

## **PARKER-HANNIFIN CORPORATION**

### **AUDIT COMMITTEE CHARTER**

#### **Purposes of the Committee**

The Audit Committee will assist the Board of Directors in fulfilling its oversight responsibility relating to (a) the Corporation's financial reporting principles and policies and internal audit controls and procedures; (b) the integrity of the Corporation's financial statements and audits thereof; (c) the independence qualifications and performance of the outside auditors; and (d) the Corporation's compliance with legal and regulatory requirements. The Audit Committee shall prepare the report required by the Securities and Exchange Commission rules to be included in the Corporation's annual proxy statement. The Audit Committee will also assist in other matters as may from time to time be specifically delegated to the Audit Committee by the Board.

While the Audit Committee has the powers and responsibilities set forth in this Charter, it is not the responsibility of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate or are in compliance with generally accepted accounting principles, which is the responsibility of management and the outside auditors.

#### **Composition of the Committee**

*Number.* The Audit Committee shall consist of at least three (3) members.

*Qualifications.* Each Committee member shall meet the independence and financial literacy criteria established for audit committee members under the listing standards and rules of the New York Stock Exchange and the rules and regulations of the Securities and Exchange Commission. At least one member of the Audit Committee shall satisfy the financial expertise requirements set forth in the rules and regulations of the Commission. Each Audit Committee member shall serve on no more than two (2) other audit committees of public companies.

*Appointment.* The members and the Chairman of the Audit Committee shall be appointed by the Board (based on nominations made by the Corporation's Nominating and Corporate Governance Committee). Audit Committee members shall serve at the pleasure of the Board and for such term or terms as the Board may determine. Alternate members of the Audit Committee who shall also meet the aforementioned requirements, may, from time to time, be designated by the Board of Directors to take the place of any absent member or members of the Audit Committee.

#### **Duties and Responsibilities of the Committee**

1. Outside Auditors. Select annually the outside auditors for the Corporation. The Audit Committee has the sole authority and responsibility to select, evaluate and, where appropriate, replace the outside auditors, and approve all audit engagement

- fees, terms and services. The outside auditors shall report directly to the Audit Committee.
2. Auditing Programs. Review with financial management and the outside and internal auditors the proposed auditing programs, their coordination of same, and costs for the ensuing year, including those for non-audit services by the outside auditors, and suggest changes in emphasis or scope as necessary.
  3. Non-Audit Engagements. Approve all non-audit engagements with the outside auditors, either through express prior review and approval or through the adoption of policies and procedures for engaging the outside auditors to perform non-audit services. Non-audit engagements with the outside auditors shall exclude, in any event, non-audit services prohibited by law.
  4. Relationships with Outside Auditors. Ensure the outside auditors prepare and deliver to the Audit Committee annually a formal written statement delineating all relationships between the outside auditors and the Corporation, addressing at least the matters set forth in Independence Standards Board Standard No. 1. Any disclosed relationships that may impact the objectivity and independence of the outside auditors must be discussed with the outside auditors. Recommend that the Board of Directors take appropriate action in response to the outside auditors' report to satisfy itself of the auditors' independence.
  5. Auditors' Report. Obtain from the outside auditors annually a written report describing the firm's internal quality control procedures and any material issues raised by its most recent internal quality control review or peer review or by any inquiry or investigation by governmental or professional authorities within the preceding five years with respect to any independent audits performed by the firm and any steps taken to deal with any such issues.
  6. Financial Reporting Issues. The Audit Committee must review (a) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles, and any major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in the light of material control deficiencies; (b) analyses prepared by management and/or the outside auditors setting forth significant financial reporting issues and judgments made in connection with the presentation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation; and (d) the type and presentation of information to be included in earnings press releases (paying particular attention to any use of "pro forma," or "adjusted" non-GAAP information), as well as review any financial information and earnings guidance provided to analysts and rating agencies.
  7. Annual Audited Financial Statements. Review and discuss with management and the outside auditors the annual audited financial statements, including disclosures made

- in management's discussion and analysis, and recommend to the Board of Directors whether the audited financial statements should be included in the Corporation's Report on Form 10-K. The review should also cover the development of the Financial Section of the Annual Report to Shareholders, along with an explanation of significant variances from the prior year, accounting issues and estimates and whether management sought a second opinion on a significant accounting issue.
8. Risk Management Issues. Review and discuss the Corporation's policies with respect to financial, legal, operational and other enterprise risk management issues and the steps management has taken to monitor and control these exposures (but not including hedges, derivatives, insurance coverage and costs, which shall be the responsibility of the Finance Committee).
  9. Quarterly Financial Statements. Review and discuss with management and the outside auditors the quarterly financial statements prior to the filing of its Report on Form 10-Q.
  10. Auditors' Assurance. Obtain from the outside auditors assurance that the audit was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, as amended, which sets forth certain procedures to be followed in any audit of financial statements required under the Securities Exchange Act of 1934.
  11. Policy Improvements. Review with the outside and internal auditors their recommendations for improvements to accounting, internal control, adherence to Corporation policies, maintaining independence of audit activity, and assure that appropriate action is taken in response to these recommendations.
  12. Statement of Auditing Standards. Review and discuss with the outside auditors the matters to be discussed by Statement of Auditing Standards No. 61 relating to the conduct of the audit and their opinion on the quality of the Corporation's accounting principles, as well as the quality of financial and accounting personnel and the internal audit staff, and any difficulties encountered in performing the audit and management's response, including any restrictions on the scope of activities or access to requested information, any disagreements with management and significant issues discussed with the outside auditors' national office. The Audit Committee is to decide all unresolved disagreements between management and the outside auditors regarding financial reporting.
  13. Accounting Policies. Review and discuss on a timely basis with the outside auditors the critical accounting policies and practices use, alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, and other material communications between the outside auditors and management, such as any management letter or schedule of unadjusted differences.
  14. Procedures for Complaints. Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal

- accounting controls or auditing matters, including enabling employees to submit concerns confidentially and anonymously regarding questionable accounting or auditing matters, and review management's disclosure of any frauds that involve management or other employees who have a significant role in internal control.
15. Rotation of Audit Partners. Ensure the rotation of the lead partner having primary responsibility for the audit and the reviewing audit partners of the outside auditors as required by law.
  16. Hiring Policies. Set clear policies for the Corporation's hiring of employees or former employees of the outside auditors who participated in the audit of the Corporation.
  17. Government Contracts. Receive reports, as needed, from the Corporation's Government Contracts Review Board with regard to contract compliance issues, internal or governmental audit findings, and adherence to the Defense Industry Initiatives (DII).
  18. Additional Reviews. Undertake, or cause to be undertaken, any additional reviews that it deems necessary to answer adequately any questions related to the above matters, and in such regard may retain appropriate professional consultation as desired.
  19. Reports to the Board. Report, regularly, to the full Board on the above matters.
  20. Proxy Statement. Prepare any report or other disclosures, including recommendations of the Audit Committee, required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement.

### **Meetings of the Committee**

The Committee shall meet in person or telephonically at least quarterly, or more frequently as it may determine necessary, to comply with its responsibilities as set forth herein. The Chairman of the Committee will, in consultation with the other members of the Committee and appropriate officers of the Company, be responsible for calling meetings of the Committee, establishing an agenda therefor and supervising the conduct thereof. A majority of the members of the Committee shall constitute a quorum for any meeting. In the event of a tie vote on any action to be taken during a meeting of the Committee, the vote of the Chairman will decide the issue. The Committee may also take any action permitted hereunder by unanimous written consent.

The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside legal counsel or outside auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee shall meet with the Corporation's management, internal auditors and the outside auditors periodically in private sessions to discuss any matter that the Audit Committee, management, the outside auditors or such other persons believe should be discussed privately.

### **Delegation to Subcommittee**

The Committee may, in its discretion, create subcommittees of its members and delegate to them a portion of its duties and responsibilities.

### **Resources and Authority of the Committee**

The Committee shall have the resources and authority appropriate to discharge its responsibilities, including the sole authority to retain special counsel and other experts or consultants.

### **Annual Review of Charter**

The Committee will conduct and review with the Board annually an evaluation of this Charter and recommend any changes to the Board. The Charter evaluation will be conducted by the Committee in such manner as the Committee, in its business judgment, deems appropriate.

### **Annual Performance Evaluation**

The Committee will conduct and review with the Board annually an evaluation of the Committee's performance with respect to the requirements of this Charter. This evaluation will include a list of proposed action items agreed with management for the upcoming year. The performance evaluation will be conducted by the Committee in such manner as the Committee, in its business judgment, deems appropriate.

Effective: August 16, 2006