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**Policy on Contracting with the
United States Government**

Parker Hannifin Corporation

May 2013

PD-3687



Parker Hannifin Corporation
6035 Parkland Boulevard
Cleveland, Ohio 44124-4141 USA



ENGINEERING YOUR SUCCESS.



Dear Fellow Employees:

Because of the dedication of each of you, and your predecessors, Parker has developed a reputation as a company committed to excellence in products, systems and services. Our commitment to the highest ethical standards and values has contributed, in a very direct way, to our reputation for excellence. As founder Arthur L. Parker said in 1934, "Our success is founded on fair dealing, hard work, coordination of effort, and quality of products."

The Policy on Contracting with The United States Government reflected on the following pages continues to reaffirm the basic ethical values upon which Parker has always operated. The U.S. Government has been one of Parker's largest customers. As a company, we are committed to satisfying all of the requirements contained in our contracts received directly from the U.S. Government, as well as those received from all other customers related to Government funded business. As employees, each of us has the responsibility to perform our jobs with honesty, fairness, integrity, openness, trust, and loyalty to ensure customer satisfaction. All of the specific guidelines provided within this Policy and the Global Code of Business Conduct flow from these basic values and should guide our individual conduct at all times.

Parker expects each employee to be completely honest and ethical in their daily dealings with all customers and suppliers. Performing Government business places us under a microscope. Due to the high level of public accountability relating to Government funded business, contractors such as Parker must adhere to strict rules relating to both the contracting, and product processes unique to this type of business. Under such rules, our actions are open to public disclosure and close scrutiny. It is our continued adherence to our ethical culture and values that will ensure our future success.

All employees are expected to act proactively, by seeking guidance or raising concerns about business integrity issues to their local leadership. If additional assistance is needed, contact the Corporate Contract Compliance Office, or the Legal Department. Leadership is expected to maintain an "open-door" policy regarding employee questions, and to support any employee who comes forward to discuss an issue or report a potential problem.

Our employees are committed to taking affirmative actions that are essential to our success and the preservation of company values. We recognize that our profitability is dependent upon our ability to design and produce quality products and systems, and achieve all other customer requirements. Customer responsiveness is an important part of our commitment to ethical values. Each employee, consultant, and other representative of the Company is expected to read and become familiar with the "Policy on Contracting with The United States Government" described herein. The Policy applies to all employees, consultants, and divisions that perform work on U.S. Government funded prime contracts and subcontracts. Division leadership shall assure that employees performing work in support of U.S. Government funded prime contracts and subcontracts are properly trained and knowledgeable to fulfill applicable customer and regulatory requirements. The Corporate Contract Compliance Office has the responsibility of monitoring compliance with this Policy. Any known or suspected violation of this Policy should be reported immediately to the Corporate Contract Compliance Office, the Legal Department, or to our toll-free telephone Integrity Line (800) 553-0440. The identity of the persons making such reports will be kept confidential, as permitted by law.

Parker's continued good reputation is, in a very real way, in your hands. The reputation, which we have earned, can be tarnished by a single improper act. We depend upon you to do the right thing, for yourself and for Parker. If you have any questions about the meaning of any of the policies contained within this booklet, ask your supervisor or manager or contact your division's Compliance Officer, or the Corporate Contract Compliance Office.

With your help, Parker will continue its reputation for excellence and integrity.

Sincerely,

Donald E. Washkewicz
Chairman, Chief Executive Officer and President

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Introduction

The Purpose of Parker's Government Contracts Policy

Parker has implemented a Code of Conduct which requires all of its employees, consultants and other representatives to observe the highest standards of honesty, fairness, and integrity in dealing with fellow employees, customers and suppliers, shareholders, and the general public. The Code sets non-negotiable global expectations for our behaviors, decisions, and actions and is applicable to conduct in all of our businesses. Each Parker employee, consultant and other representative is expected to exercise good judgment and initiative in applying the general concepts of the Code to specific situations in his or her workplace. A variety of on-line resources (located on the OAC site), the advice of supervisors and an Integrity Line are all available to help employees in making ethical decisions in specific situations.

The United States Government (at all customer tiers) is an important and valued customer of Parker. In the Government contracts area, specific guidance is necessary to ensure the effective observance of the Company's Global Code of Business Conduct. To protect the public interest, a number of laws and regulations prescribe requirements which must be met by those doing business with the Government. Many of these requirements apply not only in our direct contracts with the Government, but in our subcontracts with prime contractors, original equipment manufacturers ("OEM's"), subcontractors, and distributors funded by the U.S. Government.

Laws and regulations affecting Government contractors continue to change and have expanded in scope and complexity over the years. It is important for Parker employees, consultants, and other representatives involved in the Government contracting area to understand how these laws and regulations affect their conduct of business. This Parker Policy sets forth the requirements for complying with such laws and regulations. Strict compliance with these provisions is essential.

Consultants, agents and other representatives of the company involved in the Government contracts area have the same obligation to observe Federal procurement laws and regulations, as do employees of the company. Such persons are expected to become familiar with and to observe the principles described in this booklet (to the same degree as regular employees). Thus, all references to "employees" in the material which follows should be read to include not only those on Parker's regular payroll, but also temporary employees, agents, consultants, or any other persons retained by Parker to perform services on its behalf.

This Policy is intended to serve as a general framework for an understanding of the nature of certain key Government procurement practices and conflict of interest regulations. The Policy is intended to familiarize Company personnel in only a very general manner with these areas. The matters reviewed in this Policy do not, in any sense, encompass all the statutes, regulations, and contract
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provisions applicable to Government funded contracts and subcontracts. Each supervisor is cautioned to determine carefully all requirements of Government contracts bid on and/ or awarded, and to be aware that other requirements may have equally serious penalties for non-compliance beyond those set forth below.

Division General Managers are responsible for insuring the individuals assigned to senior leadership positions possess the necessary competence and knowledge to satisfactorily drive systems, processes, and procedures that will fulfill customer contract requirements. Division senior leadership is responsible for insuring that assigned managers, supervisors, and employees possess the necessary know-how, knowledge, and education to achieve all customer contract requirements. The Division senior leadership team is also responsible for assuring existence of a working environment that promotes compliance during all business transactions.

Each employee should carefully review this Policy, consider its application to his or her activities within the Company and discuss any questions he or she may have with local leadership, the division's Compliance Officer, the Corporate Contract Compliance Office, or a member of the Legal Department as appropriate to the particular question. Employees involved in the Government contracting area are expected to be familiar with and to observe this Policy. Violations of the Policy may be grounds for immediate discharge or other disciplinary action. Employees should also be aware that criminal prosecution may result from violation of federal law. Supervisors and managers are responsible for monitoring and enforcing this Policy within their areas.

Throughout this policy you will see question and answer inserts. These Q & A inserts are provided to answer common questions that arise, and also to illustrate how the policy's topics can apply in real-life settings.

Policy Statement

Parker is fully committed to the establishment and maintenance of compliance and business ethics standards with respect to transactions with the United States Government and with prime contractors and subcontractors on Government programs. Parker will strictly observe laws, rules, and regulations that govern the acquisition of goods and services by the United States Government and will compete

fairly and ethically for all such business opportunities. In furtherance of that objective, no employee shall, in connection with any transaction with the United States Government, engage in any conduct in violation of such laws, rules, and regulations or act in a manner which is otherwise inconsistent with Parker's high standards of honesty and integrity. The company is committed to full and timely disclosure of any violation

of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations; or a violation of the civil False Claims Act, Contractor Code of Business Ethics & Conduct or Anti-Kickback Procedures. This disclosure responsibility also applies to the occurrence of any significant overpayment(s) on any contract (excluding overpayments resulting from contract financing payments defined in FAR 32.001, Definitions). Any such matters will be immediately brought to the attention of the Corporate Contract Compliance Office for assessment to determine (in consultation with the Corporate Legal Department as necessary) if credible evidence exist necessitating disclosure to the Government. Any such disclosures will be made to the cognizant agency Office of the Inspector General with a copy to the Contracting Officer. Refer to GPM GB 01-04, entitled "U.S. Government Contract Compliance - Mandatory Disclosure of Violation Law to the

Government" for further guidance in this area.

Parker is fully committed to support any inquiries from U.S. Government authorities related to any and all disclosures of violations that may be made. Such support will entail full cooperation with Government authorities to provide timely and complete responses to auditors' and investigators' requests for documents and access to company employees with information.

Q: Who should be notified when a violation of law appears to be committed in connection with a customer contract?

A: Notify both the Corporate Contract Compliance Office and the Legal Department.

Policy Media and On-line Systems

The Corporation maintains specific policy media applicable to all divisions that perform work pursuant to U.S. Government funded prime contracts and/or subcontracts. These policies are contained within the Government Practices Manuals (GPMs) (included within Parker 's Policy & Guidelines Website) which are maintained by the Corporate Contract Compliance Office. Divisions doing Government business at any customer tier level must conduct business in accordance with all Global Policies as well as the GPMs.

The GPMs can be accessed electronically via the Corporate

Contract Compliance site on POL. The Corporation also maintains various Government contracting and export related regulatory databases and procedures for use by company operations. These searchable databases are contained within the Corporate Contract Compliance site. Divisions are encouraged to use these resources as necessary to ensure that both pre-award and post-award contract activity is consistent with applicable regulatory and policy requirements.

Promises & Commitments

Our values stress the importance of keeping promises and commitments to each other, our suppliers, and most importantly our customers who are the lifeblood of our business. Meeting contractual commitments to our customers is essential to preserve and enhance the confidence our customers have placed in our company to satisfy their needs. By keeping promises and commitments, every employee performs a role in

satisfying customers and ultimately achieving contract compliance.



Contract Review and Flow

Central to customer contract compliance is the process that assures comprehensive contract review and flow down of agreed to requirements within your division, with other supporting divisions, and throughout the entire supply chain. All employees involved, either directly or indirectly, in proposal, contract review and/or flow down must ensure: (1) full understanding of customer product, technical, administrative, and other requirements; (2) pre-award resolution of customer requirements that may not be achievable or necessitate modification (including resultant contractual resolution/documentation of the same); (3) timely communication and planning of agreed to customer requirements to ensure that they are fulfilled; (4) flow down of all contract requirements within your division, including extension of these practices to other supporting divisions that are involved in contract performance, and to our suppliers; which includes flowing down the Terms and Conditions of Purchase - Government Supplement (TCP-GS) and (6) verification that all customer requirements have been met in accordance with contract terms,

conditions, specifications, drawings, standards, and any other identified and agreed to customer requirements.

Our Government Practices Policies provide guidance, support and direction to assist divisions with meeting the goal of comprehensive customer contract review and flow down. At a minimum, each division engaged in U.S. Government funded business (at any customer tier), must also adopt a local procedure to ensure that adequate processes are in place to successfully fulfill customer contract review and flow down objectives. A generic procedure is available on the Contract Compliance site that can be customized by your division to meet this requirement. Any questions or concerns relating to these processes and expectations should be directed to your division's Compliance Officer or the Corporate Contract Compliance Office.

Through your dedication, teamwork, sound communications, and a continuous commitment to detail and quality we can ensure customer requirements are met. This foundation is the basis for sustainment and growth of our business and our customers' confidence in Parker as their supplier of choice.

Q: I am conducting a customer contract review and discovered the product quality requirements had changed from the prior contract that had been approved by our quality team. Due to time constraints, I am going to accept

the contract and defer the review of the changed quality requirements. Is this acceptable?

A: No, it is not. If during the course of reviewing the contract, you determined changed quality requirements (or any other changed requirements) you must have any such requirements reviewed by the functional expert to assess what has changed and if it affects product quality or any other term or condition. This must be done prior to accepting the contract. Proposed pricing and delivery terms should be reviewed as well. All concerns should be addressed with your supervisor and resolved accordingly.

Standards for Particular Situations

Design, Manufacture, and Testing of Products

Strict product integrity is necessary for Parker to achieve its quality objectives and to maintain its reputation for quality systems and products. Furthermore, Parker recognizes its contractual and legal responsibility to ensure that all management systems exist to assure systems and products meet relevant standards. Parker is committed to strict compliance with all the requirements and specifications contained within every customer contract we accept.

The United States Government or its prime contractors often require Parker to certify compliance with quality control specification and testing requirements for Parker's products. The customer has a right to expect, and Parker has an obligation to take reasonable steps to ensure, that all products delivered meet all contract requirements. Actions such as the failure to properly conform

products, conduct required testing or manipulation of test procedures or data will not be tolerated.

All Parker employees should be aware that the knowing nondisclosure of a deviation from the requirements of a contract, including product substitution, may be considered criminal fraud. Failure to adhere to contract requirements is contrary to acceptable business conduct, and our values. Intentional deviation from applicable specification requirements can have serious consequences and may represent product substitution.

Product substitution includes, but is not limited to:

- Substituting equivalent (or even superior) materials without notifying and/or obtaining authorization from the customer as required by the contract.
- Delivering similar goods that have been made from lower quality materials (unless a waiver, deviation, or other contractual relief has been obtained from the

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- customer).
- Delivering materials that have not been tested as required.
- Providing foreign-made material when domestic materials are required by contract (unless use of such foreign-made materials or parts is authorized by contract clauses).
- Unauthorized repair of even a minor defect in a production part.

The intentional substitution of products required under contract or the intentional failure to perform the required inspections, tests or quality control may constitute a false statement or false claim against the Government. Accordingly, no changes to contract requirements should be made without the written approval of an authorized customer representative.

Proper documentation is essential to allow certification of product and assure premier customer service. Performance of the necessary operations, inspections, and tests, in and of themselves, is insufficient. They all must be properly documented. In addition to receiving a quality product, the customer requires and pays for

quality documentation.

Divisions must assure the perpetual deployment of adequate product management systems, processes, procedures, and deployment of knowledgeable employees to ensure that customer contract requirements are satisfied. It is the responsibility of the Division General Manager and his/her leadership team to assure continuous product integrity.

Specific guidance and requirements relating to these areas can be found within the Quality Assurance and Engineering GPMs.

Q: I observed an employee performing product testing without any test procedure or work instructions. Is this acceptable?

A: Employees should have access to and use work instructions, test procedures, routers/travellers and other required media during the fabrication, assembly and testing of product. If this media is not available, please contact your supervisor or manager so they can provide you with this required information.

Accuracy of Accounts

Parker's Global Code of Business Conduct places responsibility on each employee to ensure the accuracy and reliability of the Company's accounts. In the Government contracts area, this responsibility requires proper cost estimating and pricing at the bid and proposal stage and the appropriate allocation and charging of costs after a contract has been awarded.

Preparation and Negotiation of Bids and Proposals

During negotiation of contracts with the United States Government or with other customers where the source of funding is the U.S. Government, certified cost and pricing data required to be submitted to the Government or



such other customer must be current, accurate, and complete. The Truth in Negotiations Act (TINA) requires that a responsible division employee certify that such information is current, accurate, and complete. The data that must be disclosed is broad and includes not only facts, such as supplier quotations or prices, but also other information that a reasonable person would expect to affect the negotiations, such as the ordering of more efficient equipment to be utilized on the contract. Also included in such data which must be reported is information that can reasonably be expected to affect the soundness of estimates of future costs, such as changes in production or purchasing volume, make or buy decisions, and labor efficiency. The information submitted must be current as of the time of the final agreement on price.

A claim of defective pricing may arise out of a failure to provide current, accurate and complete data and can result in a reduction in the contract price by the amount of any overstatement, along with possible penalties. In some cases, a failure to provide current, accurate, and complete data may give rise to criminal charges.

Frequent review of pricing, estimating, and negotiating procedures should be conducted by responsible division leadership in order to ensure continuing compliance with applicable laws and regulations. Such procedures should provide for effective coordination of information within a contracting division so that any data which may affect the contract price is known to the division's estimating and negotiating personnel. This will help to assure that all cost or pricing data is current, accurate, and complete and is properly disclosed to the customer. Such coordination is the responsibility of the Division General Manager. Specific policy direction in this area is contained within the Proposals & Estimating GPM.

Divisions are encouraged to claim an exemption from the requirement to submit certified cost or pricing data if circumstances warrant (e.g., commercial item, adequate price competition, or under dollar threshold). Division commercial item claims and related pricing must be fully supported with the appropriate data. Questions concerning commerciality determinations should be directed to your Division Compliance Officer, or the Corporate Contract Compliance Office.
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Q: *I am preparing a proposal for a customer and it must comply with the Truth in Negotiations Act (TINA). Our proposal team is two days away from submitting the proposal to the customer. Our purchasing team just received a revised quotation from a key potential supplier that will significantly reduce the proposal price to the customer. What should I do?*

A: *Because this is a TINA-compliant proposal, you must review the revised supplier quote for applicability. If you do plan to use the revised quote, then you must adjust the proposal pricing accordingly and any other affected terms. TINA requires us to provide the most current, complete and accurate costs available up to agreement on overall pricing between the parties.*

Pre-award Review of Customer Requirements

Careful review and analysis of contemplated customer contract requirements embodied within statements of work, specifications, drawings, terms & conditions, and other product definition documents is essential to successful performance and premier customer service. To the extent any customer requirement can not be achieved as specified, responsible division personnel should properly identify and resolve such matters with the customer prior to contract award. The resultant contract/subcontract should reflect this resolution, and will serve as the baseline to flow down customer requirements within division facilities, at other supporting divisions, and throughout the supply chain. Any questions concerning this process should be directed to Corporate Contract Compliance Office or the Legal Department.

Allocation of Costs to Government Contracts

Only costs properly chargeable to a contract may be billed to or reimbursed by the Government or by contractors and subcontractors under Government funded contracts. Improper charging of costs may arise from various causes, including incorrect entries on time records, incorrect subcontract charges, incorrect classification of costs as direct or indirect, incorrect expense accounts, false or otherwise incorrect charging of time or materials to work orders or other cost accounts, or requests for reimbursement of unallowable costs. The mischarging of costs is a serious offense and can result in criminal and civil penalties to both Parker and the individuals involved.

It is Parker's policy that the allocation of indirect costs to a Government contract or subcontract conforms to the contract provisions and related laws and regulations; that the intentional use of informal or interim accounts not properly authorized for receipt of particular charges be avoided; and that all transfers of costs be supported by adequate documentation. Of particular concern is the proper charging of costs to appropriate direct and indirect accounts based upon the causal or beneficial relationship between the cost in question and its final cost objective. Cost overruns on a Government contract must be charged to that contract. Such costs must not be charged to an overhead account. Care should also be given to defining and clearly communicating to employees the proper charge numbers to be used on work activities that have multiple customer contract applications.

Parker submits proposals for reimbursement of indirect costs to the United States Government or to contractors under Government contracts. The law provides that certain designated Company officials certify that the proposal does not contain unallowable costs, such as costs for advertising, alcoholic beverages, donations, entertainment, fines and penalties, lobbying, defense of fraud proceedings and goodwill. It is Parker's policy to request reimbursement only for those indirect costs that are allowable and reasonable in amount.

Proper classification and allocation of costs can also affect cost estimates used in pricing Government work during the pre-award phase. To avoid defective pricing claims and other liability that can result, it is essential that all costs be accurately reported, classified, and properly allocated.

Responsible supervisors and managers throughout the company should ensure that all costs allocable to Government contracts are accurately recorded and properly charged as required by this and other policies.

Specific requirements in the area of allocability and allowability of costs charged to U.S. Government funded prime contracts and subcontracts are available within the Finance & Accounting GPM. Any questions concerning this GPM and/or current regulations relating to cost allocability or allowability shall be directed to your Division Controller or the Corporate Contract Compliance Office for resolution.

Labor Charging and Reporting

Accurate labor charging and reporting

is an essential element of our responsibility as a Government contractor. Each employee and supervisor is responsible to ensure that time worked on a particular customer job or other activity is reported correctly. The employee knows best how much time has been worked on each customer job or other authorized activity. The employee is the primary authority in this regard.

Improper labor reporting (either charging too much, too little, or other inaccuracies) will hurt either the customer or Parker. Also, if you deliberately falsify anything, it can hurt you. Proper labor reporting is a simple matter of ethics, and our values dictate that you always accurately report your time worked.

When you sign your time card or report your time through a computerized system, or whatever method you use, you certify that the time you recorded on each job is accurate. Your supervisor will verify the accuracy of your time charges and certify that they comply with applicable procedures and policies. An employee who fails to charge his or her time accurately and correctly may be subject to disciplinary action, including dismissal and may be subject to civil and/or criminal liability. Supervisors have the same obligation and exposure.

Q: *I am currently working on several U.S. Government funded contracts and subcontracts. It is my understanding that one of them is over running its budget. Can I charge my time related to the overage to the other contract?*

A: *No you cannot. All of us have the responsibility to accurately report our time. Mischarging time results in a liability for fraud and unethical behavior for the individual and Parker.*

Payments and Gratuities Involving Suppliers

Payments will only be made to suppliers for services or products properly provided to the company and no Parker employee is to receive any direct or indirect payment in the nature of a bribe, payoff, or kickback. Parker is committed to exposing such conduct whenever encountered. Furthermore, Parker is required to represent and warrant, in any proposals submitted directly to the Government or to any of our customers operating under a Government funded contract, that Parker has not made, solicited, or accepted any payments in violation of the Anti-Kickback Enforcement Act of 1986. In addition, Parker may be required to indemnify its customers against any such violation.



Parker employees may not accept any gratuities or form of entertainment from such suppliers, or from entities seeking to become a supplier for any division that performs work pursuant to a U.S. Government funded prime contract or subcontract (including all inter-company efforts in support of such business). This prohibition includes payment for meals by such a vendor or supplier, except when such meals are of a reasonable nature and provided at the facility of the vendor or supplier as a continuation of a business meeting.

Gifts and entertainment from suppliers raise the appearance of dishonest or unfair dealings. Employees are prohibited from soliciting or receiving gifts or favors from any supplier. Because of the applicable regulatory requirements, Parker employees must adhere to these stringent requirements set forth below when dealing with vendors or suppliers under Government funded contracts.

Receipt of Nominal Business Gratuities From Customers

Unlike the inferences which may be drawn from the offering or giving of gifts or gratuities by our suppliers, the provision of reasonable business gratuities by customers of Parker does not give rise to the same inference or appearance of dishonest or unfair dealings. Consequently, Parker employees may accept from customers payment for business

meals which are reasonable in frequency and amount. Parker employees may also accept promotional items of nominal value which are widely distributed by the customer. Parker employees may also attend and participate in functions sponsored by a customer which are widely attended by representatives of other supplier companies.

Business Entertainment and Gifts Offered to Customers



Government Employees

Business decisions by Parker's customers must be made solely on the basis of Parker's quality, service, price, and other competitive factors. Gifts and entertainment that make a customer feel obligated to offer any special consideration to Parker are unacceptable. The Anti-Kickback Act of 1986 makes it unlawful for a contractor or subcontractor to offer or provide to a Government employee or employee of a contractor under a Government program any money, gift, gratuity, or other thing of value for the purpose of obtaining or rewarding favorable treatment under a contract or subcontract.

No gratuities (including meals), gifts or entertainment whatsoever are to be offered to Government employees. This strict prohibition is based on the Anti-Kickback Act. Parker employees shall not, under any circumstances, make any direct or indirect payment in the nature of a bribe, payoff, or kickback to any employee or representative of the U.S. Government or any employees or representatives of other customer entities with which the division has business dealings. To ensure that these rules are honored,

Parker employees must strictly avoid offering or giving to any Government officer, employee or agent (including any member of the Armed Forces) any form of gratuity or entertainment. This prohibition includes payment for meals, even when furnished at Parker facilities, as well as gifts, entertainment, or transportation of such persons at Parker's expense.

Employees of Private Customers Under Government Programs

As noted above, the Anti-Kickback Act applies to the offering or providing of gifts or gratuities by Parker employees to employees of our customers under Government funded programs. In addition, many of Parker's contracts with customers operating under Government funded contracts contain clauses prohibiting the offering or giving of gratuities or entertainment to employees of such customers, on penalty of termination of the contract. Furthermore, internal policies of many such customers contain similar restrictions. Some of those policies prohibit payment by Parker of items as seemingly insignificant as business meals. Therefore, in order to comply with the contracts and

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internal policies of our customers, Parker employees must not offer or give to an employee, officer, or agent of any private customer operating under a Government funded contract or subcontract any gratuities or form of entertainment, regardless of value. This prohibition covers payment for attendance at sporting events, shows, and other such entertainment. In general, Parker employees should also avoid paying for any meal for employees of such customers. Payment for business meals may

be made if all of the following considerations are satisfied:

- a. *such payment is not inconsistent with contract provisions of that customer;*
- b. *such payment is not inconsistent with the policies of the customer;*
- c. *the meal is a continuation of a business meeting;*
- d. *such payment for meals is not a frequent practice; and*
- e. *such meals are moderate and reasonable in amount.*

Hiring or Retention of Government Employees

Parker personnel are expected to respect federal laws and regulations regarding the hiring and retention of present or former United States Government employees. Federal law, implemented by the Federal Acquisition Regulation and agency regulations, governs the circumstances under which a former U.S. military officer or U.S. Government employee may be employed, directly or as a consultant, by Government contractors such as Parker. These legal requirements also govern (i) the circumstances under which pre-employment discussions may take place and (ii) restrictions which may apply to former U.S. military officers and U.S. Government employees after they are employed.

It is unlawful for any former officer or employee of the Government to act as agent for anyone in connection with any matter in which he or she participated while employed by the Government. It is also unlawful for current officers or Government employees to participate in a matter



involving any firm with whom they are negotiating or have an arrangement concerning future employment. Parker personnel must always be sensitive to, and thus seek to avoid, retaining or hiring former Government employees in situations which would create the appearance of a conflict of interest or possible impropriety.

Clearance must be obtained from the Legal Department before mentioning proposed employment to a current Government employee or to any former Government employee. Further guidance on this topic can be found within the Human Resources GPM.

Consultants



Retention of consultants may raise several issues, including conflict of interest concerns and whether such individuals comply with federal laws and regulations in their work for Parker. It is important to avoid retention of the services of or other dealings with consultants where there is any reason to believe such persons may have

access to or possession of illegally or improperly obtained information. All consultants shall be retained using the procedures and the pro forma agreement provided in the Purchasing Management GPM (reference GPM PM 26-01). Retention of consultants requires the prior approval of the Legal Department as specified within the policy.

Q: *What should Parker purchasing teams provide outside sales agents or consultants prior to issuing a sales or consultant agreement?*

A: *A copy of the “Code of Conduct” and “Policy on Contracting with the U.S. Government”. This is in accordance with GPM PM 26-01.*

Government Procurement Information

Parker employees who may be involved in any Government contract or subcontract must exercise due care to avoid receiving or requesting proprietary or source selection information prior to the award of a competitively based contract. This restriction applies for the period commencing with the development, preparation, and issuance of a customer procurement solicitation, and ending with the award of a contract or subcontract. The types of information covered include, but are not limited to, information contained in a competitor’s bid or proposal, cost or pricing data of others, information submitted to the Government as proprietary, and source selection information. Violations of these restrictions may involve severe civil as well as criminal penalties. All employees are strictly prohibited from soliciting or obtaining (directly or indirectly,

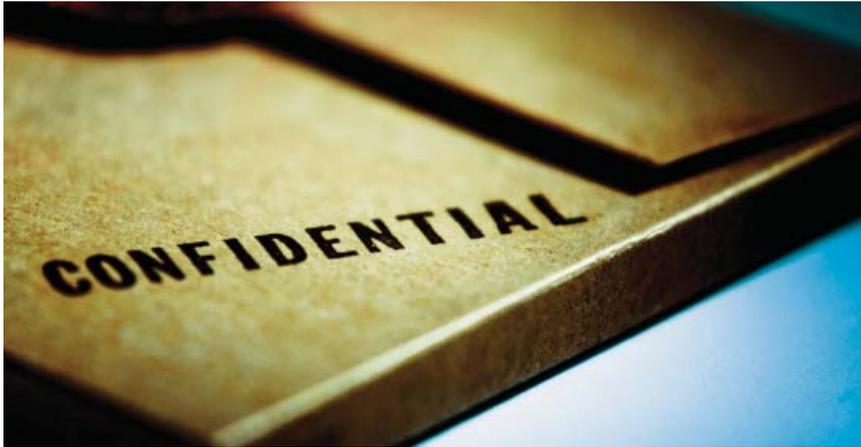
such as through a consultant) from any officer or employee of a Federal procuring agency, prior to the award of a contract, any proprietary or source selection information regarding the procurement.

Specific guidance relating to these restrictions is included in GPM PE 01-07.

Q: *I have an acquaintance who works on the customer proposal team of a competitor company. At our last get together she told me about the company’s pricing structure for a proposal that Parker will also be competing for. Can I share this other company’s pricing information with our team?*

A: *We cannot share this information with anyone and you should report this event to your Compliance Officer or Legal Department. Additionally, please note that your acquaintance has likely violated her company’s policy, as well.*

Classified Information



We expect that all employees will comply fully with all applicable security procedures pertaining to its Government contracts. Parker personnel are specifically expected to exercise the appropriate standard of care with respect to the handling of classified information. It is important, both from the standpoint of national security and that of assuring compliance with applicable laws, regulations and U.S. Government contractual requirements, that all employees deal with U.S. Government classified material in the proper manner. Unauthorized access, dissemination, acceptance, or handling of that material is strictly prohibited.

Parker personnel with proper security clearances who may have access to classified information must be aware of and observe

the specific requirements of the rules and regulations associated with the use, control, retention, and disposition of classified materials. Parker has agreed to adhere to these requirements as a condition of remaining eligible for the receipt of classified information. All Parker personnel with security clearances will receive regular training in the proper handling of classified information.

Specific guidance and requirements relating to this area are provided within the:

- National Industrial Security Program (Section GS 01-01 of the General Business Practices GPM), and
- Industrial Security (Section 01-01 of the General Business Practices GPM).

servitude, debt bondage, or procurement of commercial sex acts in any country in which we do business or seek to do business.

Combating Trafficking in Persons

Consistent with U.S. Government contracting policy, the Company will not tolerate any form of trafficking in persons, forced labor, involuntary

Government Property

Government regulations prescribe specific procedures and impose associated obligations on contractors in the possession of Government property, whether the property was fabricated under a Government contract, furnished by the Government, or received under a facilities contract. Parker personnel are expected to take reasonable measures to ensure appropriate accounting, control, use, and maintenance of such property. Specific guidance in this area is provided within the Contract Administration GPM. Any questions concerning this area should be forwarded to your division's Government Property Administrator or

the Corporate Contract Compliance Office.

Q: I was asked by my division facilities manager to move our Government property out of the bonded storage area to an area out in the open so anyone can access it and be more "lean."

A: You must protect and maintain Government property in accordance with our GPM policy. Just because others want to move the property out of a bonded area in the name of "lean" does not mean you will be in compliance with the GPM's. It is your responsibility to ensure all aspects of the GPM and customer requirements are met and adhered to.

Export and Import Regulations



Export

There are many laws and regulations that restrict the shipment of products and technical data - whether classified or not - outside of the United States. Your division's Export Administrator is the focal point for all export matters. The shipment of such products or technical data, including the electronic transmission of technical data, is considered an "export". In addition, the discussion or disclosure

of technical data to a foreign person (whether at a domestic location or abroad) may also be an export. The hiring of a foreign person may be subject to Export Control restrictions, and other special requirements. Prior to hiring or transfer of a foreign national, such action(s) shall be reviewed by your division's Export Administrator to determine compliance with your operation's Export Procedure, GPM Policy requirements, and applicable Export Control regulations.

(continued)

All exports must be made in accordance with your division's Export Procedure, GPM CA 03-03, and authorized by some form of Export License/ Agreement or specific exception/exemption to the U.S. export licensing requirements. Division export procedures shall be maintained current and aligned with the corporate standard procedure available on the Corporate Contract Compliance site on POL. Divisions shall ensure that any brokers, representatives, or other agents used to represent the division are in compliance with all applicable export regulations. Prior approval by the Legal Department is required for the selection of all brokers, representatives, or other agents.

The contents of the International Traffic in Arms Regulation (ITAR), the Export Administration Regulation (EAR), and the current consolidated Denied Parties Listing are all available for consultation on the Contract Compliance site. Divisions are required to consult the Denied Parties List or equivalent on an on-going basis to ensure that the operation does not do business with certain entities or persons that are identified within these lists.

Any questions regarding the restricted countries proper export of technical data or products or the securing of

an appropriate Export License should be addressed to your division Export Administrator, the Group Export Coordinator, or the Legal Department.

Import

Divisions shall ensure the proper classification and valuation of all articles imported to the United States consistent with current U.S. Customs Service regulations, and the corporate standard Import Compliance Manual available on the Import Compliance site on POL. Divisions shall ensure that any brokers, representatives, or other agents used to represent the division are in compliance with all applicable import regulations. Utilization of third party agents shall be in accordance with the Parker's designated preferred brokers list. Any questions relating to import regulations should be directed to the Corporate Import Compliance Department.

Q: I was asked by an import broker to sign a power of attorney (POA) in order for them to act on our behalf. What should I do?

A: You should contact Parker's Import Compliance Team in the Transportation Department who will work with the Legal Department to execute these POA's. Only the Legal Department is permitted to execute and sign a Power of Attorney.



Rights in Data and Computer Software



It is Parker's general policy to develop technology (including related computer software) at private (Parker) expense. In rare situations, development may occur at public (Government) expense. Whenever development occurs at private expense, it is essential that the division follow the appropriate procedure to ensure that the U.S. Government will only get limited, restricted, or customary commercial license rights to any resultant deliverable technical data (including, but not limited to, product designs) or computer software. Whenever development is performed at public expense, the U.S. Government will receive unlimited license rights to any resultant deliverable technical data or computer software created under such public expenses.

Divisions shall adhere to the requirements relating to establishment of Independent Research and Development (IR&D) projects, protection of technical or sensitive business data provided to customers in conjunction with sales proposals, contract assertions, and legends to be affixed to deliverable technical data or computer software. Such guidelines and requirements relating

to the establishment of IR&D projects are contained within the Finance & Accounting GPM. Guidance and requirements related to the control of technical data and computer software are provided within the Contract Administration GPM. Any question concerning the protection of proprietary technical/business data and computer software should be directed to the division's Technical Data Coordinator, Compliance Officer, or the Corporate Contract Compliance Office.

Q: I was asked by our OEM customer to remove the legends from the Parker drawing, documents and software. I was told this is what the U.S. Government customer wanted and we always strive for premier customer service.

A: You should contact your division's Technical Data Coordinator, Compliance Officer or the Corporate Contract Compliance Office for direction. We must protect Parker's technical data and computer software in accordance with all Parker policies including the GPMs.

Simply complying with the customer's desire puts Parker's technical data at risk of being used by others and possibly forfeiting our rights.

DoD Fraud Hotline Posters

Divisions need to assure that all facilities are in compliance to the DoD Inspector General requirements contained within the Defense Federal Acquisition Regulation Supplement (DFARS).

This requirement applies at the facility which holds and administers a single contract or subcontract which exceeds \$5 million, and at other facilities (including at any and all interdivisional locations supporting the contract or subcontract) at which work is to be performed in support of such customer order. This requires Parker facilities to obtain DoD fraud hotline posters from the DoD Office of the Inspector General. In addition, the DFARS clause requires Parker to include the substance of the clause in its subcontracts/purchase orders with suppliers that exceed this or the \$5 million, except for subcontracts for commercial items.

Division management will ensure that all individuals in your organization that are involved in the RFP/contract review and flow-down process (where the ultimate source of funding is from the DoD) are fully aware of this rule.

Q: I did not see these hotline posters posted at our facility even though I know our division meets the criteria. Should I be concerned?

A: Yes, it is our duty to report to the Division Compliance Officer that the required posters are not on the division's bulletin boards.

Compliance

All employees, agents, consultants, and other representatives are expected to be familiar with and to observe the standards outlined in this Policy. Violation of these standards may be grounds for immediate discharge. Supervisors and managers are responsible for insuring compliance with this Policy by monitoring and enforcing the requirements. All of Parker's supervisors and managers are expected to lead by example and communicate a real concern for adherence to these specific guidelines unique to U.S. Government funded prime contracts and subcontracts.

resources available to assist you in making sound ethical judgments and decisions in the performance of your U.S. Government funded prime contracts and subcontracts. Whether you have a concern during the pre-award or post-award phase of the contracting process, you have the needed resources available at the division, group, and corporate levels to assist in formulating the optimum solution to achieve premier customer service and compliance with contract requirements, statutes, and regulations. For assistance contact your division's Compliance Officer, or the Corporate Contract Compliance Office.

At Parker there are numerous

The Legal Department and the Corporate Contract Compliance Office are responsible for overseeing compliance with this Policy. Periodic reviews of compliance with this Policy, and the Government Practices Manuals will be conducted by the Corporate Contract Compliance Office. Any employee having information of any conduct in violation of this Policy is expected to report the matter promptly to the Corporate Contract Compliance Office or the Legal Department. "Looking the other way" only gives tacit approval and encouragement of improper conduct and has no place at Parker. Parker maintains a toll-free telephone Integrity Line which can be used to report any known or suspected violations of this Policy: (800) 553-0440. Information relating to such reports will be kept confidential, as permitted by law. Parker will not accept retaliation by anyone, at any level in the company, against an employee who makes a good faith report about a questionable business practice or behavior.

Every company has a particular culture or atmosphere that is unique

to it. Over the years Parker has developed a culture and values which emphasize a commitment to excellence and integrity and a special concern for equitable treatment of its customers, suppliers, employees, shareholders, and the communities in which we operate. As Parker continues to expand in products, employees, and geographic scope, we must continue to strive to maintain our ethical culture. Parker's continued success in serving its various constituencies will depend, as it has in the past, upon each individual employee's ethical commitment.

Each of us takes pride in the high standards of conduct that have always identified us as Parker employees. Because of our ethical standards, the Parker name is recognized around the world as a symbol of quality in motion-control systems and products. We must continue to be a company which will tolerate nothing less than complete honesty, fairness, and integrity in our dealings with all the groups that depend on us, including the U.S. Government.