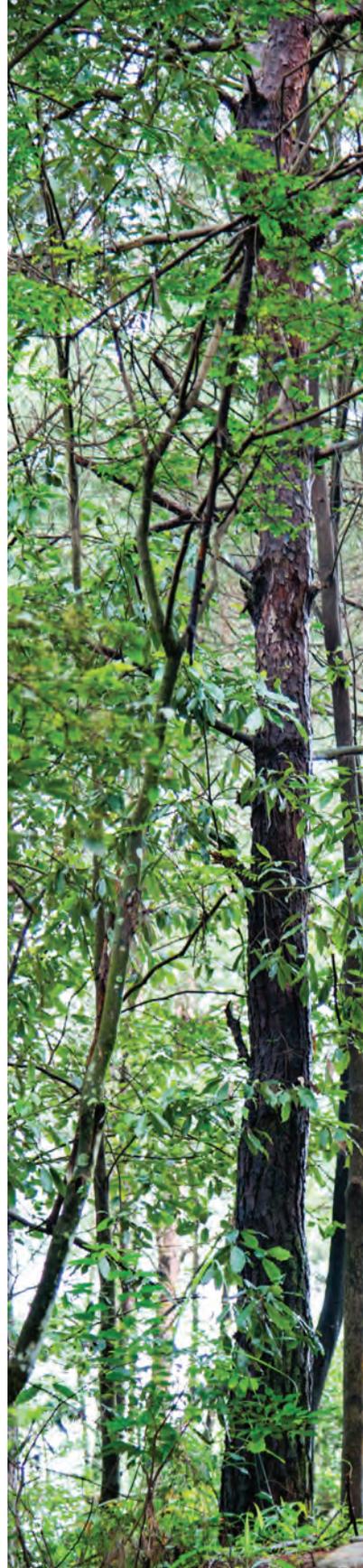
In a complex and unpredictable global market, Parker's success can be attributed to its ability to constantly adapt to meet the needs of its customers. Parker's values, however, are unchanging. They serve as the core beliefs which Parker employees use to define ethical behavior, and provide a clear and unwavering guide to conducting business with integrity and respect.

Parker is a values-driven company and encourages employees to navigate both their lives and careers with a strong sense of purpose. It is the Parker culture and values, more than any strategy or measure that will determine the company's success in the future.

## **CORPORATE GOVERNANCE**

The strong values and culture upon which Parker has built its success and reputation as a trusted partner begins with its Board of Directors. The Board has a responsibility to represent stakeholders in overseeing the

business strategy and governance matters of the company. Eleven of Parker's 14 directors are "independent" based on the applicable independence standards of the New York Stock Exchange and Parker's Independence Standards for Directors. Each director must stand for election annually. Parker's Board of Directors is guided by the company's Global Code of Business Conduct, corporate governance guidelines and charters for each board committee, available at [www.phstock.com/corporategovernance](http://www.phstock.com/corporategovernance).





Parker is a values-driven company and encourages employees to navigate both their lives and careers with a strong sense of purpose.

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## WINNING WITH INTEGRITY

Creating and sustaining a strong internal culture is key to growth. Throughout its history, Parker has recognized the link between maintaining a culture which emphasizes honesty, integrity and respect, and achieving strong financial performance and customer satisfaction.

Parker's culture is a unique competitive advantage and to preserve it, the company takes a strength-based approach to culture and leadership known as Winning With Integrity. This approach draws out the very best qualities of Parker's diverse employees and enables them to grow, which in turn helps grow the business.

Winning With Integrity principles and methods are founded on a simple idea: employees who have the opportunity to do what they do best each day are more engaged, productive and fulfilled by their contributions at work.

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“Our strength-based approach to culture and leadership builds on our already strong culture and contributes to long-term sustainable growth. Focusing on what people do well increases engagement and positively impacts leading indicators such as customer engagement, improved morale and discretionary effort.”

– *Catherine A. Suever,  
Vice President and  
Controller*



## **CORPORATE COMPLIANCE**

Parker's compliance structure and programs are regularly adapted to enable employees around the world to always do what is right. Through annual compliance training, the company educates employees on conflicts of interests, the giving and receiving of gifts, third-party relationships and other

issues which reflect the modern challenges of the global business environment.

Parker's Global Code of Business Conduct is also an integral part of onboarding education for those who join Parker. The Code is available online at [www.parker.com/integrityandethics](http://www.parker.com/integrityandethics).

Following nearly a century of doing business, Parker's reputation as a trusted partner is stronger than ever due to the employees who embrace the responsibility to preserve it. The Integrity Line is available to all Parker stakeholders to report any behavior that is misaligned with the company's values, and all reports are investigated lawfully and confidentially.

# People

By creating a culture in which individual perspectives are embraced and where the safety of every person is prioritized above all else, Parker has attracted some of the most driven and talented individuals from around the world.

Encouraging flexibility, autonomy and the ability to explore and excel, Parker strives to engage all employees in leveraging their expertise to improve their portion of the business.

In this environment Parker employees can thrive both personally and professionally, charting the course for their own success while creating a positive impact on the lives of those around them.

## SAFETY

Nothing is more important to Parker than making sure every employee returns home safely after each work day. The company is committed to ensuring the safety and security of all employees, contractors, customers and any other guests who visit a Parker facility.

All of Parker's manufacturing facilities periodically measure the performance of their safety program, comparing their progress to company-wide standards to identify areas for continuous improvement.

This year Parker's emphasis was on the following aspects of its safety program:

- Management systems, including management of change
- Robust incident investigations
- Equipment and machine safety
- Ergonomics
- Job safety analysis





Nothing is more important to Parker than making sure every employee returns home safely after each work day.

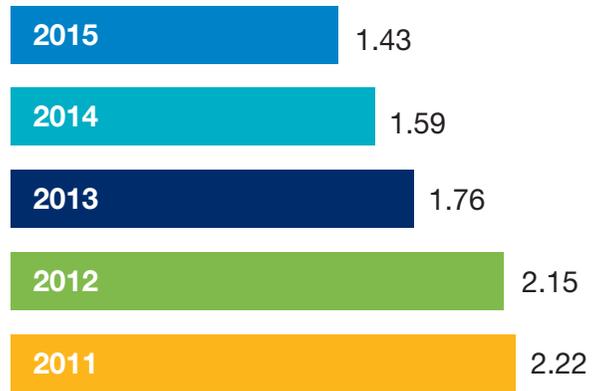
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Parker's safety performance is measured by the Recordable Accident Rate, which is the number of work-related accidents which require medical attention beyond first aid normalized to 100 employees per year. The goal is always zero accidents. In the near term, Parker is driving to reduce the number of workplace accidents by 50%.

Since 2011, Parker has achieved a 35% reduction in the Recordable Accident Rate, including a 10% improvement in 2015 during which 171 Parker facilities were accident free.

## Recordable Accident Rate

*Normalized to 100 employees per year.*



Parker deeply regrets an employee fatality which occurred at a United Kingdom facility this year. The company is cooperating with responsible authorities on an investigation and taking action to prevent such incidents in the future.

## Safety Leader

### *Pump and Motor Division Europe*

By implementing routine machine inspections and providing comprehensive safety training reinforced by ongoing communications, several safety-focused High Performance Teams across Europe helped the division to achieve an 80% reduction in the number of injuries since 2012, including a **Recordable Accident Rate of 0.5 in 2015.**

**80%**  
**REDUCTION**  
 in the number of injuries  
 since 2012



## **ENGAGED PEOPLE**

There is a direct correlation between high engagement and great performance, and Parker has accentuated the importance of employee engagement by establishing it as the first Win Strategy goal. In an environment structured to enable growth and development, Parker employees leverage their diverse knowledge and experiences to improve the company's performance.

High Performance Teams, a structured approach to team work and collaborative decision making, facilitate collaboration and engage employees in solving problems, supporting customers and growing the business.

## **GLOBAL WELLNESS PROGRAM**

Parker is committed to helping employees embrace a healthy lifestyle which includes a balanced and nutritious diet, routine exercise and the conscientious management of everyday stress.

Supported by a wellness-focused team of employees at each of its facilities, Parker's wellness program is designed to provide comprehensive educational resources, establish group exercise programs and create a supportive environment, enabling employees to take control of their health and affect positive change in their own lives.

## INCLUSION

The ability of Parker to develop innovative technologies and grow the business is dependent upon attracting talented, driven employees from diverse backgrounds, and creating a culture in which they can leverage their creativity and unique skill sets to thrive.

At the individual level, Parker is engaging employees by forming business resource groups (BRGs) for people with shared characteristics or interests. This year marked the launch of Peer W, a BRG established to support the attraction, development and retention of talented women at Parker, providing resources, networking opportunities and support for women in all roles across the organization. Peer W is a pioneering effort which, following a pilot phase in Northeast Ohio, will help to establish a framework for similar groups to be formed in other regions around the world.



### Holiday Spirit

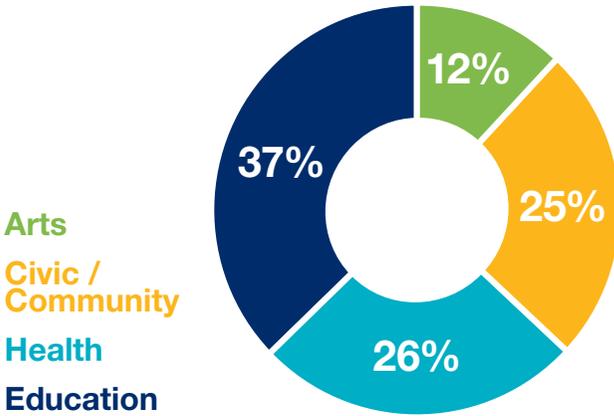
#### *O-Ring Division* Lexington, KY, USA

Determined to do their part to make the world a little brighter during the holidays, employees donated more than 6,400 pounds (2,903 kg) of food and water to a local food bank. Building on their success, they also sent packages containing magazines, fishing gear and other items to a U.S. Army platoon stationed in Kuwait to deliver a small piece of home to the soldiers' remote base.

More than

**6,400 POUNDS**  
of food and water  
**donated**  
to a local food bank

## The Parker Hannifin Foundation Focus Areas



Arts

Civic /  
Community

Health

Education

### SOCIAL RESPONSIBILITY

The practice of volunteering and charitable giving has been central to Parker's culture since the company was founded nearly a century ago. Many of Parker's manufacturing facilities are located in rural areas, and longstanding relationships with community members and local organizations are vital to the company's success.

Parker has recently established a Disaster Relief Program to provide critical support in times of need following a catastrophic event. The program is designed to rapidly distribute funds to Parker employees and their families who have been impacted by a disaster. To strengthen the recovery process throughout the affected region, Parker has also established a collaborative program with the American Red Cross through which every dollar donated by a Parker employee will be matched by the Parker Hannifin Foundation.

In addition to thousands of volunteer hours generously contributed by employees, this year the Parker Hannifin Foundation donated more than \$6 million to approximately 200 qualified charitable organizations. The Foundation strategy is focused on the needs of the communities in which Parker operates, math and science education, and water and energy conservation.



More than  
**6,000**  
bicycles  
**DONATED**  
**GLOBALLY**

### Bicycle Campaign

Ten years ago Parker employees in Northeast Ohio began donating time and money to provide bicycles to local children in need of economic assistance. In the past decade the program has spread to several Parker locations around the world through the generosity of employees, who have since donated more than 6,000 bicycles globally.

# Planet

Today Parker challenges its employees to not only discover innovative ways to solve problems for customers, but to do so in a way that minimizes the company's impact on the environment.

This commitment to responsible operations is shared across all areas of the company, from engineering and manufacturing to distribution and services. Parker's way of doing business is based in its conviction that minimizing the consumption of resources, recycling to reduce waste sent to landfills and engineering products that precisely balance performance and efficiency will help to create a better future for all.

## **ENVIRONMENTAL STEWARDSHIP**

In addition to a detailed policy with provisions to reduce resource consumption and waste, Parker has established a global network of

Environmental, Health and Safety experts and provides them with the educational materials and tools to improve the company's sustainability performance.

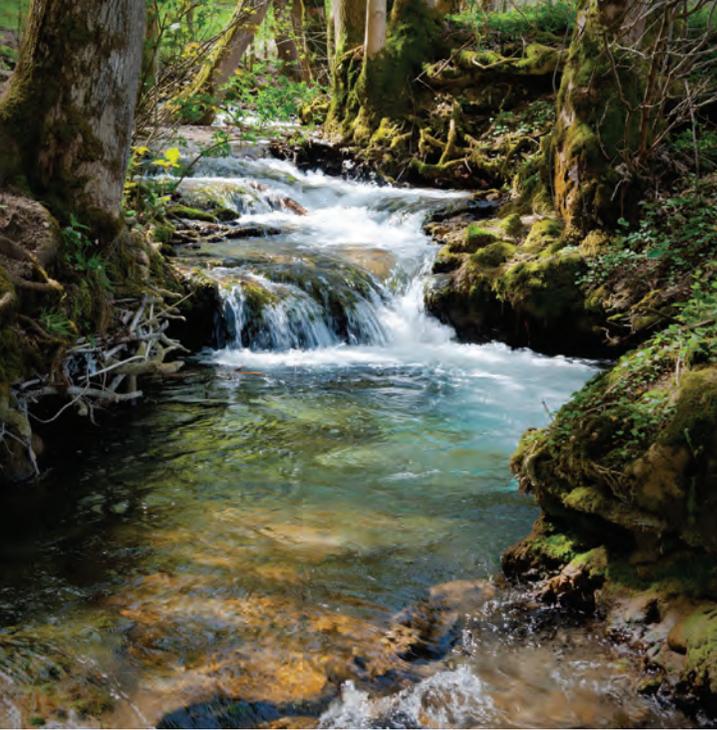
The results of their efforts have been promising. Today Parker recycles 82% of the waste generated from its manufacturing operations, and since calendar year 2010, the company has reduced the amount of water used in operations by 12%.

There are still ample opportunities to build on these achievements, and Parker is targeting an additional 20% reduction of water use, waste sent to landfills and energy use by 2020.





Today Parker recycles 82% of the waste generated from its manufacturing operations, and is targeting an additional 20% reduction of water use, waste sent to landfills and energy use by 2020.



### ***Hazardous Materials***

Across all of its manufacturing operations Parker strives to avoid using materials which could cause damage to the environment. The collective effort of operations experts at all Parker locations has enabled a 90% reduction in the use of chlorinated solvents and eliminated over 80% of other U.S. Environmental Protection Agency (EPA) target chemicals.

Parker has also largely eliminated highly hazardous substances such as cadmium and hexavalent chromium from its products and processes.

### ***Remediation***

Parker is helping to rectify past environmental impact by actively investing and engaging in the remediation of properties affected by pollution or poor chemical management practices. Many of the sites undergoing treatment were acquired, and the pollution occurred prior to Parker's ownership.

As of June 30, 2015, Parker had an accrual of \$17.0 million for environmental matters.

**REDUCED**  
manufacturing  
costs  
by more than  
**\$260,000**

### **Manufacturing Overhaul**

***Chomerics  
Division Asia  
Shanghai, China***

Chomerics Division Asia engineers a wide range of electromagnetic shielding, conductive coating and thermoplastic solutions in custom sizes and configurations based on customer needs, often resulting in material waste generated during manufacturing. By redesigning product molds and implementing a recycling program to repurpose scrap material that was previously sent to a landfill, engineers were able to minimize material waste generation and reduce manufacturing costs by more than \$260,000.

## ENERGY MANAGEMENT

Perhaps the greatest opportunity for Parker to reduce its impact on the environment is by reducing energy consumption and emissions. From optimizing manufacturing processes to modernizing facilities, Parker employees drive this initiative by implementing creative solutions to decrease energy use at the local level.

Since 2004, Parker has been able to reduce absolute energy consumption by 20% while growing sales by 83%.

As measured by indexing to sales, this represents a greater than 50% reduction in energy use and associated greenhouse gas emissions.

## Parker's Energy Use and Emissions Reduction Results

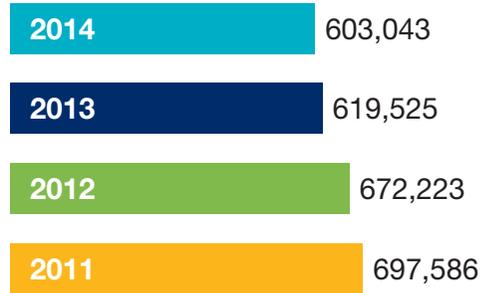
### MWh/USD

*Parker's Energy Index = Total Energy Used (MWh Equivalent)/Total Net Sales (Millions of Dollars)*



### Greenhouse Gas Emissions

*Measured in Thousand Metric Tons*



## Trash to Food

### *Fluid System Connectors Division Albion, IN, USA*

Finding a unique way to benefit both the environment and their community, employees began sorting cardboard, metal and wood skids from other trash and using the money collected from recycling these materials to support local charities. This year they reduced the amount of waste sent to the landfill by 62% and donated more than \$7,900 to a local food bank.

**REDUCED**  
amount  
of waste  
sent to landfill by  
**62%**

# Product Stewardship

Parker utilizes a unique approach to new product development called Winovation, which establishes specific deliverables at each stage of the process to ensure suitable rigor in the research and development of new technologies, products and services.

Winovation provides the framework needed to guide Parker's global product development teams toward the accomplishment of shared strategic objectives.

The Winovation process, coupled with direct customer and user interaction, allows Parker to utilize its extensive knowledge base to create new solutions that incorporate both industrial and environmental value. Examples include products that increase industrial system performance while also reducing weight,

increasing efficiency and reducing the use of scarce resources. Parker proudly counts an increasing number of projects that significantly improve sustainability among the wide range of new solutions offered to its customers.

Aligned with the company's commitment to sustainability, Parker will continue to explore new methods of advancing and quantifying the environmental benefits of its product innovation process, and partner with its customers to help solve the world's greatest engineering challenges.





Used in countless applications by a diverse range of partners, Parker's products and systems offer an immense opportunity for the company to fulfill its commitment to sustainability.

## AIR SAVER

Given its effectiveness in eliminating moisture, reducing temperature and clearing away dust or other substances, compressed air is a critical tool used in industrial and automotive manufacturing, food processing, electronics assembly, bottling and countless other applications.

Generating compressed air, however, is an energy-intensive process that can account for as much as 20% of a facility's total power consumption. In most cases, air compressors provide a



constant supply of compressed air, regardless of when and how it is being used.

Air Saver is a switching valve technology that, when supplied a continuous stream of compressed air, generates pulsed air blow that is only "on" when air is required by the operator. By stemming the supply

in between periods of active use, Air Saver reduces air consumption by 50%.

By cutting compressed air use in half, Air Saver can decrease a facility's overall power consumption by up to 5%, significantly reducing emissions and operating costs.

Air Saver requires no power to operate, and installation requires no modifications to plant operations and does not interrupt production. Air Saver is a simple plug-in solution to improve efficiency, protect the environment and benefit the bottom line.

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## MODULATED TURBINE CLEARANCE CONTROL VALVE

Developing a cleaner, more efficient airplane can benefit airlines, passengers and the environment, but such advancements present a unique challenge in an industry where passenger safety and aircraft reliability are paramount, and changes to aircraft design are implemented only after careful consideration and extensive testing.

To address this challenge Parker has developed the Modulated Turbine Clearance Control Valve (MTCCV) for large civil aircraft. The MTCCV is an actuator-driven butterfly valve used in aircraft engines, which manages airflow to enable the expansion or contraction of the casing surrounding the engine.

By controlling the distance between the casing and the engine's rotating blades, known as tip clearance, the MTCCV increases the engine's efficiency.



The benefits of this performance improvement include extended service life, as well as a reduction in fuel consumption and emissions.

## FAST-FILL COMPRESSED NATURAL GAS DISPENSER

To reduce their environmental footprint and decrease fuel costs, many fleet operators are turning to natural gas as an alternative to gasoline or diesel. Natural gas provides comparable amounts of power and acceleration while producing lower levels of emissions and particulates, often at a significantly lower cost.

A heavy duty vehicle powered by natural gas, such as a refuse truck or passenger bus, produces up to 15% fewer emissions of greenhouse gases and harmful particulates than a standard diesel model.

When it comes to filling the tank, the transition to a vehicle powered by natural gas feels seamless to a driver refueling with a Parker Compressed Natural Gas (CNG) dispenser. The unit is capable of quickly refilling the empty fuel tank of a small passenger car or heavy duty truck, refuse vehicle or passenger bus. It displays traditional metrics such as the fuel quantity and cost, in addition to natural gas-specific measures of flow rate and pressure, offering



Approximately 500,000 natural gas vehicles refuel using Parker dispensers every day, a significant first step toward the future of sustainable transportation.

a familiar and convenient user experience.

Designed with safety as a top priority, the Parker CNG dispenser uses a series of protective sensors, breakaway couplings and hose

disconnects to eliminate the risk of mechanical or user malfunctions. The system is held to the highest standard of quality to prevent leakage, minimize downtime and provide consistent and reliable service.

**PH**  
**LISTED**  
**NYSE.**



The data and information presented is a compilation of information reported into the corporate office from more than 100 business units worldwide. Data is not independently validated but is internally checked for significant deviation from expected results.



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