Parker Hannifin Limited

Annual report and financial statements

for the year ended 30 June 2010

Registered number 4806503

Parker Hannifin Limited

Contents

Parker Hannifin Limited

Directors and advisors for the year ended 30 June 2010

Registered Office
Parker House
55 Maylands Avenue
Hemel Hempstead
Hertfordshire
HP2 4SJ

Directors
NR Parsons
GM Ellinor
SD Fryer
PB Vos
JD O Reilly

Company Secretary
JD O Reilly

Principal Bankers
Barclays Bank plc
PO Box 22
Gateshead Business Centre
Gateshead
Tyne and Wear
NE8 1BX

Solicitors
Eversheds LLP
Eversheds House
70 Great Bridgewater Street
Manchester
M1 5ES

Auditors
Deloitte LLP
Chartered Accountants and Statutory Auditors
St Albans
United Kingdom

Parker Hannifin Limited

Directors' report for the year ended 30 June 2010

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2010

Principal activity
The principal activity of the company is, and will continue to be, the manufacture and sale of motion and control technologies and systems, providing precision engineered solutions for a wide variety of mobile and industrial markets

Review of business and future developments
The company has made a loss for the year of £16,587,000 (2009 loss of £49,664,000) The company has experienced a decline in turnover during the year as a result of the economic downturn However, there was a reduction in the loss for the year as the full-year benefit of cost reductions made during the economic downturn was recognised

During the year, the company completed two trade acquisitions and transferred in the trade of two previously acquired businesses as detailed below

- on 1 July 2009, the UK trade and assets of Parker-Origa Limited were transferred to the company at market value,
- on 30 November 2009, the company acquired 100% of the ordinary share capital of Scanrope Limited for a consideration of £103,000,
- on 30 March 2010, the company acquired 100% of the ordinary share capital of SSD Drives Limited for a consideration of £109,011,000, and
- on 30 April 2010, the UK trade and assets of Legris Limited were transferred to the company at market value

On 30 June 2010, the company received a capital contribution amounting to £41,619,000 (2009 £Nil) from Parker Hannifin (GB) Limited, the immediate parent undertaking The purpose of the contribution was to address the level of net liabilities as identified in the previous year's annual report

The balance sheet on page 9 shows a status of net liabilities as at 30 June 2010 of £25,174,000 (2009 net liabilities of £53,661,000) The improvement in 2010 follows the completion of the above initiative as well as an improvement in the pension deficit balance The directors are in discussion with other group companies on the subject of addressing elements of the balance sheet such that it is restored to a positive status and are also considering other strategic initiatives to assist with this process

During the latter part of the financial year the company began to see signs of an economic recovery Throughout the economic downturn, the company focused on adjusting its cost structure to reflect changing demand levels, addressing the balance sheet deficit and managing its cash Strategic initiatives relating to growth and margin improvement as well as the implementation of a number of business realignment initiatives, including plant closures and general workforce reductions, continue to help meet this objective

Going concern
The company's business activities, together with the factors likely to affect its future development and position, are set out in the review of business and future developments section above

The company is expected to continue to generate positive cash flows through its own activities and participates in the group s centralised treasury arrangements Therefore, treasury banking activity is shared with its parent and fellow subsidiaries

Directors' report for the year ended 30 June 2010 (continued)

Going concern (continued)
The ultimate parent company, Parker Hannifin Corporation, has provided a written undertaking to continue to provide financial support to the company as and when required The directors, having assessed the responses of the directors of the company s parent Parker Hannifin Corporation to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Parker Hannifin group to continue as a going concern or its ability to continue with the current banking arrangements

Despite the current economic conditions, the financial condition of the parent company remains strong It continues to generate substantial cash flows from operations, has controlled capital spending and has proactively managed working capital, with particular attention to collecting receivables from customers in financial difficulty It has been able to borrow needed funds at affordable interest rates and currently has a debt to debt-equity ratio of 35 2%

On the basis of their assessment of Parker Hannifin Corporation s financial position and of the enquiries made of its directors, the company s directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Results and dividends
The company s results for the financial year are set out in the profit and loss account on page 7

The directors do not recommend the payment of a dividend (2009 £Nil)

Principal risks and uncertainties
The management of the business and the execution of the company's strategy are subject to a number of risks

The key business risks and uncertainties affecting the company are considered to relate to the expansion or contraction of the manufacturing economy, industrial competition and employee retention The company believes there is a high negative correlation between interest rates and industrial manufacturing activity Increases in interest rates typically have a negative impact on industrial production thereby lowering future orders while decreases in interest rates typically have the opposite effect

The company remains focused on maintaining optimum financial strength through the current worldwide economic downturn by adjusting its cost structure to reflect changing demand levels and managing its cash The company has implemented several additional initiatives, including workforce reductions, salary freezes and short work weeks to reduce costs in response to the continued deterioration in worldwide economic conditions and the corresponding decline in the company's order rates

Key performance indicators ("KPI's")
The directors manage the company's operations on a divisional basis For this reason, the company s directors believe that analysis using key indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of the company The development, performance and position of the motion control systems sector is discussed in the annual report of the ultimate parent undertaking, Parker Hannifin Corporation, which does not form part of this report

Directors
The directors who held office during the year and to the date of signing the financial statements were as follows

I Molyneux	(resigned 30 November 2010)
NR Parsons	
GM Ellinor	
SD Fryer	(appointed 8 June 2010)
PB Vos	(appointed 8 June 2010)
JD O'Reilly	(appointed 11 November 2010)

Directors' report for the year ended 30 June 2010 (continued)

Qualifying third party indemnity provisions
A qualifying third party indemnity provision as defined in Section 232(2) of the Companies Act 2006 is in force for the benefit of each of the directors and the company secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law In respect of those liabilities for which directors may not be indemnified a directors and officers liability insurance policy was maintained by the Parker Hannifin Corporation group throughout the financial year

Payment to suppliers
The company s policy in relation to the payment of its suppliers is to settle its terms of payment with each supplier when agreeing the terms of each business transaction The supplier is made aware of the terms, which are detailed in the company s purchase orders It is company practice to abide by the agreed terms of payment The company's average creditor payment period at 30 June 2010 was 58 days (2009 43 days)

Research and development
The company has continued to invest in research and development programmes and infrastructure to support and expand its range of products The company s research and development expenditure for the year ended 30 June 2010 amounted to £4,042,000 (2009 £3,393,000)

Charitable donations
During the year, the company made charitable donations amounting to £2,000 (2009 £10,000)

Employee policies
Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to effect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole Communication with all employees continues through internal communication, briefing groups and the distribution of the annual report

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' report for the year ended 30 June 2010 (continued)

Disclosure of information to auditors
The directors confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware The directors also confirm that they have each taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

Auditors
The auditors, Deloitte LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting

By order of the Board

GM Ellinor
Director

09 February 2011

Independent auditors' report to the members of Parker Hannifin Limited

We have audited the financial statements of Parker Hannifin Limited for the year ended 30 June 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholder's Deficit, the Balance Sheet and the related notes 1 to 26 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company s members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company s members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Paul Schofield,

Paul Schofield (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
St Albans, United Kingdom

11 February 2011

Parker Hannifin Limited

Profit and loss account for the year ended 30 June 2010

	Note	2010 £'000	2009 £ 000
Turnover	2		
Existing operations		**296,942**	341,637
Acquisitions		**3,243**	488
Continuing operations		**300,185**	342,125
Cost of sales	3	**(226,425)**	(273,458)
Gross profit	3	**73,760**	68,667
Selling and distribution expenses	3	**(15,716)**	(15,295)
Exceptional administrative expenses	4	**(15,229)**	(9,185)
Other administrative expenses	3	**(59,192)**	(68,902)
Total administrative expenses		**(74,421)**	(78,087)
Operating (loss) / profit	5		
Existing operations		**(17,386)**	(24,760)
Acquisitions		**1,009**	45
		(16,377)	(24,715)
Income from fixed asset investments - net dividends from subsidiary undertakings	13	**18,526**	5,029
Profit / (loss) on ordinary activities before interest and taxation		**2,149**	(19,686)
Interest receivable and similar income	8	**40**	473
Interest payable and similar charges	9	**(23,205)**	(31,825)
Other finance costs	21	**(1,000)**	(1,900)
Loss on ordinary activities before taxation		**(22,016)**	(52,938)
Tax on loss on ordinary activities	10	**5,429**	3,274
Loss for the financial year	20	**(16,587)**	(49,664)

All of the above amounts relate to continuing activities

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above, and their historical cost equivalents

Parker Hannifin Limited

Statement of total recognised gains and losses for the year ended 30 June 2010

	Note	2010 £'000	2009 £'000
Loss for the financial year		**(16,587)**	(49,664)
Actuarial gain / (loss) on pension scheme	21	**3,500**	(27,800)
Movement on deferred tax relating to pension scheme	18	**(980)**	7,784
Total recognised gains and losses for the year		**(14,067)**	(69,680)

Reconciliation of movements in shareholder's deficit for the year ended 30 June 2010

	Note	2010 £'000	2009 £'000
Total recognised gains and losses for the year		**(14,067)**	(69,680)
Addition to share option reserve	24	**935**	802
Addition to capital contribution reserve	20	**41,619**	-
Net addition / (reduction) to shareholder s funds		**28,487**	(68,878)
Opening shareholder s (deficit) / funds		**(53,661)**	15,217
Closing shareholder's deficit		**(25,174)**	(53,661)

Parker Hannifin Limited

Balance sheet as at 30 June 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Intangible assets	11	**122,698**	132,062
Tangible assets	12	**24,611**	27,928
Investments	13	**92,536**	308,229
		239,845	468,219
Current assets			
Stock	14	**23,576**	29,842
Debtors			
Amounts due from group undertakings		**167,797**	36,651
Other		**53,014**	49,909
	15	**220,811**	86,560
Cash at bank and in hand		**1,955**	1,775
		246,342	118,177
Creditors: amounts falling due within one year			
Amounts due to group undertakings		**(331,715)**	(464,195)
Other		**(39,194)**	(31,655)
	16	**(370,909)**	(495,850)
Net amounts due to group undertakings		**(163,918)**	(427,544)
Other net current assets		**39,351**	49,871
Net current liabilities		**(124,567)**	(377,673)
Total assets less current liabilities		**115,278**	90,546
Creditors: amounts falling due after more than one year	17	**(114,360)**	(114,360)
Net assets / (liabilities) excluding pension deficit		**918**	(23,814)
Pension deficit	21	**(26,092)**	(29,847)
Net liabilities		**(25,174)**	(53,661)
Capital and reserves			
Called up share capital	19	**151,766**	151,766
Share premium account	20	**7,900**	7,900
Share option reserve	20	**3,016**	2,081
Capital contribution reserve	20	**41,619**	-
Profit and loss account	20	**(229,475)**	(215,408)
Shareholder's deficit		**(25,174)**	(53,661)

The financial statements for Parker Hannifin Limited (registered number 4806503) on pages 7 to 31 were approved by the Board of directors on 09 February 2011 and were signed on its behalf by

GM Ellinor
Director

Notes to the financial statements for the year ended 30 June 2010

1 Principal accounting policies

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been applied consistently throughout the current and preceding year, are set out below

Going concern
Parker Hannifin Corporation, the ultimate parent undertaking, has undertaken to provide the funds necessary for the company to continue as a going concern for a minimum of twelve months from the date of approval of the financial statements Having made enquiries of Parker Hannifin Corporation, the directors are satisfied that it has sufficient resources to continue to make these funds available On this basis, the directors consider it is appropriate to prepare the financial statements on a going concern basis

Consolidation
The financial statements contain information about Parker Hannifin Limited as an individual company and do not contain consolidated financial information as the parent of a group The company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent undertaking, Parker Hannifin Corporation, a company incorporated in the USA

Comparatives
The comparative figures in the profit and loss account and related notes have been reclassified to be consistent with the current year treatment of the income received from fixed asset investments and related impairment charges This treatment is explained in note 13

Intangible assets
Goodwill
Goodwill pertaining to businesses acquired, being the excess of the fair value of the purchase price over the fair value of net assets acquired, is accumulated and amortised over the directors estimate of the life of the goodwill, not exceeding 20 years

A full year s amortisation is charged in the year of acquisition

Trademarks and patents
Trademarks and patents acquired from third parties are amortised over the useful economic lives of the assets

A full year s amortisation is charged in the year of acquisition

Negative goodwill
Negative goodwill pertaining to businesses acquired, being the excess of the fair value of the net assets acquired over the fair value of the purchase price, is accumulated and amortised in the periods in which the non-monetary assets acquired are recovered

A full year's amortisation is recognised in the year of acquisition

Intangible assets are subject to an annual impairment review and provision is made for any impairment in value

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2010 (continued)

1 Principal accounting policies (continued)

Tangible assets and depreciation
Tangible fixed assets are shown at cost less accumulated depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over the expected useful lives of the assets concerned The principal annual rates used for this purpose, which are consistent with those of the previous year are

Freehold buildings	1%-2 5%, improvements 5%-10%
Leasehold land and buildings	2%-2 5% or over the term of the lease whichever is shorter
Plant and equipment	10%-30%

Freehold land is not depreciated

Investments
Investments are stated at cost plus all other associated costs, less any provision for impairment

Stock
Stock is stated at the lower of cost and net realisable value Cost is determined on a first in, first out basis and in the case of manufactured products, includes all direct expenditure and production overheads, based on the normal level of activity incurred in bringing the stocks to their current state and location Net realisable value is the amount at which it is expected items of stock can be disposed of in the normal course of business after allowing for all further costs to completion and all directly related costs to be incurred in marketing, selling and distribution

Raw materials are defined as material which will be converted via the manufacturing process into components and / or products Work in progress is product in various stages of completion throughout the manufacturing process including all raw material, components issued for processing, labour costs and overheads through the last production process Finished goods are items on which all manufacturing operations, including final test, have been completed or was purchased complete and are available for sale

Provision is made for slow moving, obsolete and defective stock

Deferred tax
Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets Deferred tax is not provided on unremitted earnings where there is no binding commitment to remit these earnings Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date or at contracted rates and results are translated at the exchange rate ruling at the date of the transaction In both instances, foreign exchange differences are taken to the profit and loss account in the period in which they arise

Notes to the financial statements for the year ended 30 June 2010 (continued)

1 Principal accounting policies (continued)

Finance leases
The company is a lessee under a number of finance lease agreements, that is, leases where substantially all of the risks and rewards of ownership accrue to the lessee

The policies adopted are as follows

(i) the asset concerned is included in fixed assets at the cost or estimated cost to the lessor and is depreciated on a straight-line basis over the shorter of the lease term or the life of the asset, and

(ii) lease payments made are apportioned between repayments of capital and interest so as to amortise the total interest charge on a straight-line basis over the life of the asset and

- the interest elements are charged to the profit and loss account as they accrue, and
- the aggregate of the outstanding capital repayments payable is included as a liability in the balance sheet

Operating leases
Annual rentals in relation to operating leases are charged to the profit and loss account on a straight-line basis over the lease term

Research and development
Costs associated with research and development are expensed in the profit and loss account in the period in which they arise

Pension arrangements
The company participates in schemes run on a group basis The pension schemes of the group are classified as either defined contribution or defined benefit schemes

The defined benefit scheme is closed to all new employees The assets of the scheme are held separately from those of the company in an independently administered fund, and pensions payable under the scheme are based on final pensionable salary In accordance with Financial Reporting Standard 17, the operating costs of providing these benefits are recognised in the profit and loss account in the accounting period in which the benefits are earned by the employees, and related financing and other costs are recognised in the period in which they arise

For the defined contribution scheme, the charge for pension costs is equal to the contributions payable to the scheme

Turnover
Turnover, which excludes value added tax, comprises UK sales at invoiced value and export sales on a free on board basis

Share based payments
The company's employees participate in share option plans operated by Parker Hannifin Corporation, the ultimate parent undertaking All share based payments are equity settled and are measured at fair value at the date of grant A charge is made to administrative expenses to reflect the calculated fair value of employee options granted over and above the exercisable price paid by the employees This charge is calculated at the date of the grant of the options and is charged equally over the vesting period The credit entry is reported directly to reserves as a capital contribution from the ultimate parent undertaking

The company has taken advantage of the exemption available and has applied the provisions of Financial Reporting Standard 20 only to those options granted after 7 November 2002 and which had not vested on or before 1 January 2006

The fair value of share based payments is determined by using an appropriate valuation model

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2010 (continued)

2 Segmental information

The directors regard the operations of the company as comprising a single activity All turnover and profits and losses were derived from continuing activities and arose in the United Kingdom The geographical analysis of turnover by destination was as follows

	2010	2009
	£'000	£ 000
United Kingdom	122,712	147,930
Rest of Europe	107,775	121,479
Rest of World	69,698	72,716
	300,185	342,125

The majority of the company's net assets are based within the United Kingdom

3 Cost of sales, gross profit and net operating expenses

	Existing operations £'000	Acquisitions £'000	2010 Total Continuing operations £'000	2009 Total Continuing operations £ 000
Cost of sales	224,698	1,727	226,425	273,458
Gross profit	72,244	1,516	73,760	68,667
Selling and distribution expenses	15,716	-	15,716	15,295
Other administrative expenses	58,685	507	59,192	68,902

4 Exceptional administrative expenses

	2010 £'000	2009 £ 000
Impairment of goodwill (note 11)	-	103
Impairment of other intangible fixed assets (note 11)	-	708
Impairment of fixed asset investments (note 13)	15,229	8,374
	15,229	9,185

At 30 June 2010, the directors considered the carrying value of goodwill as compared to the discounted future cash flows of the underlying individual business units This led to an impairment provision of £Nil (2009 £103,000)

At 30 June 2010, the directors reviewed the carrying value of other intangible fixed assets and this led to an impairment provision of £Nil (2009 £708,000)

The discount rate used in the impairment test was 10% (2009 10%)

During the year, the company received dividend income of £309,578,000 (2009 £31,376,000) from a number of its directly held subsidiaries The effect of this was to trigger a write down in the carrying value of the investments in the relevant subsidiaries by an equal amount The dividend income and associated impairment charges have been treated net in the profit and loss account Where impairment charges exceed the dividends received, the excess charge has been included within exceptional administrative expenses, at 30 June 2010 this amounted to £15,229,000 (2009 £8,374,000)

Notes to the financial statements for the year ended 30 June 2010 (continued)

5 Operating (loss) / profit

Operatıng (loss) / profit ıs stated after chargıng

	2010 £'000	2009 £ 000
Amortısatıon of ıntangıble fixed assets (note 11)	**10,090**	9,417
Depreciatıon of tangıble fixed assets (note 12)		
- owned	**4,708**	5,878
- leased	**262**	924
Loss from fixed asset dısposals	**21**	60
Operatıng lease charges		
- plant and machınery	**1,673**	906
- other	**8,247**	8,225
Research and development costs	**4,042**	3,393
Audıtors' remuneratıon – fees payable for the audıt of the company's financıal statements	**93**	65
Audıtors' remuneratıon – tax servıces	**360**	402

6 Directors' remuneration

	2010 £'000	2009 £ 000
Aggregate emoluments	**341**	512

Retırement benefits are accruıng to two dırectors (2009 one) under the company s defined benefit pensıon scheme

Fıve dırectors (2009 two) hold share optıons ın the ultımate parent undertakıng, Parker Hannıfin Corporatıon One of the dırectors (2009 one) exercısed optıons durıng the year

	2010 £'000	2009 £'000
Hıghest paid dırector		
Aggregate emoluments	**181**	189

The amount of pensıon and pensıon lump sum accruıng for the hıghest paıd dırector at 30 June 2010 was £38,000 (2009 £Nıl) and £190,000 (2009 £Nıl) respectıvely

Notes to the financial statements for the year ended 30 June 2010 (continued)

7 Employee information

The average monthly number of persons employed by the company, including executive directors, during the year and their payroll costs were as follows

	2010 Number	2009 Number
Production	**1,091**	1,408
Administration	**1,277**	1,400
	2,368	2,808

	2010 £'000	2009 £'000
Wages and salaries	**66,365**	78,725
Social security costs	**7,219**	8,348
Pension costs	**7,605**	8,816
Share based payments (note 24)	**935**	802
	82,124	96,691

8 Interest receivable and similar income

	2010 £'000	2009 £ 000
On bank deposits	**5**	213
On amounts owed by group undertakings	**35**	260
	40	473

9 Interest payable and similar charges

	2010 £'000	2009 £'000
On overdrafts and bank loans	**6**	117
On amounts owed to group undertakings	**23,199**	31,700
Finance lease interest	**-**	8
	23,205	31,825

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2010 (continued)

10 Tax on loss on ordinary activities

	2010 £'000	2009 £ 000
Current tax		
UK corporation tax at 28% (2009 28%)	**(1,556)**	(2,576)
Adjustments in respect of previous periods	**(2,588)**	1,477
Total current tax credit	**(4,144)**	(1,099)
Deferred tax		
Origination and reversal of timing differences (note 18)	**(1,285)**	(2,175)
Tax credit on loss on ordinary activities	**(5,429)**	(3,274)

The tax assessed for the year is higher (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010 £'000	2009 £ 000
Loss on ordinary activities before taxation	**(22,016)**	(52,938)
Loss on ordinary activities multiplied by standard rate in the UK of 28% (2009 28%)	**(6,164)**	(14,823)
Effects of		
Expenses not deductible for tax purposes	**94,739**	14,307
Dividend income not taxable	**(91,901)**	(10,193)
Capital allowances in excess of depreciation and other timing differences	**1,773**	9,283
Transfer pricing adjustment	**95**	(1,050)
Adjustments in respect of previous periods	**(2,588)**	1,477
Research and development relief	**(98)**	(100)
Total current tax credit	**(4,144)**	(1,099)

Notes to the financial statements for the year ended 30 June 2010 (continued)

11 Intangible fixed assets

	Goodwill £'000	Patent £'000	Trademark £'000	Other intangibles £'000	Negative goodwill £'000	Total £'000
Cost						
At 1 July 2009	210,051	6,415	30,067	25,979	(388)	272,124
Additions from trade transfers	1,027	-	-	-	-	1,027
Disposals	-	-	-	(335)	-	(335)
At 30 June 2010	**211,078**	**6,415**	**30,067**	**25,644**	**(388)**	**272,816**
Amortisation and impairment						
At 1 July 2009	125,936	1,324	4,601	8,463	(262)	140,062
Charge for the year	5,900	299	1,492	2,418	(19)	10,090
Disposals	-	-	-	(34)	-	(34)
At 30 June 2010	**131,836**	**1,623**	**6,093**	**10,847**	**(281)**	**150,118**
Net book value						
At 30 June 2010	**79,242**	**4,792**	**23,974**	**14,797**	**(107)**	**122,698**
At 30 June 2009	84,115	5,091	25,466	17,516	(126)	132,062

On 1 July 2009, the company acquired the UK trade and assets of Parker-Origa Limited, a company incorporated in England for a consideration of £537,000 The fair value of the net assets acquired was £238,000 which resulted in goodwill arising of £299,000 (note 23)

On 30 April 2010, the company acquired the UK trade and assets of Legris Limited, a company incorporated in England for a consideration of £2,062,000 The fair value of the net assets acquired was £1,334,000 which resulted in goodwill arising of £728,000 (note 23)

At 30 June 2010, the directors considered the carrying value of goodwill as compared to the discounted future cash flows of the underlying individual business units This led to an impairment provision of £Nil (2009 £103,000)

At 30 June 2010, the directors reviewed the carrying value of other intangible fixed assets and this led to an impairment provision of £Nil (2009 £708,000)

Notes to the financial statements for the year ended 30 June 2010 (continued)

12 Tangible fixed assets

	Land and buildings				
	Freehold	Long leasehold	Short leasehold	Plant and equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 July 2009	13,245	2,428	520	33,884	50,077
Additions	279	63	-	1,485	1,827
Disposals	-	-	-	(17,659)	(17,659)
Reclassifications	598	(598)	-	-	-
Intra-group transfers	-	-	-	(184)	(184)
At 30 June 2010	**14,122**	**1,893**	**520**	**17,526**	**34,061**
Depreciation					
At 1 July 2009	1,814	482	84	19,769	22,149
Charge for the year	633	23	58	4,256	4,970
Disposals	-	-	-	(17,542)	(17,542)
Reclassifications	250	(250)	-	-	-
Intra-group transfers	-	-	20	(147)	(127)
At 30 June 2010	**2,697**	**255**	**162**	**6,336**	**9,450**
Net book value					
At 30 June 2010	**11,425**	**1,638**	**358**	**11,190**	**24,611**
At 30 June 2009	11,431	1,946	436	14,115	27,928

Included within plant and equipment are assets held under finance leases with a capitalised cost of £208,000 (2009 £5,235,000) and a net book value of £170,000 (2009 £1,659,000)

Notes to the financial statements for the year ended 30 June 2010 (continued)

13 Investments

	Subsidiary undertakings £'000
Cost	
At 1 July 2009	410,794
Additions	109,114
At 30 June 2010	**519,908**
Impairment	
At 1 July 2009	102,565
Charge for the year	324,807
At 30 June 2010	**427,372**
Net book value	
At 30 June 2010	**92,536**
At 30 June 2009	308,229

On 30 November 2009, the company acquired 100% of the ordinary share capital of Scanrope Limited for a consideration of £103,000

On 30 March 2010, the company acquired 100% of the ordinary share capital of SSD Drives Limited for a consideration of £109,011,000

During the year, the company received dividend income of £309,578,000 (2009 £31,376,000) from a number of its directly held subsidiaries The effect of this was to trigger a write down in the carrying value of the investments in the relevant subsidiaries by an equal amount The dividend income and associated impairment charges have been treated net in the profit and loss account Where impairment charges exceed the dividends received, the excess charge has been included within exceptional administrative expenses, at 30 June 2010 this amounted to £15,229,000 (2009 £8,374,000) Where dividends received exceeded impairment charges or were received from investments which were not impaired, the excess dividend income has been included within income from fixed asset investments, at 30 June 2010 this amounted to £18,526,000 (2009 £5,029,000) At 30 June 2010, the total impairment charge applied to the carrying value of the investment in subsidiaries was £324,807,000 (2009 £39,750,000), being the sum of impairment charges netted against dividends received, and the excess impairment included within exceptional administrative expenses

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2010 (continued)

13 Investments (continued)

At 30 June 2010, the company held shares in the allotted share capital of the following companies

	County of registration and operation	Percentage held	Nature of business
* Indirectly held			
Parker Hannifin (2004) Limited	England	100%	In liquidation
Parker Hannifin Pension Trustees Limited	England	100%	Dormant
Commercial Intertech Limited	England	100%	Dormant
Denison International Limited	England	100%	In liquidation
* Denison Financial Holdings Limited	England	100%	In liquidation
* Denison Hydraulics UK Limited	England	100%	In liquidation
SSD Drives Holdings Limited	England	100%	In liquidation
SSD Drives Limited	England	100%	Dormant
* SSD Drives Holdings 2 Limited	England	100%	In liquidation
* SSD Drives Holdings 3 Limited	England	100%	In liquidation
* SSD Drives Holdings 4 Limited	England	100%	In liquidation
* SSD Drives Holdings 5 Limited	England	100%	In liquidation
Sterling Hydraulics Limited	England	100%	In liquidation
Kenmore UK Limited	England	100%	Dormant
Virginia KMP Limited	England	100%	Dormant
Parker Hannifin RAC Limited	England	100%	In liquidation
Zander (UK) Limited	England	100%	In liquidation
Tecknit Europe Limited	England	100%	Dormant
domnick hunter Group Limited	England	100%	Intermediate holding company
* domnick hunter Limited	England	100%	Dormant
* domnick hunter Fabrication Limited	England	100%	Dormant
* domnick hunter Overseas Limited	England	100%	In liquidation
* domnick hunter Nihon Limited	England	100%	In liquidation
* domnick hunter Finance Limited	England	100%	In liquidation
* domnick hunter Trustees Limited	England	100%	Dormant
* domnick hunter Investments Limited	Scotland	100%	Intermediate holding company
* domnick hunter Technologies Limited	England	100%	In liquidation
* domnick hunter Filters Limited	England	100%	In liquidation
* Tanlea Engineering Limited	England	100%	Dormant
Rectus-Tema (UK) Limited	England	100%	In liquidation

Notes to the financial statements for the year ended 30 June 2010 (continued)

13 Investments (continued)

	County of registration and operation	Percentage held	Nature of business
* Indirectly held			
KV Process Controls Limited	England	100%	In liquidation
Ultraline Limited	England	100%	In liquidation
* Dumfries Realisations (No1) Limited	Scotland	100%	In liquidation
Parker Hannifin Trading Limited	England	100%	In liquidation
Parker-Origa Limited	England	100%	Manufacturing and distribution
Legris Limited	England	100%	Marketing
Vansco Electronics (UK) Limited	England	100%	Marketing
Scanrope Limited	England	100%	Support services

14 Stock

	2010 £'000	2009 £'000
Raw materials	**2,096**	1,884
Work in progress	**1,535**	1,732
Finished goods	**19,945**	26,226
	23,576	29,842

15 Debtors

	2010 £'000	2009 £'000
Trade debtors	**39,379**	37,932
Amounts owed by group undertakings	**167,797**	36,651
Deferred tax (note 18)	**10,979**	9,218
Prepayments and accrued income	**2,656**	2,759
	220,811	86,560

Amounts owed by group undertakings are unsecured and have no fixed date of repayment

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2010 (continued)

16 Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	**26,779**	18,119
Amounts owed to group undertakings	**331,715**	464,195
Obligations under finance leases	**99**	910
Other creditors	**-**	362
Accruals and deferred income	**12,316**	12,264
	370,909	495,850

Other amounts owed to group undertakings are unsecured and repayable on demand

The gross obligation under finance leases of £99,000 (2009 £910,000) is reduced by deferred interest of £Nil (2009 £Nil)

17 Creditors: amounts falling due after more than one year

	2010 £'000	2009 £ 000
Amounts owed to group undertakings - debenture loan	**114,360**	114,360

At 30 June 2010, the balance on the 7 4% fixed rate unsecured loan notes issued to Parker Hannifin 2007 LLP was £114,360,000 The loan notes are redeemable at par either on 14 June 2012, or not less than 13 months from the date of issuing written notice to the loan note issuer The loan notes are quoted on the Channel Islands Stock Exchange At 30 June 2010, accrued interest in respect of these loan notes amounted to £25,782,000 (2009 £17,319,000) and this is included within amounts owed to group undertakings within Creditors amounts falling due within one year (note 16)

Notes to the financial statements for the year ended 30 June 2010 (continued)

18 Deferred tax

	2010 £'000	2009 £'000
At 1 July	**(20,821)**	(10,862)
Credit to the profit and loss account (note 10)	**(1,285)**	(2,175)
Charge / (credit) to the statement of total recognised gains and losses	**980**	(7,784)
	(21,126)	(20,821)
Deferred tax at 30 June on pension deficit (note 21)	**10,147**	11,603
At 30 June (note 15)	**(10,979)**	(9,218)

The deferred tax asset included in the balance sheet is as follows

	2010 £'000	2009 £ 000
Accelerated capital allowances	**(10,164)**	(8,580)
Pension	**(10,147)**	(11,660)
Other short term timing differences	**(5)**	(33)
Share options	**(810)**	(548)
	(21,126)	(20,821)
Deferred tax asset relating to pension deficit (note 21)	**10,147**	11,603
	(10,979)	(9,218)

Deferred tax assets have been recognised as the company foresees it has sufficient future taxable profits against which the assets can be utilised

A deferred tax asset in respect of losses amounting to £10,459,000 (2009 £13,312,000) has not been provided due to the uncertainty regarding the timing of the recoverability of the asset

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements In addition, changes to the capital allowances regime were proposed including a reduction in the rate of capital allowances on plant and machinery from 20% to 18% with effect from 1 April 2012 The first reduction in the UK corporation tax rate, from 28% to 27%, will be effective from 1 April 2011

If these changes had been substantively enacted at the balance sheet date, the deferred tax asset at 30 June 2010 would be £19,400,000

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2010 (continued)

19 Called up share capital

	2010 £'000	2009 £ 000
Authorised		
151,766,621 ordinary shares of £1 each	**151,766**	151,766
Allotted, called up and fully paid		
151,766,621 ordinary shares of £1 each	**151,766**	151,766

20 Reserves

	Share premium account £'000	Share option reserve £'000	Capital contribution reserve £'000	Profit and loss account £'000
At 1 July 2009	7,900	2,081	-	(215,408)
Loss for the financial year	-	-	-	(16,587)
Addition to share option reserve	-	935	-	-
Addition to capital contribution reserve	-	-	41,619	-
Actuarial gain on pension scheme	-	-	-	3,500
Movement on deferred tax relating to pension scheme	-	-	-	(980)
At 30 June 2010	**7,900**	**3,016**	**41,619**	**(229,475)**

On 30 June 2010, the company received a capital contribution amounting to £41,619,000 (2009 £Nil) from Parker Hannifin (GB) Limited, the immediate parent undertaking The purpose of the contribution was to address the level of net liabilities as identified in the previous year's annual report

Notes to the financial statements for the year ended 30 June 2010 (continued)

21 Pensions

The company's main defined benefit pension arrangement in the UK is the Parker Hannifin Pension and Death Benefit Plan (the 'Parker Plan'), which provides benefits on a defined benefit basis On 30 June 2004, the Parker Plan was closed to new employees, however benefits continue to accrue for existing members The company also operates four closed defined benefit schemes under which benefits cease to accrue These schemes are the Commercial Hydraulics Kontak Limited Pension and Life Assurance Scheme (the Kontak Staff Plan'), the Commercial Intertech Limited Retirement Benefits Plan, the Ultra Group Pension Scheme and the Commercial Hydraulics Kontak Limited Cash Retirement and Death Benefit Plan for Works Employees (the 'Kontak Works Plan) The company also operates a defined contribution scheme

During the year, the company made a special contribution of £3 5 million (2009 £6 0 million) The company s current contribution rate to the Parker Plan is 17 2% (2009 19 8%) of pensionable pay The company contributed £7 3 million (2009 £9 6 million) in total to the Parker Plan during the year which includes the special contribution of £3 5 million (2009 £6 0 million)

For the purpose of Financial Reporting Standard 17, the disclosures below set out the valuations as at 30 June 2010 of the defined benefit section of the Parker Plan and of the closed Kontak Staff Plan The valuation has been made under the Projected Unit Credit actuarial method to assess the Plans liabilities The most recent assessment of the Parker Plan s financial position was carried out as at 30 June 2008 and the most recent formal valuation of the Kontak Staff Plan was carried out on 6 April 2007 These assessments have been updated to 30 June 2010 by qualified actuaries who are independent of the company

The Commercial Intertech Limited Retirement Benefits Plan and the Ultra Group Pension Scheme were merged into the Parker Plan on 3 July 2003 and historic figures in respect of these arrangements are included in the disclosures Historic figures are also included in respect of the Kontak Works Plan which was wound up and members' benefits secured with an insurance company with effect from 30 June 2004

The Parker Plan closed to new members on 30 June 2004 and so the service cost is expected to increase as the members approach their retirements

The financial assumptions used to calculate scheme liabilities under Financial Reporting Standard 17 at 30 June 2010 were

	30 June 2010 **% pa**	30 June 2009 % pa	30 June 2008 % pa
Rate of increase in salaries	**4.5**	4 7	4 9
Rate of increase in pensions in payment and in deferment	**3.3**	3 5	3 9
Discount rate	**5.4**	6 1	6 7
Rate of inflation	**3.5**	3 7	3 9

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements The assumptions are that a member currently aged 65 will live on average for a further 19 years (2009 19 years) if they are male, and for a further 21 years (2009 21 years) if they are female

Notes to the financial statements for the year ended 30 June 2010 (continued)

21 Pensions (continued)

The investments of the Plans are externally managed The assets and liabilities of the Plans and the expected rates of return at 30 June 2010 are as follows

Value at 30 June 2010

		Schemes in surplus £m	Schemes in deficit £m	Total £m
Equities		-	117 0	117 0
Bonds		-	41 1	41 1
Fixed interest gilts		-	2 9	2 9
Index linked gilts		-	38 1	38 1
Other		-	5 9	5 9
Total market value of assets		-	205.0	205 0
Overall rate of return	8 0%			
Present value of plan liabilities		-	(241 2)	(241.2)
Deficit in the plan		-	(36 2)	(36 2)
Related deferred tax asset		-	10 1	10 1
Net pension liability		-	(26.1)	(26 1)

Value at 30 June 2009

		Schemes in surplus £m	Schemes in deficit £m	Total £m
Equities		-	111 5	111 5
Bonds		-	26 5	26 5
Fixed interest gilts		-	1 8	1 8
Index linked gilts		-	23 4	23 4
Other		-	7 3	7 3
Total market value of assets		-	170 5	170 5
Overall rate of return	8 0%			
Present value of plan liabilities		-	(211 9)	(211 9)
Deficit in the plan		-	(41 4)	(41 4)
Related deferred tax asset		-	11 6	11 6
Net pension liability		-	(29 8)	(29 8)

Notes to the financial statements for the year ended 30 June 2010 (continued)

21 Pensions (continued)

Reconciliation of present value of scheme liabilities	2010 £m	2009 £m
At 1 July	211 9	202 3
Current service cost	4 6	5 1
Interest cost	12 7	13 6
Contributions paid	1 4	1 4
Benefits paid	(9 6)	(6 2)
Actuarial loss / (gain)	20 2	(4 3)
At 30 June	241 2	211 9

Reconciliation of fair value of scheme assets	2010 £m	2009 £m
At 1 July	170 5	186 3
Expected return on scheme assets	11 7	11 7
Contributions paid	8 7	11 0
Benefits paid	(9 6)	(6 2)
Actuarial gain / (loss)	23 7	(32 3)
At 30 June	205 0	170 5

The actual return on scheme assets in the year was a surplus of £35 4 million (2009 deficit of £20 6 million)

	2010 £m	2009 £m
Operating loss		
Current service cost	(4.6)	(5 1)
Other finance costs		
Expected return on pension scheme assets	11 7	11 7
Interest on pension scheme liabilities	(12 7)	(13 6)
Net cost	(1 0)	(1 9)
Statement of total recognised gains and losses ("STRGL")		
Actual return less expected return on pension scheme assets	23 7	(32 3)
Experience gains and losses arising on scheme liabilities	2 3	6 8
Changes in assumptions underlying the present value of the scheme	(22 5)	(2 3)
Actuarial gain / (loss) recognised in the STRGL	3 5	(27 8)

The cumulative amount of actuarial losses recognised in the STRGL is £81 9 million (2009 £85 4 million)

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2010 (continued)

21 Pensions (continued)

Amounts for current and previous four years:	**2010 £m**	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	**205 0**	170 5	186 3	201 1	179 6
Defined benefit obligation	**(241 2)**	(211 9)	(202 3)	(203 8)	(206 7)
Deficit in scheme	**(36 2)**	(41 4)	(16 0)	(2 7)	(27 1)
Experience gains and losses on scheme assets	**23 7**	(32 3)	(32 1)	4 4	10 5
Experience gains and losses on scheme liabilities	**2 3**	6 8	(0 7)	2 6	(6 2)
Total amount recognised in the STRGL	**3 5**	(27 8)	(19 3)	17 7	(6 8)

The estimated amount to be charged to the profit and loss account for the year ending 30 June 2011 is as follows

	£m
Current service cost	**3.6**
Expected return on pension scheme assets	**(15 1)**
Interest on pension scheme liabilities	**12 6**
	1 1

The actual amount to be charged to the profit and loss account for the next financial year is likely to be different from that estimated above This may be due to changes to scheme benefits, settlement / curtailment events that are not yet known or actual scheme cash flows being different to expected cash flows

Defined contribution scheme

The cost of contributions made by the company to the defined contribution scheme amounted to £3,055,000 (2009 £2,019,000)

22 Financial commitments

At 30 June 2010, the company had annual commitments under non-cancellable operating leases expiring as follows

	2010			2009		
	Land and buildings £'000	**Other £'000**	**Total £'000**	Land and buildings £ 000	Other £ 000	Total £ 000
Within one year	**2,370**	**492**	**2,862**	2,462	210	2,672
Within two to five years	**2,313**	**1,918**	**4,231**	1,335	1,804	3,139
After five years	**3,065**	**104**	**3,169**	1,680	-	1,680
	7,748	**2,514**	**10,262**	5,477	2,014	7,491

Notes to the financial statements for the year ended 30 June 2010 (continued)

23 Acquisitions

On 1 July 2009, the company acquired the UK trade and assets of Parker-Origa Limited at market value for a consideration of £537,000

On 30 April 2010, the company acquired the UK trade and assets of Legris Limited at market value for a consideration of £2,062,000

The fair values of the assets and liabilities at the date of acquisition were as follows

	Parker-Origa Limited £'000	**Legris Limited £'000**	**Total £'000**
Fixed assets	45	4	**49**
Stock	16	16	**32**
Debtors	525	2,009	**2,534**
Cash at bank and in hand	59	9	**68**
Creditors	(175)	(577)	**(752)**
Deferred tax	(232)	(127)	**(359)**
Net assets acquired	238	1,334	**1,572**
Goodwill (note 11)	299	728	**1,027**
Consideration – current debt	537	2,062	**2,599**

The trading results of Parker-Origa Limited and Legris Limited were as follows

	Parker-Origa Limited 18 months to 30 June 2009 £'000	**Legris Limited 10 months to 30 April 2010 £'000**
Turnover	3,773	4,828
Operating profit	272	452
Profit on ordinary activities before taxation	283	453
Tax on profit on ordinary activities	(85)	-
Profit for the financial period	198	453

The profit for the financial period for Parker-Origa Limited for the year ended 31 December 2007 was £186,000

The profit for the financial period for Legris Limited for the 18 months ended 30 June 2009 was £949,000

Notes to the financial statements for the year ended 30 June 2010 (continued)

24 Employee share schemes

Share based payments

The company s ultimate parent undertaking, Parker Hannifin Corporation, has stock incentive plans that provide for the granting of nonqualified options and stock appreciation rights ("SARs") to officers, directors and key employees of the group The nonqualified stock options allow the recipient to purchase shares of common stock at a price not less than 100% of the fair market value of the stock on the date options are granted Outstanding options and SARs are exercisable from one to three years after the date of grant and expire no more than ten years after grant

The number and weighted average exercise prices of share options are as follows

	2010 Number of options	2010 Weighted average exercise price USD	2009 Number of options	2009 Weighted average exercise price USD
Outstanding at 1 July	217,775	55.35	149,444	50 70
Granted during the year	109,234	49 46	71,810	65 34
Forfeited during the year	(4,975)	55 55	(3,479)	61 95
Exercised during the year	-	-	-	-
Outstanding at 30 June	322,034	53 35	217,775	55 35
Exercisable at 30 June	225,016	53 33	148,943	51 36

The weighted average fair value of options granted in the year was US$1,695,000 (2009 US$1,182,000)

The options outstanding at 30 June 2010 have a weighted average exercise price of US$53 35 (2009 US$55 35) and a weighted average remaining contractual life of 5 6 years (2009 6 1 years)

Notes to the financial statements for the year ended 30 June 2010 (continued)

24 Employee share schemes (continued)

Share based payments (continued)

The fair values for the significant stock-based awards granted in 2010 and 2009 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions

	2010	2009
Fair value at measurement date	**US$15 52**	US$16 46
Weighted average share price	**US$49 46**	US$65 34
Exercise price	**US$49 46**	US$65 34
Expected volatility	**34 5%**	26 6%
Expected option life	**5 3 years**	4 9 years
Expected dividends	**1 4%**	1 3%
Risk free interest rate	**2 9%**	3 2%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options) Expected dividends are based on historical dividends Changes in the subjective input assumptions could materially affect the fair value estimate

The total expenses recognised for the year arising from share based payments are as follows

	2010 £'000	2009 £ 000
Equity settled share based payments	**935**	802

25 Cash flow statement and related party transactions

The company is a wholly owned subsidiary of Parker Hannifin Corporation and is included in their consolidated financial statements, which are publicly available Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996)

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Parker Hannifin Corporation group

26 Immediate and ultimate parent undertakings

The immediate parent undertaking is Parker Hannifin (GB) Limited, a company incorporated in the United Kingdom

The ultimate parent undertaking and controlling party is Parker Hannifin Corporation, a company incorporated in the USA Parker Hannifin Corporation is the parent undertaking of the largest and smallest group to consolidate the company s financial statements and copies of its consolidated financial statements can be obtained from the company secretary, Parker Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio, 44124-4141, USA