

DONALDSON COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(In millions, except per share amounts)

	Year ended July 31,		
	2018	2017	2016
Net sales	\$ 2,734.2	\$ 2,371.9	\$ 2,220.3
Cost of sales	1,798.7	1,548.8	1,465.5
Gross profit	935.5	823.1	754.8
Selling, general and administrative	495.6	439.8	425.1
Research and development	59.9	54.7	55.5
Operating income	380.0	328.6	274.2
Interest expense	21.3	19.5	20.7
Other income, net	(4.9)	(12.9)	(3.9)
Earnings before income taxes	363.6	322.0	257.4
Income taxes	183.3	89.2	66.6
Net earnings	\$ 180.3	\$ 232.8	\$ 190.8
Weighted average shares – basic	130.3	132.6	133.8
Weighted average shares – diluted	132.2	134.1	134.8
Net earnings per share – basic	\$ 1.38	\$ 1.76	\$ 1.43
Net earnings per share – diluted	\$ 1.36	\$ 1.74	\$ 1.42
Dividends paid per share	\$ 0.730	\$ 0.700	\$ 0.685

See Notes to Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Year ended July 31,		
	2018	2017	2016
Net earnings	\$ 180.3	\$ 232.8	\$ 190.8
Other comprehensive income (loss):			
Foreign currency translation (loss) income	(7.3)	30.5	(18.5)
Pension liability adjustment, net of deferred taxes of \$(4.7), \$(11.2) and \$14.4, respectively	12.2	20.7	(25.2)
Gain (loss) on hedging derivatives, net of deferred taxes of \$(1.1), \$1.2 and \$(0.1), respectively	2.3	(2.6)	0.1
Net other comprehensive income (loss)	7.2	48.6	(43.6)
Comprehensive income	\$ 187.5	\$ 281.4	\$ 147.2

See Notes to Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)

	As of July 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 204.7	\$ 308.4
Accounts receivable, less allowance of \$8.3 and \$8.7, respectively	534.6	497.7
Inventories, net	334.1	293.5
Prepaid expenses and other current assets	52.3	51.4
Total current assets	1,125.7	1,151.0
Property, plant and equipment, net	509.3	484.6
Goodwill	238.4	238.1
Intangible assets, net	35.6	40.6
Deferred income taxes	19.2	30.3
Other long-term assets	48.4	35.1
Total assets	<u>\$ 1,976.6</u>	<u>\$ 1,979.7</u>
Liabilities and shareholders' equity		
Current liabilities:		
Short-term borrowings	\$ 28.2	\$ 23.3
Current maturities of long-term debt	15.3	50.6
Trade accounts payable	201.3	194.0
Accrued employee compensation and related taxes	103.5	100.0
Accrued liabilities	34.5	31.1
Other current liabilities	86.6	85.1
Total current liabilities	469.4	484.1
Long-term debt	499.6	537.3
Non-current income taxes payable	105.3	21.1
Deferred income taxes	4.2	3.6
Other long-term liabilities	40.3	79.1
Total liabilities	1,118.8	1,125.2
Commitments and contingencies (Note 17)		
Shareholders' equity:		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, \$5.00 par value, 240,000,000 shares authorized, 151,643,194 shares issued	758.2	758.2
Retained earnings	1,122.1	1,041.2
Non-controlling interest	4.8	4.4
Stock compensation plans	21.3	15.7
Accumulated other comprehensive loss	(149.8)	(157.0)
Treasury stock, 22,871,145 and 21,037,353 shares, respectively, at cost	(898.8)	(808.0)
Total shareholders' equity	857.8	854.5
Total liabilities and shareholders' equity	<u>\$ 1,976.6</u>	<u>\$ 1,979.7</u>

See Notes to Consolidated Financial Statements.

DONALDSON COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year ended July 31,		
	2018	2017	2016
Operating Activities			
Net earnings	\$ 180.3	\$ 232.8	\$ 190.8
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	76.7	75.2	74.9
Equity in earnings of affiliates, net of distributions	(2.7)	(0.5)	(0.3)
Deferred income taxes	7.0	(10.6)	(3.3)
Stock-based compensation plan expense	16.7	9.1	7.3
Other, net	(27.6)	5.1	11.7
Changes in operating assets and liabilities, excluding effect of acquired businesses:			
Accounts receivable	(41.7)	(31.8)	8.5
Inventories	(43.8)	(42.4)	29.1
Prepaid expenses and other current assets	3.6	12.8	0.8
Income taxes payable	87.9	8.5	2.8
Trade accounts payable and other accrued expenses	6.5	59.6	(31.0)
Net cash provided by operating activities	262.9	317.8	291.3
Investing Activities			
Purchases of property, plant and equipment	(97.5)	(65.9)	(72.9)
Proceeds from sale of property, plant and equipment	1.6	2.4	2.2
Proceeds from sale of short-term investments	—	—	28.0
Acquisitions, net of cash acquired	0.5	(32.2)	(12.9)
Net cash used in investing activities	(95.4)	(95.7)	(55.6)
Financing Activities			
Proceeds from long-term debt	197.7	—	9.6
Repayments of long-term debt	(272.4)	(81.7)	(1.4)
Change in short-term borrowings	6.0	129.2	(23.6)
Purchase of treasury stock	(122.0)	(140.4)	(84.3)
Dividends paid	(94.7)	(92.4)	(91.2)
Tax withholding for stock compensation transactions	(2.6)	(2.6)	(2.5)
Exercise of stock options	19.2	22.7	13.2
Net cash used in financing activities	(268.8)	(165.2)	(180.2)
Effect of exchange rate changes on cash	(2.4)	8.3	(2.2)
(Decrease) increase in cash and cash equivalents	(103.7)	65.2	53.3
Cash and cash equivalents, beginning of year	308.4	243.2	189.9
Cash and cash equivalents, end of year	\$ 204.7	\$ 308.4	\$ 243.2
Supplemental Cash Flow Information			
Cash paid during the year for:			
Income taxes	\$ 82.6	\$ 88.0	\$ 67.8
Interest	\$ 21.9	\$ 19.9	\$ 19.7

See Notes to Consolidated Financial Statements.