Applied Industrial Technologies, Inc.
Board of Directors Governance Principles and Practices

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INTRODUCTION

The Board of Directors of Applied Industrial Technologies, Inc. ("Applied") has adopted these governance principles and practices to guide it in serving the best interests of Applied and its shareholders. The Board intends that these principles and practices serve as a flexible framework within which the Board may conduct its business, not as a set of binding legal obligations. This document should be interpreted in the context of all applicable laws, stock exchange listing standards, Applied's Articles of Incorporation, Code of Regulations, Board committee charters, Board actions, and other governing documents.

ROLES AND RESPONSIBILITIES

ROLE OF SENIOR MANGEMENT

Senior management, led by the Chief Executive Officer, is responsible for running Applied's day-to-day operations and appropriately informing the Board of the status of the operations.

ROLE OF BOARD OF DIRECTORS

The Board oversees management's performance on behalf of the shareholders. Directors are expected to exercise sound business judgment and to act in good faith in what they reasonably believe to be in or not opposed to the best interests of Applied.

The Board's primary duties are as follow:

Strategy. The Board oversees and evaluates corporate performance and approves strategic plans to enhance shareholder value. The selection of a time frame for the achievement of corporate goals is the responsibility of the directors.

Controls. The Board oversees and evaluates management's systems for internal control, financial reporting, and public disclosure.

Succession Planning. The Board plans for effective succession of Applied's chief executive officer.

DIRECTOR ACCESS TO OFFICERS AND EMPLOYEES

Directors have full and free access to Applied's officers and employees. Any meetings or contacts that a director wishes to initiate may be arranged through the Chief Executive Officer or the Secretary or directly by the director. Directors are expected to use their judgment to ensure that any such contact is not disruptive to Applied's operations.

RETENTION OF OUTSIDE ADVISORS

The Board and its committees may retain outside advisors – e.g., legal, accounting, investment banking, compensation, and executive search – of their choosing at Applied's expense. The Board need not obtain management's consent to retain outside advisors.

DIRECTOR ORIENTATION AND CONTINUING EDUCATION

New directors participate in a comprehensive orientation to acquaint them with Applied's strategy, long-term plans, financial statements, operations, corporate governance guidelines, and the code of business ethics. From time to time, directors are also provided information and updates on legal and regulatory changes that affect Applied and the directors.

Continuing education is one of the key sources of ideas for improvement that directors introduce to the Board. To promote participation in continuing education, Applied reimburses directors for expenses incurred in attending one outside training program, germane to the director's service on the Board, per year. Directors will notify the Board's Chairman or the presiding non-management director of their intent to attend a training program. The Secretary is available to help research and select appropriate training programs.

In addition to ideas learned through continuing education, directors are encouraged to share improvement ideas from other boards on which they serve, and from their own companies.

BOARD ORGANIZATION

SIZE AND STRUCTURE

Size

Either the shareholders or the Board may change the number of directors, provided that the number shall be no fewer than 9, nor more than 14. The Board periodically reviews its size to ensure that the current number of members is effective.

Classification

The Board is divided into three classes (designated Classes I, II, and III), as nearly equal in size as possible. If the number of directors is changed, the increase or decrease is to be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible.

Chairman

A Chairman may be elected by the Board from among the directors to preside at Board meetings.

The current Chairman of the Board, Peter C. Wallace, is an independent director. The independent Chairman's responsibilities, in addition to presiding at Board meetings, include the following: setting the agenda for Board meetings in cooperation with the CEO; communicating with the CEO regarding the executive sessions of the non-management directors and other matters; and serving as a mentor and advisor to the CEO.

Presiding Non-management Director

Applied's non-management directors meet in executive sessions without management, typically at every regular Board meeting. If the Board Chairman is an independent director, then that individual serves as presiding director for these sessions.

Director Independence

Subject to applicable statutory and regulatory (including stock exchange) requirements, as well as Applied's Director Independence Standards, the Board determines on a case-by-case basis whether a director or director candidate is "independent".

DIRECTOR TENURE

Term of Office

One of the classes is elected for a three-year term of office at each annual shareholders meeting (for example, directors of Class III were elected at the 2017 annual meeting for a term expiring in 2020). When a new director is elected to fill a vacancy, the director's term shall coincide with the remaining term of his or her class.

Election – Majority Voting Policy

In an uncontested election of directors, if any nominee for director receives a greater number of votes "Withheld" from his or her election than votes "For" his or her election (a "Majority Withheld Vote"), then promptly following certification of the shareholder vote the director nominee shall submit, in writing, to the Board's Chairman or presiding non-management director, his or her resignation as a director. The Chairman or presiding non-management director shall promptly communicate the submission to the Corporate Governance Committee. Notwithstanding the tendered resignation, the Corporate Governance Committee may recommend to the Board that the director nominee be asked to serve as a director for his or her term of election and under such arrangements as are approved by the committee. If the Corporate Governance Committee fails to make such a recommendation to the Board within 30 days following certification of the shareholder vote, or if the committee earlier determines to accept such resignation, the director's resignation shall be effective as of that date. If the Corporate Governance Committee recommends to the Board that the director be asked to serve his or her term as a director notwithstanding the Majority Withheld Vote, the Board shall act promptly (and in any event, within 90 days following certification of the shareholder vote) on such recommendation. As soon as practicable thereafter, Applied shall publicly disclose the Corporate Governance Committee and/or the Board's decision (citing the reasons for rejecting the resignation offer, if applicable), via press release, Securities and Exchange Commission filing or other method of disclosure consistent with Applied's public disclosure policies. Any director who submits a resignation pursuant to this provision shall not participate in the Corporate Governance Committee and/or the Board's deliberations regarding whether to accept or reject the resignation. However, if each member of the Corporate Governance Committee received a Majority Withheld Vote at an election, then the directors who meet Applied's independence standards and who did not receive a Majority Withheld Vote shall appoint a special committee comprised exclusively of independent directors to consider whether to accept or reject each resignation. Furthermore, and notwithstanding the foregoing, if there are three or fewer independent directors who did not receive a Majority Withheld Vote in an election, the entire Board shall determine the appropriate course of action with respect to each resignation and all directors may participate in the Board's deliberations and actions regarding whether to accept or reject each resignation.

No Limit on Number of Terms

There is no limit to the number of terms a director may serve.

Mandatory Retirement Policy

- *Outside Directors*. A director who is not and has not been an Applied executive officer is required to submit, in writing, his or her retirement as a director to the Board's Chairman or presiding non-management director, effective at the annual meeting of shareholders that immediately follows the person's attainment of age 72; provided, however, the retirement shall automatically be deemed tendered if the director's term would otherwise expire at that meeting. The submission shall be made at least 120 days prior to that annual meeting. The Chairman or presiding non-management director shall promptly communicate the submission to the Corporate Governance Committee. Notwithstanding the tendered retirement, the Corporate Governance Committee may recommend to the Board that the director be asked to continue his or her service as a director for such term and under such arrangements as are approved by the committee. If the Corporate Governance Committee does not make such a recommendation to the Board, the retirement shall take effect as scheduled.

- *Inside Directors*. A director who is or has been an Applied executive officer may not stand for reelection as a director after having attained age 65.

Change in Employment Status

Upon a change in a director's primary employment status (i.e. terminating employment with one's company, whether voluntary or not), or at any time in the six months preceding the change, the director is required to submit, in writing, his or her resignation as a director to the Board's Chairman or presiding non-management director, who shall promptly communicate the submission to the Corporate Governance Committee. Notwithstanding the tendered resignation, the Corporate Governance Committee may recommend to the Board that the director be asked to continue his or her service as a director for such term and under such arrangements as are approved by the committee. If, at its next meeting following the resignation's tender, the Corporate Governance Committee does not make such a recommendation to the Board, the resignation shall be effective as of the date of that meeting or, at the committee's option (and subject to the director's assent), at the next annual meeting of shareholders.

SELECTION OF NEW DIRECTORS

Process

The Corporate Governance Committee (on its own or through a subcommittee) determines appropriate methods for selecting candidates for nomination as directors. In general, when a vacancy occurs in a class or is created by an increase in directors (by the shareholders or the Board), the remaining directors may, by a vote of a majority of the Board, fill the vacancy for the remainder of the term. The Corporate Governance Committee may retain and terminate a professional search firm to assist in identifying and evaluating director candidates; if it does choose to retain a search firm, then the committee has sole authority to approve the firm's fees and other retention terms.

Qualifications

In identifying and evaluating director candidates, the Corporate Governance Committee first considers the company's developing needs and the desired characteristics of a new director, as determined from time to time by the committee. The committee then considers a candidate's business, strategic, and financial skills, independence, integrity, time availability, diversity attributes (such as gender, race, and other personal characteristics), as well as overall experience in the context of the Board's needs. The Board shall have a majority of directors who meet the criteria for independence required by the New York Stock Exchange.

Shareholder Nominations

The Corporate Governance Committee will consider qualified candidates for director nominees recommended by shareholders. Shareholders can submit candidate recommendations by writing to the Secretary. The letter must be submitted in a timely manner and include appropriate detail regarding the identity of the shareholder and the business, professional, and educational background and independence of the candidate. The committee does not intend to evaluate candidates proposed by shareholders differently than it evaluates other candidates.

COMMITTEE ORGANIZATION

ESTABLISHMENT OF COMMITTEES

The Board may, by a majority vote of the whole Board, appoint certain directors, but not less than three, to act as a committee, and may delegate to the committee any of the Board's authority, other than the power to fill any vacancy on the Board or in any committee.

CURRENT COMMITTEES

The Board has established the following standing committees: Audit Committee, Corporate Governance Committee, Executive Committee, and Executive Organization & Compensation Committee. The Board has approved a charter for each committee, except the Executive Committee, that defines the scope of the committee's authority and responsibilities. The Executive Committee generally may exercise the Board's powers during the intervals between Board meetings.

Each committee chair reports to the full Board on the matters undertaken at each committee meeting. Minutes of committee meetings are provided to the full Board after approval.

MEMBERSHIP OF COMMITTEES

Audit Committee

The Audit Committee shall be composed entirely of independent directors who are financially literate. At least one member of the committee shall have accounting or related financial management expertise, as the Board interprets such qualification in its business judgment.

Corporate Governance Committee

The Corporate Governance Committee shall be composed entirely of independent directors.

Executive Organization & Compensation Committee

The Executive Organization & Compensation Committee shall be composed entirely of independent directors.

Executive Committee

The Executive Committee members include the Chairman of the Board, the presiding non-management director, the chairs of the other committees, and the Corporation's Chief Executive Officer (if a director).

NUMBER OF COMMITTEE MEETINGS

By charter, each of the Audit Committee and the Executive Organization & Compensation Committee meets at least four times per year. The Corporate Governance Committee is required by charter to meet at least once per year, but in fact typically meets 3-6 times per year, depending on matters then under consideration.

ROTATION OF COMMITTEE MEMBERSHIPS

The Board, in general, makes committee assignments in a manner that effects a gradual rotation of committee membership. Continuity is promoted by typically selecting the chair from among the committee's current or recent members.

BOARD AND COMMITTEE MEETINGS

BOARD MEETING SCHEDULE

The Board holds at least four regular meetings, typically scheduled in January, April, June, and October. The October meeting is the organizational meeting at which officer elections and committee assignments are made. Dates and places are determined in advance.

Special meetings may be held at any time upon proper call and notice. Pursuant to the Code of Regulations, special meetings may be called by the Chairman, the President, or any five directors. In addition, the Board recognizes and acknowledges that the Chief Executive Officer and the presiding non-management director may each call a special Board meeting.

COMMITTEE MEETING SCHEDULE

Dates and places are determined in advance. Attempts will be made to schedule committee meetings the afternoon before a Board meeting in order to preserve extra time for Board meetings. In addition, parallel committee meetings may be scheduled where useful in preserving director time.

QUORUM

A majority of the directors constitutes a quorum for Board meetings. A majority of a committee’s members constitutes a quorum for committee meetings.

ATTENDANCE

The Board expects that each director will attend 100%, or as high a percentage as possible, of his or her Board and committee meetings. Failure to attend 75% of the meetings in a fiscal year requires disclosure in the company’s proxy statement. If a director cannot attend a meeting, the director is expected to notify the Chairman or Secretary promptly. It may be possible for a director to participate by telephone if advance arrangements are made. Directors are also expected to attend the annual meeting of shareholders.

AGENDA

Management and committee chairs discuss meeting agenda items typically about 10 days before a committee meeting.

PRE-READ MATERIALS

Management is to prepare thorough but concise pre-read meeting materials and to deliver them to the Board and/or committee members typically about one week prior to the meeting date. The pre-read materials should reduce the time devoted to management presentations at the meetings, allowing more time for strategic dialogue among the directors. It is expected that the directors will read the materials in advance and be prepared for all meetings.

EXECUTIVE SESSIONS

Time is to be allowed at Board and committee meetings for executive sessions in which only the directors are present. The directors are asked to reflect on what they liked or disliked about the meeting and how meetings can be improved. The Board also holds regular executive sessions for non-management directors to meet without management present.

BOARD AND CEO EVALUATION AND MANAGEMENT SUCCESSION

BOARD EVALUATION

The Corporate Governance Committee initiates an annual review and evaluation of Board governance matters. The Committee presents the results of the review and evaluation to the full Board.

COMMITTEE EVALUATION

Each of the Audit, Corporate Governance, and Executive Organization & Compensation Committees conducts an annual performance self-evaluation.

INCUMBENT DIRECTOR EVALUATION

The Corporate Governance Committee reviews and evaluates the performance of incumbent directors whose term is scheduled to expire at the next annual meeting of shareholders. The committee assesses the director's independence, attendance, and overall performance. The committee presents the results of the review and evaluation to the full Board.

CEO EVALUATION

The Corporate Governance Committee initiates an annual review and evaluation of the CEO's performance, as provided for in the committee's charter. The committee presents the results of the review and evaluation to the full Board.

MANAGEMENT SUCCESSION

The Executive Organization & Compensation Committee monitors and oversees management's succession planning and leadership development processes. The committee performs a periodic evaluation of the processes' results and presents the evaluation to the Board. The committee also may establish, from time to time, policies regarding the selection of a chief executive officer and the succession process for the post (including in the event of an emergency or a retirement), considering the company's developing needs and the desired characteristics of a chief executive officer, as established by the Board or an appropriate committee.

DIRECTOR COMPENSATION AND STOCK OWNERSHIP GUIDELINE

Compensation of directors for service on the Board and any committee of the Board shall be determined from time to time by the Board as set forth below. Directors may not accept compensation in any form, including indemnification, for service on the Board or any committee of the Board from any party other than Applied. A director must report to the Secretary any actual or proposed arrangement with any third party relating to service on the Board or any committee of the Board.

INSIDE DIRECTORS

Corporate officers do not receive additional compensation for service as a director.

OUTSIDE DIRECTORS

The Corporate Governance Committee evaluates annually the compensation and benefits program for the directors and proposals relating thereto. If the committee believes that a change is necessary to make the level of compensation more competitive relative to the size and nature of Applied's business, then the committee presents its recommendation to the Board. The current compensation program for non-employee directors is as follows:

Retainer

Directors are paid a quarterly retainer of $21,250.

Chairman Retainer

The Chairman of the Board (if he or she is a non-management director) is paid an additional quarterly retainer of $12,500.

Committee Chair Retainer

Outside directors who serve as chairs of the following committees receive an additional quarterly retainer as follows:

- Audit Committee: $4,375
- Corporate Governance Committee: $2,500
- Executive Organization & Compensation Committee: $3,125

Expenses

Directors are reimbursed for expenses reasonably incurred in performing their director duties, including expenses incurred to attend director education seminars.

Deferred Compensation Plan

Until 2015, directors could participate in the Deferred Compensation Plan for Non-Employee Directors and defer their director fees into deemed investment accounts holding Applied common stock or money market funds. As of 2015, no new deferrals are accepted.

Stock-based Grants

In recent years, the Corporate Governance Committee has awarded each outside director annual stock-based grants under the Long-Term Performance Plan. Grants have taken the form of restricted shares of Applied common stock and/or options to purchase shares of Applied common stock. The restricted shares vest one year after the grant date, subject to various conditions as to forfeiture and acceleration of vesting. The stock options are exercisable at the market price on the grant date, with ten-year terms.

Insurance Plans

Directors participate in Applied's travel accident plan and, except as noted below, may also elect to participate in a contributory health care plan, at the active associate monthly contribution rate, if they do not have coverage available from a current or former employer. Retired directors (at least age 55) who participated in the health care plan while a director, and who do not have health care coverage available from a current or former employer, may continue to participate upon payment of monthly contributions equivalent to the then-current COBRA or COBRA-equivalent premium rate, in addition to applicable deductibles and copayments. The active and retiree director health care benefits are not, however, available to directors joining the Board subsequent to 2010.

STOCK OWNERSHIP GUIDELINE

Each outside director is expected to maintain, within five years of joining the Board, ownership of shares of Applied stock (directly or indirectly, including shares held in deferral accounts in the Deferred Compensation Plan for Non-Employee Directors) valued at a minimum of five times the annual retainer. The value of unexercised stock options and stock appreciation rights shall not count toward meeting the expected ownership level, but unvested restricted shares shall count.

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