



Donaldson Company, Inc.

Donaldson Buys Value



Donaldson Supply Management Program

Donaldson Company is one of the largest and most successful filtration manufacturers in the world. Since 1915 our innovative technologies have been solving complex filtration challenges to improve people's lives, enhance equipment performance and protect our environment. As you may know our track record of success and growth is unprecedented. Much of this success is a result of aligning our stakeholders to our strategic initiatives. As a supplier and stakeholder your alignment and execution is critical in continuing our mutual progress.

The Donaldson Buys Value (DBV) program is our method to ensure we are working together to meet customer expectations. DBV is focused on establishing quality, service, cost, and continuous improvement metrics which align our valued supply partners with Donaldson's strategies and actions to meet customer expectations. Performance and execution from our supply base is a critical success factor and establishing processes and programs in your organization to achieve DBV targets is imperative to our mutual success.

In the spirit of continuous improvement, DBV is not a static program and evolves every year. In the following pages, you will learn more about the changes, areas of focus, and metrics for measuring success. We would like to thank you for being an active member in our Donaldson Buys Value community! Donaldson appreciates the focus our suppliers place on solid performance. We look forward to a great Fiscal Year and beyond as we embark on a path of mutual success and growth with your company.

Sincerely,

A handwritten signature in black ink, appearing to read 'Izzet'.

Izzet Moreno

Vice President, Global Procurement

Donaldson Buys Value (DBV) Program

Introduction

Donaldson Buys Value (DBV) is a supply management program based on the premise that value is defined as a combination of quality, service and cost. Donaldson works with a limited supply base to achieve the best value possible.

Note: The information in this book can also be found on the Donaldson Company website at www.Donaldson.com. Scroll to the Suppliers hyperlink at the bottom of the home page. Most users will default to the correct region and language based on their internet service provider. However, preferences for region and language can be changed through the links on the top banner.

Objective:

The objective of the Donaldson Buys Value (DBV) program is to assist Donaldson in exceeding its customers' expectations. Donaldson expects to accomplish this by maximizing the value of purchased products, services, and processes, and by identifying and working with suppliers who consistently and reliably perform at or above Donaldson's expectations. These expectations are:

- 50 DPPM or less (Donaldson Procurement may communicate during RFQ stage different DPPM requirements depending on specific applications and/ or customer programs.)
- 100% on-time delivery
- 100% attainment of identified cost support goals and continuous improvement objectives
- Long-term customer/supplier partnership

Partnerships

The Donaldson Buys Value program requires the commitment of both parties. This commitment is an investment in the ability and willingness of both parties to grow with the business. Donaldson's requirements are explained in this document and in the Supplier Quality Manual (DSQM). The Donaldson Supplier Quality Manual can also be found on the Donaldson website: <https://www.donaldson.com/en-us/about-us/suppliers>.

To support this partnership, each Strategic supplier will identify a DBV Champion. The DBV Champion is responsible for completing any required training, communicating DBV Performance within the supplier's organization, and serving as Donaldson's primary contact for DBV communications.

Supplier Categories

Suppliers are categorized into one of two groups: Strategic or Approved.

Strategic suppliers are those who meet or exceed our performance criteria and have a high unit volume, high spend level, and/ or provide a critical product, service, or process to Donaldson Company at a global level. Based on these criteria, Donaldson representatives from plant and corporate procurement will work together to review the supply base and select Strategic suppliers.

A **High Performing** Strategic supplier is a long-term partner to Donaldson that will receive recognition and preferential consideration in product sourcing. Donaldson will also work with its partners to achieve mutual goals and, where feasible, make training and other resources available to assist with ongoing development.

Approved suppliers are those remaining suppliers to Donaldson's manufacturing facilities who have the potential to become Strategic. Suppliers that consistently meet expectations and increase value will be considered for promotion to Strategic status.

Supplier Performance

A high performing supplier meets the following criteria:

- The supplier must be identified as Strategic.
- The supplier must achieve a score in the top 10% of all Donaldson suppliers.

Strategic Suppliers with a score of 1200 points or less may be required to complete an Action Plan highlighting their plans to improve Quality, Delivery, Cost and Sustainability Support in the next fiscal year as part of Donaldson's Supplier Development process. Supporting information for your Action Plan may consist of an 8D, 5-Why analysis or other documents, as requested.

If an Action Plan is required, your Corporate Category Manager will initiate the request through the DBV Champion. Action Plans shall be approved by senior management at the supplier and submitted by the DBV Champion. Category Managers will facilitate acceptance of the Action Plan by Corporate Procurement, Corporate Supplier Quality, and Donaldson production plants / distribution centers. Corporate Category Managers will also monitor progress against the Action Plan.

It is possible to be a high performing supplier and still be requested to provide an Action Plan for improvement in one or more specific areas, such as Quality or Delivery.

Progress against the Action Plan will be reviewed regularly for a minimum of one year. If the supplier does not make sufficient progress against the Action Plan within the year, the Donaldson Team may decide to demote the supplier from their current Strategic status.

Supplier Development

At the start of each Donaldson fiscal year, a team comprised of Corporate Procurement and Corporate Supplier Quality, with support from the Donaldson plants / distribution centers, will review the past performance of all suppliers to determine which suppliers should participate in the Supplier Development program for the new fiscal year to drive improved performance. Suppliers in the Supplier Development program for the previous fiscal year will be reviewed to determine if the supplier has made enough progress to leave the Supplier Development program or if additional actions are required. Supplier meetings will be held at intervals determined by the Donaldson team to support the Supplier Development process.

How We Measure Success

The Donaldson Buys Value scorecard has 2000 available points. There are 700 points assigned to Quality, 700 points assigned to Service, 400 points assigned to Cost, and 200 points assigned to Sustainability. The total number of points cannot exceed 2000 points.

Each supplier will receive a single, combined scorecard for all Donaldson plants / distribution centers worldwide. Each supplier can view their own scorecard by logging into their iSupplier account and choosing the Supplier Scorecard option from the Main Menu. Scorecards can be retrieved at any time during the month. Suppliers do not need to wait until the end of the month to view their scorecards.

Scorecard Categories	Maximum
Quality	700
Service	700
Cost	400
Sustainability	200
Final Score	2000

Suppliers are encouraged to use the Supplier Metrics option with the Supplier Scorecard to better understand their scores. Suppliers can use the Supplier Metrics report to drill down and view performance details for Quality and Service based on month, Donaldson plant, or Supplier Site. Suppliers can also drill down to see specific PO (Purchase Orders) Line details and/or Non-Conformance Report details.

Additional instructions for these iSupplier tools can be found on the Donaldson Supplier Extranet site: <https://donaldson.sharepoint.com/sites/SupplierDocumentation-Extranet/>

Quality

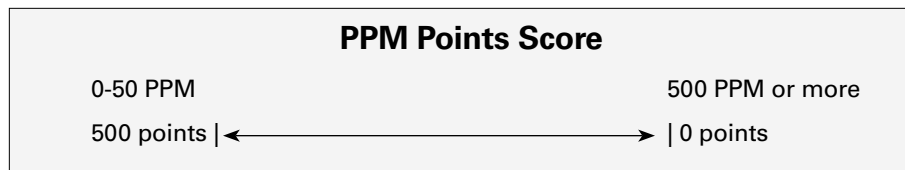
The Quality portion of the Donaldson Buys Value program consists of 700 points divided into two categories: Defective Parts per Million (DPPM) and Cost of Non-Conforming Quality as a Percent of Total Receipts.

Quality	Points Available
DPPM Rejects	500
Cost of Non-Conformance as % of Spend	200
Quality Subtotal	700

DPPM – Defective Parts per Million

Points for DPPM are calculated by dividing the number of units rejected by the number of units received and multiplying the result by 1,000,000. All calculations are based on the year-to-date period of the current fiscal year.

- DPPM of 50 or less will be awarded the full score of 500 points in this category.
- DPPM of 500 or more will not be awarded any points in this category.
- DPPM between 50 and 500 will be awarded points prorated on a straight-line calculation as shown in the table below.

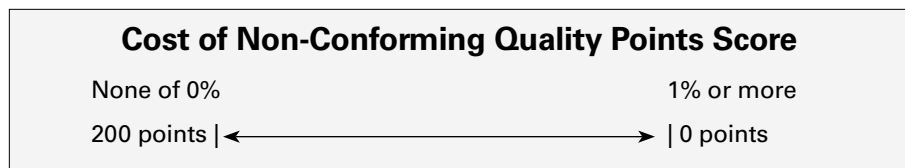


Donaldson Company uses the Non-Conformance Report (NCR) module within Oracle to record rejected parts and associated costs. These costs may include, but are not limited to, scrap, re-work, sorting, transportation fees, line-down charges, and administrative fees. The details of these NCR incidents can be viewed through the Supplier Metrics Report on the iSupplier portal or through your Donaldson buyer.

Cost of Non-Conformance as a Percent of Spend

Points for Cost of Non-Conformance are calculated by dividing the total cost of all NCR's by the total receipt amount. All calculations are based on the year-to-date period of the current fiscal year.

- Cost of Non-Conformance of 0.0% will be awarded the full score of 200 points
- Cost of Non-Conformance of 1.0% will not be awarded any points in this category.
- Cost of Non-Conformance between 0.0% and 1.0% will be awarded points prorated on a straight-line calculation as shown in the table below.



Donaldson Company uses the Non-Conformance Report (NCR) module within Oracle to record rejected parts and associated costs. These costs may include, but are not limited to, scrap, re-work, sorting, transportation fees, line-down charges, and administrative fees. The details of these NCR incidents are available through the Supplier Metrics Report on the iSupplier portal or through your Donaldson buyer.

Additionally, Donaldson requires its suppliers to maintain a quality management system based on the latest revision of ISO 9001, IATF16949, or AS9100 depending on the Business Unit served, unless an exemption has been approved by Donaldson.

The table below references Quality Standards required by each Donaldson business unit as a minimum:

Standard	Business Unit
IATF16949	Mobile Solutions and Microelectronics
AS9100 / EN9100	Aerospace and Defense
ISO9001	All other applicable business units

Suppliers are required to provide a current copy of their quality certificate to their corporate buyer. This certification information will be summarized on the Supplier Scorecard. Please see the Donaldson Supplier Quality Manual for additional details regarding Donaldson's quality requirements: <https://www.donaldson.com/suppliers/>

Service

The Service portion of the Donaldson Buys Value rating consists of a total of 700 points divided in two categories: On Time Delivery and Average Lead Time. All calculations are based on the year-to-date period of the current fiscal year.

Service	Points Available
On Time Delivery as %	500
Average Lead Time	200
Service Subtotal	700

On-Time Delivery

On-Time Delivery is calculated by comparing the actual Ship Date to the Need-By Date¹ on each Donaldson Purchase Order line. PO lines typically have an on-time window of 7 Calendar Days Early and 0 Days Late. Each shipment is evaluated individually against these criteria. The On-Time Delivery calculation divides the number of on-time shipments against the total number of shipments for a specific period.

¹Need-by-Date is the date when Donaldson requires the Shipment to be ready for dispatch or collection depending on Incoterms.

- On-Time Delivery of 95% or more will be awarded the full score of 500 points.
- On-Time Delivery of 90% or less will not be awarded any points in this category.
- On-Time Delivery between 95% and 90% will be awarded points prorated on a straight-line calculation as shown in the table below.

Percent On-Time Delivery Points Score	
95% or more	90% or less
500 points	0 points

Specific performance details in this category can be viewed through the Supplier Metrics Report on the iSupplier portal or through your Donaldson buyer.

Average Lead Time

Donaldson recognizes that short lead times are important to our plants and our customers, and we wish to recognize the value provided by this service.

Average Lead Time is calculated as the difference between the Order Date on the Purchase Order and the supplier’s actual Ship Date. All calculations in this category are based on calendar days during the current fiscal year.

- Average Lead Time of 7 days or less will be awarded the full score of 200 points.
- Average Lead Time of 14 days or more will not earn any points in this category.
- Average Lead Time between 7 days and 14 days will be awarded points prorated on a straight-line calculation as shown in the table below.



Specific performance details in this category can be viewed through the Supplier Metrics Report on the iSupplier portal or through your Donaldson buyer.

Cost

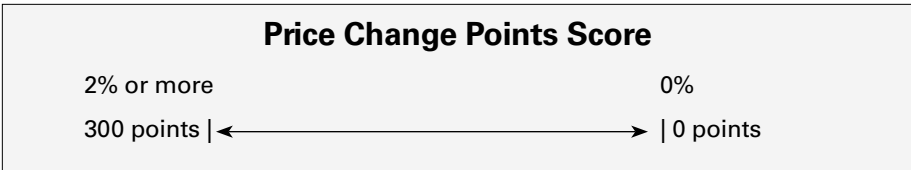
The Cost portion of the Donaldson Buys Value rating consists of 400 points divided into two categories: Price Change and Supply Chain Savings.

Cost	Points Available
Price Change	300
Supply Chain Savings	100
Cost Subtotal	400

Price Change

Points for Price Change are calculated based on cost savings delivered through a piece price change, independent of index-driven price agreements. The full-year impact of the piece price change is divided by the year-to-date spend amount to achieve a percentage savings. All calculations are based on the year-to-date period of the current fiscal year.

- A Price Change of 2% will be awarded with the full score of 300 points.
- A Price Change of 0% will not be awarded any points in this category.
- A Price Change between 0% and 2% will be awarded points prorated on a straight-line calculation as shown in the table below.



Price Changes can be the result of negotiations, market conditions, materials, product design, and/or process changes suggested or supported by the supplier. Price Change savings will earn points net of any Price Change increases within the current fiscal year.

Supply Chain Savings

Points for Supply Chain Savings are calculated based on cost savings delivered through any method not reflected in a piece price change. Supply Chain Savings may include lead time reductions, invoice terms, warehousing, inventory / safety stock, transportation savings, etc.

The full-year impact of the Supply Chain Saving is divided by the year-to-date spend amount to achieve a percentage savings. All calculations are based on the current fiscal year.

- Supply Chain Savings of 0.5% will be awarded the full score of 100 points.
- A Supply Chain Savings of 0% will not be awarded any points in this category.
- A Supply Chain Savings between 0% and 0.5% will be awarded points prorated on a straight-line calculation as shown in the table below



Sustainability

This chapter named "Sustainability", offers suppliers the opportunity to showcase their commitment to sustainability by undertaking initiatives that align with our goals and values.

The supplier is awarded points up to a maximum of 200 points per fiscal year. No points are awarded for partial completion of a project. Suppliers can earn points by:

- Successful completion of sustainability projects,
- Submission of environmental, health & safety and/or energy certificates,
- Submission of completed and scored EcoVadis or Carbon Disclosure Project questionnaires.

Details about Donaldson’s Sustainable Procurement Program along with list of example projects can be found on the Donaldson Supplier Extranet site: <https://donaldson.sharepoint.com/sites/SupplierDocumentation-Extranet/>