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Mailing Address  
PO Box 1299  
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DATE: 2/24/2017  
TO: All Employees & Contractors  
FROM: Tod Carpenter, President and CEO  
SUBJECT: Global Trade Compliance Policy Statement

Donaldson Company, Inc., and its subsidiaries, (Donaldson) depend on the ability to successfully import and export products around the world. Donaldson is committed to complying with all applicable import and export laws, regulations, and policies. Donaldson will 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 world-wide Donaldson facilities must abide by the U.S. export and re-export controls, including, but not limited to, compliance with the Export Administration Act and the Export Administration Regulations, in addition to local laws and regulations where Donaldson conducts business. No sales will be made contrary to the Export Administration Regulations for any prohibited end use or to any prohibited end user. This commitment extends from senior management to all employees involved in the import and export of Donaldson items. We cannot afford to jeopardize our ability to serve our customers around the world. Failure to comply with import and export laws and regulations may result in severe penalties to Donaldson and/or its employees such as adverse publicity, delay or seizure of shipments, loss of import and export privileges, civil and criminal penalties, and employees may be subject to disciplinary action up to and including termination of employment.

Donaldson's Global Trade Compliance department has established a program which sets forth the company's global import and export policies and procedures. If you have questions concerning these laws and how they apply to you, or to any Donaldson activity, please contact the Global Trade Compliance department at [trade-compliance@donaldson.com](mailto:trade-compliance@donaldson.com) for guidance.

I ask each of you to take this matter very seriously and to continue to support me in this effort.

Sincerely,

A handwritten signature in blue ink that reads 'Tod E. Carpenter'.

Tod Carpenter  
Donaldson Company, Inc.  
President and Chief Executive Officer

## **STATEMENT OF CORPORATE POLICY**

Donaldson Company, Inc., and its subsidiaries (Donaldson), depend on the ability to successfully import and export products around the world. Donaldson is committed to complying with all applicable import and export laws, regulations, and policies. As a United States (U.S.) headquartered company, all Donaldson facilities must abide by the U.S. export and re-export controls in addition to local regulations where Donaldson conducts business. This commitment extends from senior management to all employees involved in the import and export of Donaldson items. Failure to comply may result in severe penalties to Donaldson and/or its employees, adverse publicity, delay or seizure of shipments, loss of import and export privileges, civil and criminal penalties, and employees may be subject to disciplinary action up to and including termination of employment.

### **Import Process Flow**

Donaldson will fully comply with all applicable import laws and regulations when importing product into any country. An import is defined as the act of bringing or causing any goods to be brought into a customs territory. Each country's import processes and requirements may differ.

Donaldson will maintain and comply with the Global Trade Compliance Control Program (GTCCP) and will maintain all records required to comply with such program. The company will also comply with all legal requirements necessary when participating in the special import programs such as the North American Free Trade Agreement (NAFTA), post importation adjustments, duty drawback, etc.

### **Export Process Flow**

Donaldson will fully comply with all applicable export laws and regulations when exporting from any country. An export is defined as sending or transporting goods abroad out of a customs territory. U.S. export control laws govern exports of items from the U.S. as well as re-exports of U.S. origin products and technology from one foreign country to another. Export and re-export restrictions and license requirements are based on a number of factors, including the technological sophistication of the item to be shipped, the country of destination, the identity of the end-user, and the intended end-use. Export laws also apply to the following situations:

- Communication by telephone, facsimile, mail, courier, or computer technology to any person or site in another country;
- Domestic releases of technology or source code to a foreign national (i.e., a foreign citizen who is not a citizen or permanent resident alien of the United States); and
- Oral and visual exchanges of information with foreign nationals – in meetings, plant visits, product demonstrations, trade shows, and the like.

## **ELEMENTS OF TRADE COMPLIANCE**

### **Screening of Parties and Orders**

Donaldson exercises its due diligence in reviewing and accepting orders to identify any suspicious activity involving our products or personnel. It is Donaldson's policy to screen all parties to the transaction in order to avoid inadvertent shipments to restricted parties or destinations as defined by the governments of any countries in which the company has export operations. All Donaldson transaction partners are screened against the Denied Parties List and the Entities of Proliferation Concern list maintained by the United States Commerce Department. Additionally, they are screened against the lists of embargoed (US and UN) or sanctioned countries and the list of Specially Designated Nationals and Other Blocked Persons maintained by the United States Treasury, Office of Foreign Assets Control, as well as varying foreign country Denied Parties Lists.

## **Preferential Trade Agreements**

Donaldson will use reasonable care when qualifying products for Preferential Trade Agreements and completing the respective Certificate of Origin. One of the requirements for eligibility for reduced/duty free treatment of merchandise under these Preferential Trade Agreements is the presentation of a properly completed preferential Certificate of Origin. These preferential Certificates of Origin must be used to certify that merchandise exported from one participant territory into any other participant territory qualifies as an originating good for purposes of preferential tariff treatment under the Preferential Trade Agreement.

## **Post Importation Adjustments**

Donaldson will ensure that imports are properly filed according to the local Customs regulations and within the timeframe allowed. Post importation adjustments, if done in a timely manner, may allow the importer to adjust the declared value in accordance with the World Trade Organization and local regulations.

## **Country of Origin Requirements**

Donaldson will work with its supply chain to require suppliers to follow all origin requirements for import shipments into any country as well as ensure Donaldson products are marked in accordance with the World Trade Organization rules of origin. Every article of foreign origin imported into a territory, unless accepted by law, is required to be marked with the name of the country of origin of the article at the time of importation. Merchandise must be marked in a conspicuous place as legibly and permanently as the nature of the product will permit. This marking should indicate to an ultimate purchaser the country of origin in English, and the purchaser should be able to find the marking easily and read it without strain. Failure to properly mark merchandise will result in financial penalties, as well as delays in clearing shipments through Customs.

## **Classification**

Donaldson will exercise reasonable care when classifying products for import and export. Classification is a very detailed process requiring familiarity with both the specific make-up and function of individual Donaldson products and Harmonized System (HS). The HS, which has been adopted by the vast World Customs Organization member countries, divides classification into 21 sections, covering 99 chapters, which are organized based on the nature of the product, its composition, its use, and other criteria. The HS classification is governed by six General Rules of Interpretation. To ensure accurate classification of merchandise, careful consideration must be given to the General Rules of Interpretation, Section Notes, Chapter Notes, Explanatory Notes and administrative rulings issued by the local customs authorities and case law. This HS classification is used for duty assessment and statistical purposes for the World Customs Organization member countries.

All commodities, technology or software may be subject to the licensing authority of the U.S. and/or local country jurisdiction. Prior to export of "U.S. goods" from any Donaldson location, classification must be determined for export control purposes in order to determine any licensing requirements.

Both the HS and export control numbers by product will be maintained in Oracle and reviewed periodically through audits to maintain accuracy. Updates will be made as required. The expectation is that all countries globally follow the methodology set forth by the Global Trade Compliance (GTC) department.

## Quantity

Donaldson will ensure accurate quantities of imported and exported merchandise are reported to U.S. Customs and Border Protection.

The Harmonized Tariff Schedule of the United States as well as the foreign HS establishes the units of measurement to be used to report quantities on entries. In addition, overages and shortages must be reported to local Customs, if identified.

## Customs Valuation

Donaldson will use reasonable care in declaring accurate and complete values for all imports and exports. Donaldson will take steps to ensure that the complete transaction value, including any additions to the price actually paid or payable, is reported to Customs in accordance with applicable laws and regulations. Due to the difficulty involved in identifying all elements of the price paid or payable at time of import, Donaldson will promptly notify Customs of any value discrepancies discovered subsequent to import entry filing such as quantity changes, royalty payments paid, packaging costs incurred, etc.

Because valuation is one of the primary areas of focus by Customs worldwide, it is essential that Donaldson personnel have a strong understanding of valuation principles, and keep abreast of changes in interpretation. The GTC department must be kept informed of all contracts entered into, as well as be notified of any instance in which additional payments and/or materials, components, equipment, tooling, design/development or other items are provided to the foreign manufacturer for free or at reduced cost. In addition, should Donaldson ever enter into any agency relationships in connection with imported products or royalty/licensing agreements for imported products, the GTC department must be notified so that it may evaluate the impact those agreements will have from a customs perspective.

Donaldson uses transfer pricing guidelines to determine global pricing guidelines. The latest copy of the Global Transfer Pricing Policy can be obtained by contacting Donaldson's Tax Department.

All imported or exported merchandise must have a value assigned for duty assessment and statistical purposes. For most of the world, the proper value is determined by reference to a codified version of the World Customs Organization Valuation Code. Under this authority, six potential methods are provided for appraising imported goods:

1. Transaction value of the imported merchandise
2. Transaction value of identical merchandise
3. Transaction value of similar merchandise
4. Deductive value of the imported merchandise
5. Computed value of the imported merchandise
6. Fall-back method

### Transaction Value

The primary means of valuing goods is based on its transaction value. Transaction value, which is defined as the "price actually paid or payable" for goods, is used by Donaldson for all exports and imports from related and unrelated vendors. For U.S. purposes, the price paid or payable is generally based on a FOB (Free On Board) port of export value; for much of the remainder of the world, however, that price is based on a CIF (Cost, Insurance and Freight) value. Globally, it is Donaldson's policy to declare the correct Customs value based on the Incoterm in effect and not based on specific customer requests.

If not already included in that price, the law requires certain additions be made to the price paid or payable in order to arrive at the transaction value. Those additions include:

- Packing costs incurred by the buyer;

- Selling commissions incurred by the buyer;
- The value of any assist;
- Any royalty or license fee related to the merchandise that the buyer is required to pay directly or indirectly as a condition of the sale; and
- The proceeds of any subsequent resale, disposal, or use of imported merchandise that accrue, directly or indirectly, to the seller.

### **Commercial Invoice**

Donaldson will ensure a valid commercial invoice is submitted for each import and export. The commercial invoice is a document prepared by the seller which contains the description, value and country of origin of the merchandise being imported. A commercial invoice prepared by the seller, shipper or his agent is required for an entry into any country. The commercial invoice must contain certain pieces of information in order for Customs and the broker to be able to determine the classification of the merchandise. Any inaccurate or misleading statement of fact in a required document may result in delays in release, detention of goods, increased review by import specialists or penalties against the importer or exporter.

### **Import Tariff and Tax Payments**

Donaldson will pay the accurate amount due with regards to duties, taxes, and additional fees at time of import. This includes determining if an import is subject to additional duties such as Antidumping or Countervailing Duty (ADD/CVD) in the United States. Donaldson will take steps to ensure strict compliance with procedural and documentary requirements for all duty payments to prevent any monetary penalties by local Customs authorities.

### **Recordkeeping**

Donaldson will maintain required records of all import/export transactions in accordance with local government regulations and the Company's Record Retention Policy, whichever allows for the maximum time period of retention. These records will be made available upon request to the government agency without cost. These records can be stored in hard copy or electronic form, if permitted, as long as legible printed copies can be produced upon demand. Records may be stored outside the Company's facilities, in a company approved, secure, and retrievable location.

Each Donaldson facility shall maintain import and export records in accordance with the Donaldson Record Retention Schedule and their local regulations. (Donaldson [Record Retention Schedule](#))

### **Training**

Donaldson will provide ongoing training to all employees involved in import and export transactions to ensure awareness of current regulations and Donaldson policy.

### **Auditing**

Donaldson will conduct internal audits or reviews to determine the level of compliance with regulations and requirements. Audits and reviews may also be conducted as conditions warrant at each location by either internal auditors or the GTC department.

### **Customs Powers of Attorney**

All Customs power-of-attorney forms are processed through Donaldson's GTC department. It is the responsibility of the GTC department to decide which Customs brokers will receive a power of attorney and when a power of attorney may be revoked.

### **Hand Carry of Commercial Products**

Donaldson will ensure employees abide by local laws and regulations when hand carrying products on international trips. Personal transportation of commercial products is discouraged, yet it is sometimes necessary for Donaldson employees traveling from one country to another to carry such products along with their personal baggage. In the event that commercial products are hand carried, it is extremely important that these goods be properly exported and subsequently entered into the domestic commerce of the importing country. Commercial products are defined as anything brought into a country for non-personal use. This **does not** include laptops or other items for personal use. If a hand carry is required and approved, please contact the GTC department for appropriate documentation and process to follow.

### **Internal Notification of Potential Non-Compliance**

In accordance with our Code of Conduct, all employees are required to promptly report all known or suspected violations of applicable laws, our Code of Conduct, or any of our Company's policies. If an employee becomes aware of or suspects any actual or potential violation of applicable import or export regulations, the employee should report those concerns to the GTC department, the Code of Conduct and Business Conduct Help Line or the Legal Department. Please consult the [Code of Conduct](#) for more information on reporting.

### **Customs Agency Inquiries/Audits Communication and Escalation Process**

Import and export authorities around the world use a variety of methods when communicating with the trade community. Should any Donaldson employee be contacted by such authorities seeking information on Donaldson's import or export practices, please consult the Government Investigations policy in the Code of Conduct. In accordance with that policy and in order to ensure Donaldson maintains a consistent message and appropriately manages risk, the following contacts must be notified of the customs agency communication: (1) Donaldson's Global Trade Compliance department; (2) Local senior leadership; and (3) Corporate legal Department. Nothing in this policy is intended or will be interpreted to prevent employees from providing information to a government entity, regulator or inspector or from otherwise participating in a government investigation as such conduct is protected under whistleblower or other similar protections of applicable law.