



Donaldson®  
FILTRATION SOLUTIONS

DECEMBER 2017

# Corporate Social Responsibility Report

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### **COVER: Donaldson Global Headquarters Prairie and Pollinator Habitat Restoration**

In 2016, Donaldson Company, Inc. partnered with the Nine Mile Creek Watershed District, a local organization that manages, protects and enhances the water resources in the land area draining to Nine Mile Creek, to convert 2.5 acres of existing grass to native wildflower vegetation at the northwest corner of our Bloomington, Minnesota, headquarters campus. This native landscape will:

- Improve the water quality of runoff into the city sewers and the current storm water retention area on the campus,
- Restore the land to its native prairie condition,
- Utilize native plants to help attract pollinators and provide valuable habitat for songbirds and butterflies, and
- Beautify the area for our local community to enjoy.

## Letter From Our Chairman and CEO

In 1915, our company founder and namesake, Frank Donaldson Sr., invented and hand-fashioned a filter for a customer needing an immediate solution to keep his tractor running. More than 100 years later, Donaldson Company continues to build on his legacy of developing and maintaining strong customer relationships and using innovative technologies to solve complex filtration challenges.

Today Donaldson is recognized as a global leader in the filtration industry with sales, manufacturing and distribution locations that serve customers around the world. Key to our success is a longstanding commitment to providing solutions, assisting customers and doing the right thing in business and community.



“ At Donaldson, our employees embody the company’s values of Integrity, Respect and Commitment. ”

Doing the right thing permeates all aspects of our business, including:

- Applying uniformly high standards of ethics and business conduct in all our relationships.
- Being a good neighbor and making a positive difference in the communities where we live and work.
- Providing our employees with diverse, inclusive and safe environments with opportunities to learn and grow.
- Investigating and investing in ways to be a better environmental steward.

I am proud of the generations of Donaldson employees whose efforts have helped us provide industry-leading filtration technology and solutions. Together, as One Donaldson, we will continue to make a difference in our communities, provide innovative technologies that solve complex filtration challenges and enhance customers’ equipment performance.

A handwritten signature in blue ink that reads "Tod E. Carpenter". The signature is fluid and cursive, with a long horizontal stroke at the beginning.

Tod E. Carpenter  
Chairman, President and CEO

## About Donaldson Company

Donaldson is a leading global provider of filtration solutions, and we are continuously developing next generation products and services to solve complex filtration and contamination control challenges. As today's equipment and technology advances, our state-of-the-art internal resources, vast network of expert scientists and multi-disciplined engineers help us create innovative solutions to anticipate and exceed these evolving requirements.

Over 13,000 employees contribute to our success by supporting customers at sales, manufacturing and distribution locations around the world. Our customers are as varied as the industries they represent and include construction, agriculture, mining, manufacturing, power generation, aerospace and a variety of other industrial markets.

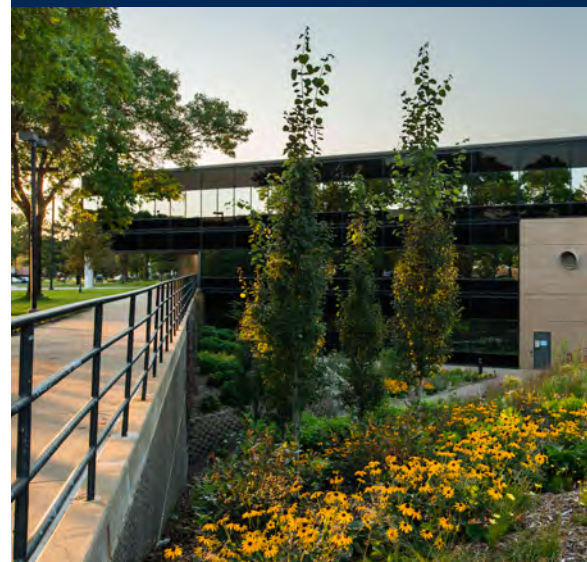
As Donaldson has grown and diversified, our technologies and products are utilized in increasing and ever-widening industries and environments. They are everywhere, from bulldozers and airplanes to hearing aids and personal computers. We deliver these technologies and products through two distinct business units: Engine Products and Industrial Products.

The Engine Products segment consists of replacement filters for both air and liquid filtration applications; air filtration systems; liquid filtration systems for fuel, lube and hydraulic applications; and exhaust and emissions systems. This segment also sells to original equipment manufacturers (OEMs) in the construction, mining, agriculture, aerospace, defense and truck end markets and to independent distributors, OEM dealer networks, private label accounts and large equipment fleets.

The Industrial Products segment consists of dust, fume and mist collectors; compressed air purification systems; air filtration systems for gas turbines, polytetrafluoroethylene (PTFE) membrane-based products; and specialized air and gas filtration systems for applications including hard disk drives and semiconductor manufacturing. This segment sells new systems and replacement parts through various dealers, distributors and, in certain industries, OEM customers.

## At A Glance

- Founded in 1915
- Revenue of \$2.4 billion
- More than 13,000 employees on 6 continents
- 40 manufacturing facilities, 9 distribution centers, 4 joint ventures
- Over 1800 active patents
- NYSE Symbol: DCI
- Donaldson has paid a dividend every quarter for more than 60 years, and has increased the dividend annually for more than 20 years
- Donaldson Foundation created in 1966
- Foundation awarded \$1.2M in grants in fiscal year 2017

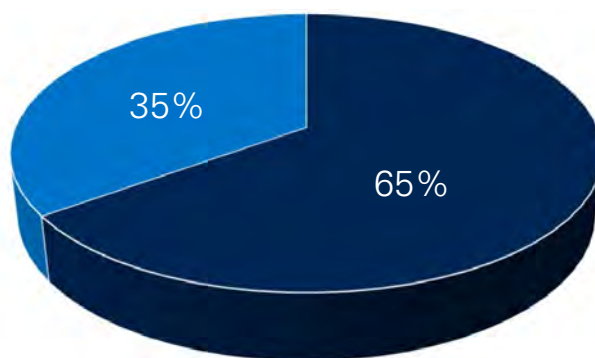


## Fiscal Year 2017 Sales

In fiscal year 2017 (FY17), 65% of Donaldson's total revenue was earned through Engine Products, while 35% came from Industrial Products.

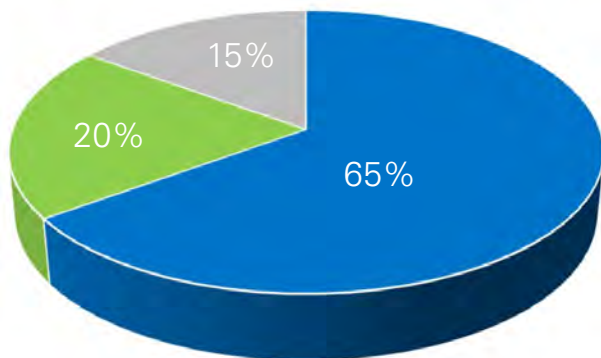


**Revenue Composition**  
Total Sales: \$2,372 million



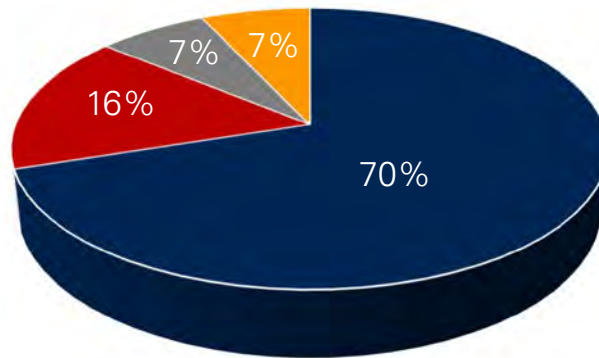
■ Industrial Products  
■ Engine Products

**Industrial Products: (1.2)%\***  
Total Sales: \$819 million



■ Industrial Filtration Solutions  
■ Special Applications  
■ Gas Turbine Systems

**Engine Products: +11.6%\***  
Total Sales: \$1,553 million



■ Aftermarket    ■ On-Road  
■ Off-Road    ■ Aerospace

\*Represents percent change from prior fiscal year

## Financial Information

Donaldson Company has a long history of driving profitable growth and delivering strong returns on our investments. Our capital deployment priorities include making investments back into our company for organic and inorganic growth, paying a dividend and repurchasing our shares. We believe that these priorities, in this order, support our long-term goals and align with the interests of our shareholders.

Over the past five years, we have generated \$1.1 billion in net earnings, made capital expenditures of \$425 million and invested \$151 million on five acquisitions. During that same period, we have returned nearly \$1.3 billion back to shareholders through dividends and share repurchase. Please visit [ir.donaldson.com](http://ir.donaldson.com) for additional financial information.

Select Financial Metrics (Dollars in millions, except per share data)	Fiscal Year ended July 31				
	2017	2016	2015	2014	2013
Net Sales	\$ 2,372	\$ 2,220	\$ 2,371	\$ 2,473	\$ 2,437
Gross Margin	34.7%	34.0%	34.1%	35.5%	34.8%
Operating Margin	13.9%	12.3%	12.2%	14.4%	14.1%
Net Earnings	\$ 233	\$ 191	\$ 208	\$ 260	\$ 247
Diluted Earnings per Share	\$ 1.74	\$ 1.42	\$ 1.49	\$ 1.76	\$ 1.64
Dividends Paid per Share	\$ 0.700	\$ 0.685	\$ 0.665	\$ 0.575	\$ 0.410
Capital Expenditures	\$ 64	\$ 71	\$ 94	\$ 97	\$ 94
Free Cash Flow	\$ 247	\$ 215	\$ 119	\$ 221	\$ 222
After-Tax Return on Investment*	16.8%	14.3%	15.0%	19.0%	19.9%

\*Return on Investment (ROI) is a ratio based on GAAP information and is calculated by: Net Earnings ÷ Average (Short-Term Borrowings and Long-Term Debt + Total Shareholders' Equity + Allowance for Doubtful Accounts - Net Deferred Tax Assets)



## Innovative Filtration Solutions

Donaldson consistently develops new technologies to address the filtration industries' ever-evolving needs.

## Vision, Mission and Values

**Our Vision:** To lead the world in filtration solutions.

**Our Mission:** To provide filtration solutions that improve people's lives, enhance customers' equipment performance and protect the environment.

**Our Values:** Every action we take is driven by our key values of Integrity, Respect and Commitment.

- Integrity — we build trust and credibility by demonstrating the highest ethical standards, sound judgment, character and courage in all our actions.
- Respect — we thrive in an inclusive workplace where each employee can contribute fully to our success through collaboration and teamwork.
- Commitment — we take individual responsibility for meeting our shared goals and honoring our commitments to each other, our customers, our communities and our environment.

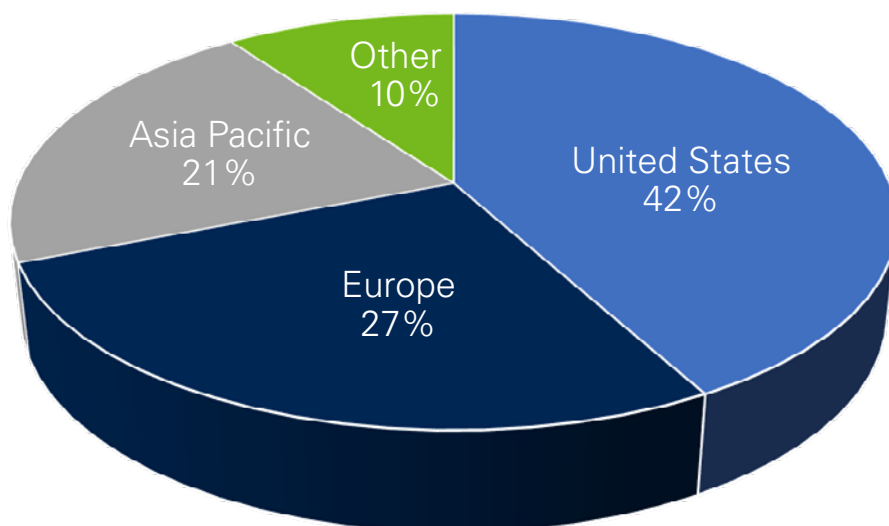
## Supporting Donaldson Customers Throughout the World



In 1915, our company began with three employees and one location in St. Paul, Minnesota. Today we are a global business with a local presence, with more than 13,000 employees supporting multinational and local customers on six continents.

Through our worldwide sales, engineering, manufacturing and distribution capabilities, we provide exceptional support to this global customer base. In fiscal year 2017, international sales accounted for approximately 58% of our total revenue.

**FY17 Geographic  
Diversification of Sales**



## Exceeding Customers' Expectations

Donaldson Company takes great pride in partnering with and providing filtration solutions for companies around the globe. Our employees' achievements have been acknowledged by our customers through several leadership and quality recognition awards we received in FY16 and FY17.

### Leadership and Quality Awards

<b>AGCO Parts Supplier of the Year</b> , FY17, US/ Canada (Engine OE)	<b>HINO VA/VE Contribution Award</b> , FY17, Asia Pacific	<b>Le Bozec Filtration &amp; System in Carrieres sur Seine – Airbus SQIP Silver Award</b> , FY16, and <b>Gold Award</b> , FY17, Europe/ Middle East/Africa
<b>Daimler / Fuso Strategic Partner Award</b> , FY16, Asia Pacific	<b>Hitachi Industrial Equipment System VEC Award</b> , FY16, Asia Pacific (Compressor)	<b>Navistar Diamond Supplier of the Year</b> , FY16 and FY17, US/ Canada
<b>Daimler Masters of Quality Award</b> , FY16 and FY17, Latin America	<b>Kentucky Labor Cabinet - Governor's Safety and Health Award</b> , FY17, Nicholasville Manufacturing Facility, US/Canada	<b>Volvo Truck Supplier Awards</b> , FY16 and FY17, Europe/Middle East/Africa (Aftermarket)
<b>Daimler Trucks of North America Masters of Quality Award</b> , FY17, US/Canada	<b>Komatsu North America MidoriKai Award 2017</b> , FY17, US/Canada (Engine OE)	<b>Western Digital 2018 JPQE Award Most Improved Supplier</b> , FY17, to Donaldson Thailand Ltd., Asia/Pacific (Disk Drive)
<b>GM Supplier Quality Excellence Award</b> , FY16 and FY17, US/ Canada	<b>Komatsu Procurement Award 2017 Cost Improvement Grand Partner of Japan and China</b> , FY17, Asia Pacific (Replacement Parts)	FY16 and FY17 awards granted permission for publication at the time this report was prepared.

## Exceeding Customers' Expectations, cont.

Donaldson strives to meet quality standards in all areas of performance. Caterpillar Inc.'s Supplier Quality Excellence Process (SQEP) is designed to help suppliers drive a zero defects culture within their organizations and achieve performance excellence. Certification levels include Bronze, Silver, Gold and Platinum, reflected in order of increasing difficulty.

Suppliers are certified through SQEP by meeting or exceeding stringent standards, such as product quality and shipping performance, which are measured over the course of a calendar year.

### Donaldson Locations That Received Caterpillar's SQEP Certification in Calendar Year 2016

SILVER 	GOLD 	PLATINUM 
Aguascalientes, Mexico	Aguascalientes, Mexico	Cresco, Iowa
Chillicothe, Missouri	Dülmen, Germany	Dixon, Illinois
	Frankfort, Indiana	Nicholasville, Kentucky
	Greeneville, Tennessee	Ostiglia, Italy
	Kláštrec, Czech Republic	
	Stevens Point, Wisconsin	
	Wuxi, China	

## Locations and Ventures

With our diverse global locations and capabilities, we can offer the extensive resources of an international company and the personalized service of a local firm.



### Americas

Auburn, Alabama  
Stockton, California  
Valencia, California  
Dixon, Illinois  
Anderson, Indiana  
Frankfort, Indiana  
Cresco, Iowa  
Waterloo, Iowa  
Nicholasville, Kentucky  
Bloomington, Minnesota  
Chesterfield, Missouri  
Chillicothe, Missouri  
Harrisonville, Missouri  
Philadelphia, Pennsylvania  
Greeneville, Tennessee  
Baldwin, Wisconsin  
Stevens Point, Wisconsin  
São Paulo, Brazil  
Brockville, Canada  
Bucaramanga, Colombia  
Aguascalientes, Mexico  
Monterrey, Mexico

### Europe/Middle East/Africa

Kadaň, Czech Republic  
Kláštèreec, Czech Republic  
Domjean, France  
Paris, France

### Europe/Middle East/Africa, cont.

Dülmen, Germany  
Haan, Germany  
Ostiglia, Italy  
Skarbimierz, Poland  
Cape Town, South Africa  
Johannesburg, South Africa  
Abu Dhabi, United Arab Emirates  
Hull, United Kingdom  
Leicester, United Kingdom

### Asia Pacific

Wyong, Australia  
Wuxi, China  
New Delhi, India  
Gunma, Japan  
Rayong, Thailand

### Distribution Centers

Wyong, Australia  
Brugge, Belgium  
São Paulo, Brazil  
Rensselaer, Indiana  
Jakarta, Indonesia  
Aguascalientes, Mexico  
Lozorno, Slovakia  
Johannesburg, South Africa  
Seoul, South Korea

### Joint Venture Facilities

Most, Czech Republic  
Champaign, Illinois  
Jakarta, Indonesia  
Dammam, Saudi Arabia

### Third-Party Logistics Providers

Santiago, Chile  
Wuxi, China  
Bogotá, Colombia  
Cartagena, Colombia  
Chennai, India  
Mumbai, India  
Gunma, Japan  
Auckland, New Zealand  
Lima, Peru  
Singapore  
Greeneville, Tennessee  
Laredo, Texas

Location data as of July 31, 2017

## Corporate Governance

Donaldson is committed to informed, engaged and principle-driven corporate governance. We try to exemplify the values that define everything we do, maintaining best practices in both management and board governance that demonstrate to all our stakeholders that these values are integral to our success.

Our Corporate Governance Guidelines provide that a significant majority of our Directors will be non-employee Directors who meet the independence requirements of the New York Stock Exchange (NYSE). Currently, of our 10 Directors, all but our Chief Executive Officer meet these independence requirements. Additionally, the three committees of our Board of Directors — Corporate Governance, Audit and Human Resources — are comprised entirely of non-employee Directors.

Our Board of Directors met six times during FY17, and each Director attended at least 75% of the aggregate of all meetings of the Board and its committees on which she or he served during the year.

The company's compliance helpline, available on [donaldson.com](http://donaldson.com), is in place for our employees and others to direct their concerns to the Audit Committee, on a confidential and anonymous basis, regarding accounting, internal accounting controls and auditing matters.

In addition, we have adopted procedures for our stockholders, employees and other interested parties to communicate directly with the members of the Board of Directors: written communications can be directed to the Chairman of the Board, the Chair of the Audit Committee, the Chair of the Corporate Governance Committee, the independent Directors as a group or the full Board, in the care of the office of the Secretary, Donaldson Company, Inc., MS 101, PO Box 1299, Minneapolis, MN 55440-1299.

Written communications about accounting, internal accounting controls and auditing matters should be addressed to the Chair of the Audit Committee. Requests for communications to be kept confidential from management should be indicated in the communication. The procedures for communication with the Board of Directors are posted on our Investors Relations website, [ir.donaldson.com](http://ir.donaldson.com), under Corporate Governance Documents.

## Donaldson Company Board of Directors

Our Board of Directors is made up of accomplished, independent external business leaders who we believe hold the highest personal and professional ethics, integrity and values, and are committed to representing the long-term interests of the company's stockholders.

They are responsible for evaluating and helping management address the various risks associated with our enterprise, CEO succession planning, setting corporate governance guidelines and approving executive compensation.



## Board of Directors

Tod Carpenter	Chairman, President and Chief Executive Officer, Donaldson Company, Inc. Joined the Board in 2014.
Andrew Cecere	President and Chief Executive Officer, U.S. Bancorp. Joined the Board in 2013.
Pilar Cruz	President, Cargill Inc. Compound Animal Feed and Nutrition Business. Joined the Board in 2017.
Michael Hoffman	Retired Chairman and Chief Executive Officer, The Toro Company. Joined the Board in 2005.
Douglas Milroy	Former Chairman and Chief Executive Officer, G&K Services, Inc. Joined the Board in 2016.
Willard Oberton	Chairman, Fastenal Company. Joined the Board in 2006, currently serves as lead independent director.
James Owens	President and Chief Executive Officer, H.B. Fuller Company. Joined the Board in 2013.
Ajita Rajendra	Chairman, President and Chief Executive Officer of A.O. Smith Corporation. Joined the Board in 2010.
Trudy Rautio	Retired President and Chief Executive Officer, Carlson. Joined the Board in 2015.
John Wiehoff	Chairman and Chief Executive Officer of C.H. Robinson Worldwide, Inc. Joined the Board in 2003.

## Corporate Officers

Amy Becker	Vice President, General Counsel and Secretary
Jacque Boyer	Vice President, Global Engine OEM Sales
Guillermo Briseño	Vice President, Latin America
Franklin Cardenas	Vice President, Asia Pacific
Tod Carpenter	Chairman, President and Chief Executive Officer
Kathryn Freytag	Vice President, Chief Information Officer
Timothy Grafe	Vice President, New Business Development
Sheila Kramer	Vice President, Human Resources
Richard Lewis	Vice President, Global Operations
Roger Miller	Vice President, Global Engine Aftermarket
Scott Robinson	Sr. Vice President, Chief Financial Officer
Thomas Scalf	Sr. Vice President, Engine Products
Todd Smith	Vice President, Global Industrial Air Filtration
Jeffrey Spethmann	Sr. Vice President, Industrial Products
Wim Vermeersch	Vice President, Europe, Middle East and Africa
Michael Wynblatt	Vice President and Chief Technology Officer



# Global Trade Compliance



To successfully import and export products around the world, it is imperative for Donaldson Company and its subsidiaries to comply with all applicable import and export laws, regulations and policies. We work with global government agencies and act in accordance with our Code of Conduct as well as our values of Integrity, Respect and Commitment.

As a U.S. headquartered company, all Donaldson facilities must abide by U.S. export and re-export controls in addition to local regulations. This commitment extends from senior management to all employees involved in the import/export of Donaldson items.

If a Donaldson employee is contacted by any government authority, in the U.S. or abroad, seeking information on Donaldson's import or export practices, or if any employee would become aware of a potential violation or inconsistency with our policy, we urge them to immediately contact and inform: (1) Donaldson's Global Trade Compliance department, (2) our Corporate Legal Department and (3) a member of their local senior leadership team.

Donaldson employees have access to additional information about our Trade Compliance practices and policies on the company intranet, providing immediate answers and resources about Global Trade Compliance matters.

Donaldson Company's Global Trade Compliance policy is available on Donaldson.com (<https://www.donaldson.com/en-us/about-us/ethics-compliance.html>) and addresses our corporate commitment to comply with all applicable import and export laws, regulations and policies that govern our global business.

## Continuous Improvement Around the World

The Donaldson Production System (DPS) is a standardized operating philosophy aligning our *Continuous Improvement* efforts and company strategy within our manufacturing and distribution operations.

The focus of the DPS is identification and elimination of waste in all areas, providing the guiding principles necessary to develop Operational Excellence Centers that help us provide our customers with exceptional support and value.

Dedicated leaders at every Excellence Center manage DPS deployment, teach DPS principles, facilitate our *Continuous Improvement* events and perform annual on-site assessments. DPS leader knowledge and skills are reflected through three individual certification levels: Bronze (learning), Silver (doing) and Gold (teaching).



## Environmental, Health and Safety

Donaldson is committed to environmentally responsible operations and safe, healthy and compliant workplaces, and to continually evaluating opportunities — both large and small — where we can improve.

### Managing Risks and Delivering Sustainable Results

Consistent with our commitment to uniformly apply high standards of ethics and business conduct wherever we do business, we are committed to efficiently and effectively reducing the environmental impacts of our operations while providing safe, healthy and compliant workplaces for our employees, visitors and neighbors.

At Donaldson Company, Environmental, Health and Safety (EHS) excellence refers to the actions that every member of our organization collectively undertakes on a daily basis to identify and manage exposures to health and safety hazards and environmental impacts that can result in harm to people, or the environment or our ability to serve our customers. We are guided by a new EHS Framework which builds upon our existing ISO 14001 and OHSAS 18001 certifications by providing more robust processes and tools designed to:

- Reduce exposure to our most significant environmental aspects and health and safety risks.
- Enhance leadership visibility in exposure reduction activities.
- Increase employee involvement in value-added EHS activities.
- Provide robust compliance assurance processes.

Implementation of the EHS Framework began during FY17 at our U.S. and Canada manufacturing and distribution locations. Annual improvement priorities outlining specific activities to support effective deployment of the EHS Framework have been developed as part of a multi-phase implementation strategy. Implementation status is tracked and reported to Donaldson leadership on a quarterly basis. Establishment of annual improvement priorities linked to implementation of the EHS Framework has helped our sites focus more heavily on exposure reduction activities. Beginning in FY18, measurement of these activities will replace injury and illness incident rates as metrics previously used in bonus and gainsharing programs for our U.S. and Canada sites.



*Environmental, Health and Safety, cont.*

## Global EHS Policy

Our EHS Framework is supported by a newly developed global policy, which was introduced in February 2017 and will be shared with our global team during FY18. Our policy includes the following critical expectations:

- We will establish accountability to ensure that management provides the leadership, processes and resources necessary to foster conditions and behaviors that result in continuous, measurable EHS improvement.
- We will actively involve our employees and welcome their participation in activities that continuously reduce exposure to health and safety hazards and environmental impacts.
- We will establish systems to meet or exceed applicable environmental, health and safety laws and regulations in the countries where we do business.
- We will establish environmental, health and safety targets and objectives, and publicly report our progress in protecting employees while continuously reducing environmental impacts through pollution prevention, energy conservation and waste minimization.
- We will partner with our suppliers, service providers and customers to promote the safe, compliant and sustainable use of our products and services.

## Donaldson's EHS Policy

Click [here](#) to read the full version of Donaldson Company's Environmental Health and Safety Policy.

*Environmental, Health and Safety, cont.*

## EHS Management System

Our EHS Framework will help us actively involve our employees in activities that continuously reduce exposure to those hazards that can result in harm or non-compliance. In FY17, employees at 11 of our global manufacturing and distribution locations worked without a recordable injury or illness while 23 sites did not experience any lost workday cases. We are pleased with the results at these sites, and we also recognize that the exposures to hazards that result in injury or illness are often the same whether an incident results in a near miss, first aid treatment, medical treatment or days away from work.

Focusing on the management of exposures to hazards that can result in injury or illness represents a paradigm shift in our approach to managing safety. We are moving from measuring safety effectiveness through reactive metrics such as incident rates to leading metrics like EHS Framework deployment and employee involvement. Although progress has been made, this change in approach will take time to become fully embedded in our global practices.

### Total Recordable Incident Rate (TRIR)

Donaldson Region	FY16	FY17	Change
Americas	2.72	2.10	↓ 23%
Europe and South Africa	1.70	1.76	↑ 4%
Asia Pacific	0.45	0.40	↓ 11%
Total Company	1.92	1.62	↓ 15%

*Environmental, Health and Safety, cont.*

## ISO 14001 and OHSAS 18001 Registration

Thirty-two of our sites manage their environmental performance through third-party certified ISO 14001 processes while 13 of our sites manage their health and safety hazards through OHSAS 18001 certified processes.

ISO 14001		OHSAS 18001	
Site	Year	Site	Year
Leicester, United Kingdom	1999	Rayong, Thailand	2007
Frankfort, Indiana	2001	Hull, United Kingdom	2008
Stevens Point, Wisconsin	2003	New Delhi, Gurgaon, Haryana, India	2010
Waterloo, Iowa	2003	Wuxi, China (Disk Drive Filter Plant)	2012
Wuxi, China (Disk Drive Filter Plant)	2004	Wuxi, China (Membranes Plant)	2012
Cresco, Iowa	2004	Wuxi, China (Industrial Filtration Plant)	2012
Kláštorec, Czech Republic	2005	Wuxi, China (Engine Products Plant)	2012
Hull, United Kingdom	2006	Nicholasville, Kentucky	2013
Ostiglia, Italy	2006	Kláštorec, Czech Republic	2013
Gunma, Japan	2006	Domjean, France	2014
Seongnam, Korea	2006	Cape Town, South Africa	2015
Wuxi, China (Industrial Filtration Plant)	2007	Kadaň, Czech Republic	2015
Auburn, Alabama	2007	Leicester, United Kingdom	2015
Wuxi, China (Membranes Plant)	2007		
Dülmen, Germany	2008		
Greeneville, Tennessee	2008		
Wuxi, China (Engine Products Plant)	2009		
Gurgaon, India	2010		
Nicholasville, Kentucky	2010		
Aguascalientes, Mexico (Liquid Filter Plant)	2010		
Ivyland, Pennsylvania	2010		
Kadaň, Czech Republic	2011		
Domjean, France	2011		
Cape Town, South Africa	2012		
Rensselaer, Indiana (Distribution Center)	2012		
Aguascalientes, Mexico (Distribution Center)	2012		
Dixon, Illinois	2012		
Chillicothe, Missouri	2012		
Aguascalientes, Mexico (Air Filter Plant)	2013		
Monterrey, Mexico	2013		
Atibaia, Brazil	2015		

*Environmental, Health and Safety, cont.*

## Energy Usage

### Greenhouse Gas (GHG) Emissions

As part of our EHS journey, we initiated a project to build our understanding of Donaldson's GHG emissions. Given availability of data, critical mass of operations and resource needs, our initial focus was on our U.S. operations. To date, we have calculated GHG emissions for both Scope 1 (direct emissions) and Scope 2 (indirect emissions) for our U.S. manufacturing and distribution operations. Our baseline calculation included 18 locations and utilized protocols established by the World Resources Institute (WRI) and World Business Council on Sustainable Development (WBCSD). With our baseline in place, we established standard work processes to update this data for our U.S. operations on an annual basis. Additionally, we can leverage our learnings from this work to build a future process for calculating GHG emissions for our global operations.

Donaldson has chosen to report GHG emissions intensity as a ratio between GHG emissions and the annual hours worked by our U.S. manufacturing and distribution operations. Hours worked is also used for calculating injury and illness rates. In FY16, our total Scope 1 and Scope 2 GHG emissions decreased by 10% compared to FY15. Over this same time period, the hours worked by our U.S. operations decreased by 12% resulting in a 2% increase in GHG emissions intensity.

Donaldson Region	FY15	FY16*
Total GHG Emissions (mT CO <sub>2</sub> e)	71,889	64,750
Hours Worked	8,049,861	7,079,511
GHG Emissions Intensity (mT CO <sub>2</sub> e / Hours Worked)	0.0089	0.0091
Change from FY15 Baseline (%)	—	↑ 2%

\*FY17 emissions data was not available at the time this report was prepared.

*Environmental, Health and Safety, cont.*

## Energy Conservation and Reduction Projects

Donaldson's Scope 2 GHG emissions were 46,674 mT CO<sub>2</sub>e which represented 64% of our total GHG emissions in FY16. Because these emissions are generated through purchased electricity, the identification and implementation of energy reduction projects can significantly reduce GHG emissions while reducing manufacturing costs.

We continue to identify potential energy-saving opportunities in our global locations. Examples of energy reduction initiatives include:

- Our [Bloomington, Minnesota](#), global headquarters is entering the second year of a five-year plan to transition fluorescent office lighting to new LED technology. We estimate that this program will result in a 70-80% reduction in the electricity needed to light our Bloomington office facilities, reducing our overall headquarters campus electricity demand by 5-10%. The project is approximately 15% complete to date.
- Donaldson [global headquarters](#) will be participating in a Community Solar Gardens (CSG) program offered through Xcel Energy in Minnesota, allowing the site to take part in the renewable energy economy through subscriptions of solar electricity credits from a third-party provider. Our participation begins in 2018 and will allow us to lower overall electricity costs.
- The [Dixon, Illinois](#), manufacturing facility is systematically replacing existing fluorescent light bulbs with LED lights; the plant expects to see an over 50% reduction in lighting energy consumption.
- The company's Compressed Air & Process Filtration team based in [Haan, Germany](#), received a 2016 Motion Control Industry Award for Environmental/Energy Efficiency and received a Renewable Energy Certificate acknowledging the plant's switch from an electrical energy supply to renewable energy.
- Our [Rayong, Thailand](#), facility received certification from the Thailand Greenhouse Gas Management Organization, finding it to be in accordance with the requirements of the TGO Guidance of the Carbon Footprint for Organization (FY17).



*Environmental, Health and Safety, cont.*

## Scope 1

Scope 1 are also referred to as Direct GHG Emissions and are defined as emissions from sources that are under operational control by Donaldson, such as:

- Generation of electricity
- Physical and chemical processing emissions resulting from the use of CO<sub>2</sub> and emissions in process related activities
- Transportation in company controlled vehicles, excluding business travel in leased cars and delivery of raw materials or finished goods in leased trucks
- Fugitive emissions from cooling and refrigeration equipment



## Scope 2

Scope 2 are also referred to as Indirect GHG Emissions and are defined as sources that are not under the operational control of Donaldson but are a consequence of Donaldson conducting business, and include electricity that is purchased or otherwise brought into the organization.

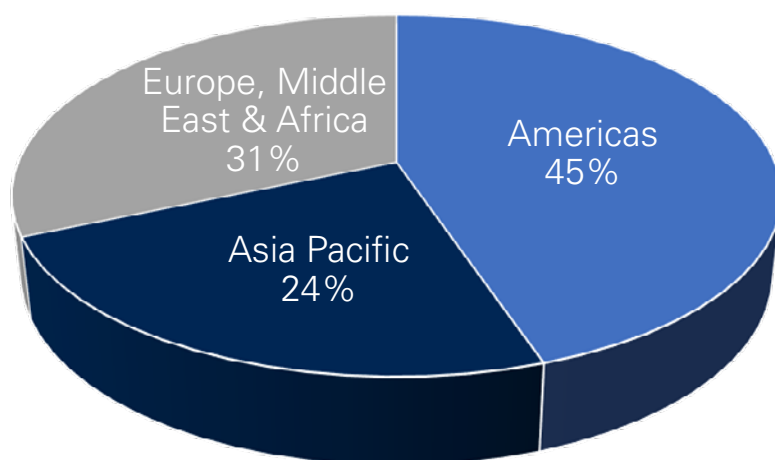
## Supporting Donaldson Employees Around the World



We know that people who offer a broad base of capabilities, cultures, backgrounds and perspectives are critical to our continued global leadership in filtration solutions. When our employees reflect the diverse communities we serve, we better understand, meet and exceed our customers' needs.

Donaldson attracts, rewards, develops and inspires employees globally to fully engage in achieving our company's vision. Employee performances and needs are reviewed on a regular basis, as part of a talent planning process, ensuring that every Donaldson team member has the opportunity to succeed and advance with our company. Donaldson employees are encouraged to gain new experiences, rise to challenges, take advantage of educational opportunities and support our communities.

**Our Global Team Population**  
(at the end of FY17)



“We foster a globally inclusive culture and embrace the uniqueness of each individual, which ultimately helps our employees succeed and contributes to our leadership position in the filtration industry.” – Sheila Kramer, Vice President, Human Resources

## Diversity and Inclusion

Donaldson believes that our efforts to incorporate a broad base of skills, cultures and values are critical to our continued global leadership. We feel that different points of view will lead to new and innovative ideas.

We have established initiatives to promote and integrate diversity and inclusion throughout our organization. These include mentoring, leadership development, succession planning, global meetings and cultural awareness events. Through the combination of our employees' unique talents and perspectives, we will continue to create new business opportunities around the world.

We provide equal employment opportunity without regard to race, color, age, religion, sex, pregnancy, national origin, genetic information, sexual orientation, gender identity, veteran status, the presence of mental, physical, or sensory disability or any other legally protected status. At the end of FY17, approximately 14% of our U.S. workforce is considered minority as described by the Equal Employment Opportunity Commission (EEOC), and approximately 32% of our U.S. workforce and 25% of corporate officers are female.



## Code of Conduct

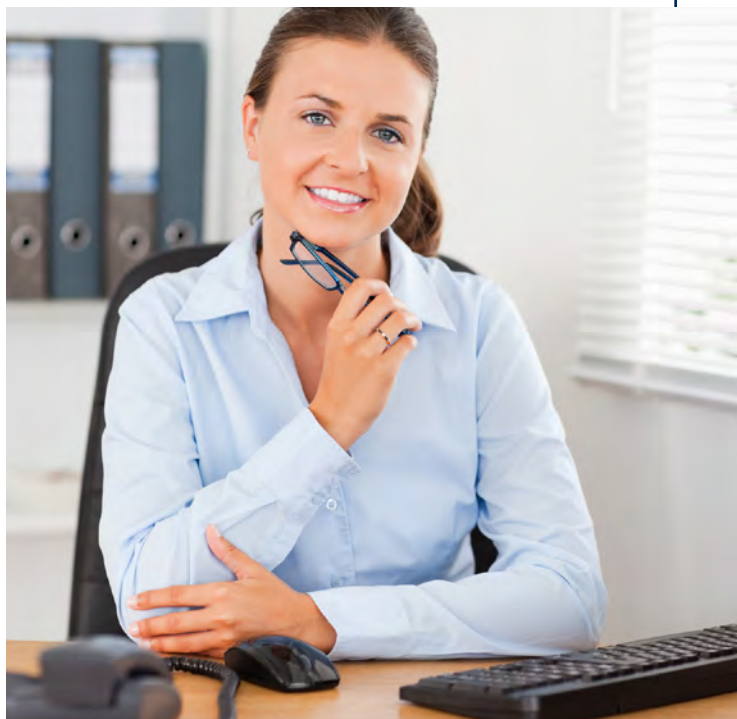
At Donaldson, we believe that a key to our success is our long-standing commitment to integrity in our dealings with our customers, employees, shareholders, government authorities, suppliers, neighbors and the public. We are committed to preventing ethical violations and conflicts and quickly correcting any that may occur.

The Donaldson Code of Conduct communicates our shared values of Integrity, Respect and Commitment and the policies that guide our efforts. This Code is available to all employees and the public at <https://secure.ethicspoint.com/domain/media/en/gui/19744/code.pdf> in 17 languages, reflecting the global nature of our business.

Donaldson employees receive annual training on our Code of Conduct and related policies, including e-learning and in-person instruction. Answers to common ethics and compliance questions and guidance for responses to potential work-related situations are also available on the company intranet.

Our employees are encouraged to discuss any concerns with their manager, human resources representative, legal representative or the company's Compliance Committee. Employees are required to promptly report known or suspected violations. Any employee, who in good faith reports wrongdoing to management, will not be the subject of reprisals or other punishment based on making a report.

Our Business Conduct Help Line offers employees an easy way to report actual or suspected activities that may involve improper conduct or violations of our Code of Conduct. The Help Line is managed by EthicsPoint, a secure and independent third-party reporting source, ensuring confidentiality and access by telephone or the internet at all times, at all locations across our Donaldson global footprint. Access to the Help Line is available online at [ethics.donaldson.com](https://ethics.donaldson.com). Investigations are conducted under the oversight of our Compliance Committee.



## Community Involvement

Donaldson Company and our employees are committed to making a difference and strengthening the communities of which we are a part. Humbled by their efforts, we are proud of the generations of employees who generously give their time, energy and aid to various local and regional organizations and projects.

Some examples of Donaldson's employee-led volunteer activities include:

- **American Red Cross:** The Ivyland, Pennsylvania, plant co-sponsors an annual community blood drive for the American Red Cross in honor and remembrance of 9.11. Employees manage and host the onsite drive and represent a significant percentage of the donors.
- **Annual Giving Campaign:** Annual fundraising efforts conducted by Leicester, U.K., employees benefit numerous causes, including Rainbows Hospice for Children and Young People, Lennox Children's Cancer Fund and the British Heart Foundation.
- **Bridging:** Bloomington, Minnesota, employees raised \$20,000 through a Towel and Pillow Drive, Sponsorship of the Subway Bedrace for Bridging event and a Pinewood Derby challenge. Contributions helped the nonprofit organization provide household items to help families in transition.
- **Cancer Council Cuppa Tea:** Wyong, Australia, employees participate in Cancer Council's Australia's Biggest Morning Tea. The event raises money to fund vital cancer research, prevention and support service programs. In two years, Wyong employees have contributed over \$2,500 through various onsite events.
- **Children's Causes:** Aguascalientes, Mexico, employees raised \$9,000 over two years through in-kind donations, fundraising and volunteer payroll deductions for Dulce Refugio, a foster care home for children and orphans who have suffered from abuse, abandonment or neglect, and CRIT, a rehabilitation system that treats children with neuromusculoskeletal disabilities.
- **Dove Harbor Shelter for Women and Children:** Anderson, Indiana, employees have "adopted" this local shelter, raising approximately \$20,000 in two years, primarily through their Hy-Pro annual community golf outing. Dove Harbor provides women and children with transitional housing and education programs in a supportive, safe environment.
- **Habitat for Humanity:** Bloomington Engine Original Equipment team members spent a day demolishing a house and recycling salvageable building materials; their efforts help build homes for people in need.



*Community Involvement, cont.*

- **MS150 Bike Ride:** Team Donaldson bicyclists and volunteers have raised over \$2.4 million to help end multiple sclerosis, since 2002 when the team began participating in the annual 150-mile bike ride across Minnesota.
- **Philanthropy for Prosthetic Legs:** Rayong, Thailand, employees organize volunteer activities, including a plastic bottle and aluminum can tab drive and collection event; their donations help provide prosthetic legs to those in need in the community.
- **Relay for Life:** Twenty-six Valencia, California, employees participated in the 2017 Relay for Life, raising over \$7,000 for the organization and helping the American Cancer Society fund groundbreaking research, crucial patient care programs, and education and prevention information.
- **Science Fusion:** Since 2009, the Donaldson Foundation and Bloomington employees have partnered with the Science Museum of Minnesota, hosting four events where students connect with area Science, Technology, Engineering and Math (STEM) professionals through experiments and activities.
- **United Way:** Each fall, Bloomington, Minnesota, employees volunteer and raise funds for the Greater Twin Cities United Way through an annual campaign. Through an employee matching gift program, the Donaldson Foundation and Bloomington employees donated over half a million dollars to United Way programs in FY17.



# Donaldson Foundation

The Donaldson Foundation is the primary instrument for our company's charitable contribution efforts.



Led by a Board comprised of employee volunteers, the mission of the Foundation is to positively impact the communities in which we live and work by supporting education.

In FY17, the Foundation distributed grants and matching gifts totaling \$1.2 million to nonprofit organizations. Foundation philanthropy focuses on:

- Supporting educational opportunities for those who otherwise would not have them
- Matching grants to educational institutions
- Providing scholarships for post-secondary institutions
- Partnering with our plant communities through grants addressing local community needs

In 2017, our Foundation Board undertook an initiative to evaluate and benchmark the Foundation's efforts and practices. This data is being used to supplement the Foundation's strategic planning process and develop a 2018+ strategic plan that focuses on increasing impact, growing engagement and building awareness. It is a reaffirmation of Donaldson Company's commitment to strengthening our communities and creating opportunities for the people who live in them.

For more information, visit <https://www.donaldson.com/en-us/about-us/company-information/community-involvement>.



**Donaldson.**  
FILTRATION SOLUTIONS

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