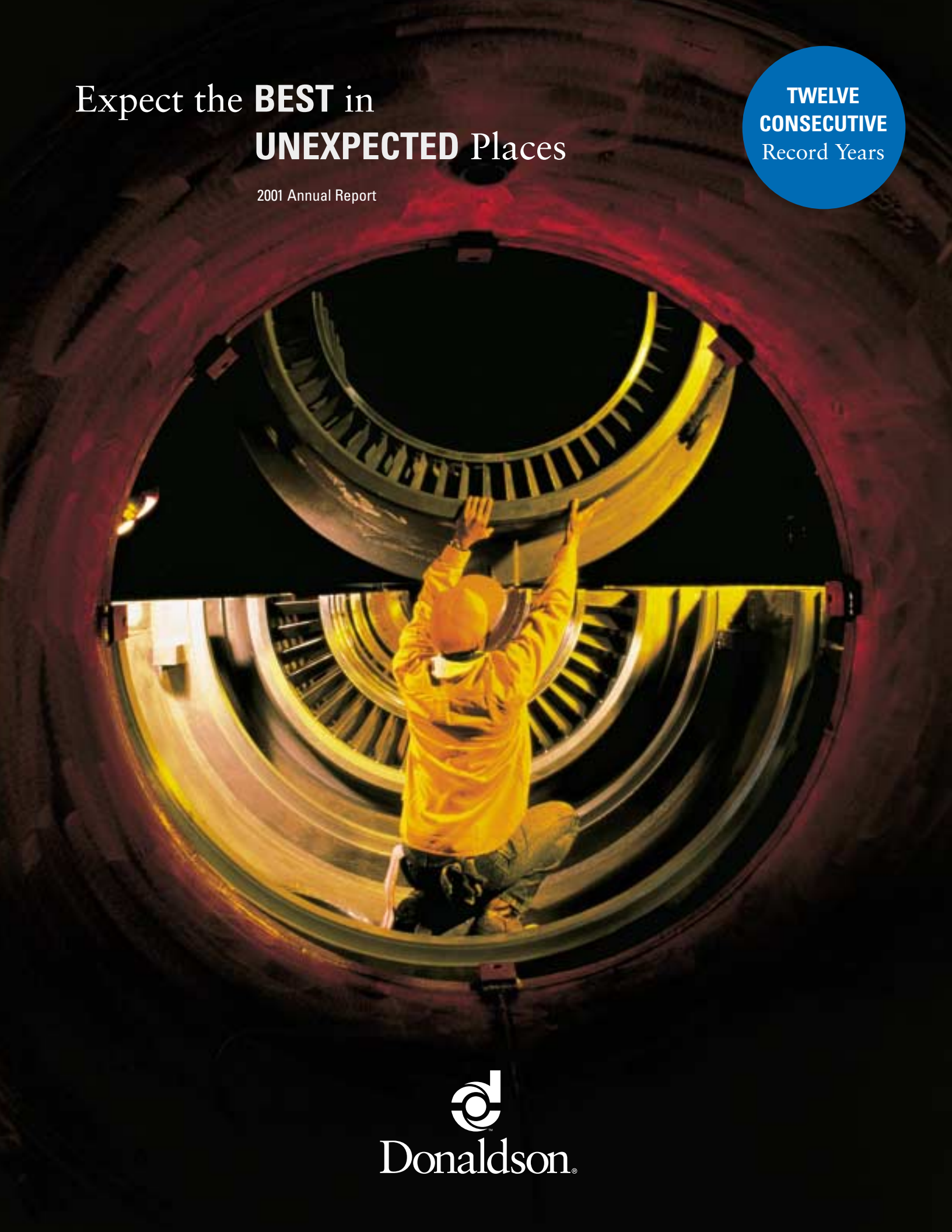


Expect the **BEST** in
UNEXPECTED Places

2001 Annual Report

**TWELVE
CONSECUTIVE**
Record Years



Donaldson®



Expect the **BEST** in **UNEXPECTED** Places

You expect to see Donaldson Company's filtration products on the heavy-duty truck traveling the interstate highway, or on the construction equipment on the side of the road. After all, that's where our company began.

But you aren't as likely to expect our filters in the camera that captures memories of your daughter's birthday party. Or in the backup generator providing electricity to your computer center or office. How about in the lawn tractor that mows your lawn?

Donaldson filters and related products are in many unexpected places – in products you see, touch and use every day. Our long-term, focused investment in filtration technology has created the leverage to carry us into new product lines, new markets and new geography. This diversification in end markets, linked by a common technology base, has enabled us to smooth out the ups and downs of the various market segments and to achieve our 12th consecutive year of double-digit earnings growth – no small feat in these turbulent economic times.

We're proud of our progress so far. Our industrial businesses are approaching our goal of 50 percent of total revenues, and our international businesses make up almost 38 percent of total revenues with operations in 19 countries. Donaldson Company holds more than 370 U.S. patents and related patents filed around the world and our employees are constantly developing new ways to utilize superior filtration and acoustic technology for products that are still years away from market.

So expect the best in unexpected places – today and in the future.

FINANCIAL HIGHLIGHTS

Donaldson Company, Inc. and Subsidiaries

Year ended July 31	2001	2000	% Change
Net sales (000s)	\$1,137,015	\$1,092,294	4.1%
Net earnings (000s)	75,548	\$70,233	7.6%
Return on sales	6.6%	6.4%	.2 pts.
Return on average shareholders' equity	25.2%	25.9%	(.7) pts.
Long-term capitalization ratio	23.7%	24.9%	(1.2) pts.
Diluted earnings per share	\$1.66	\$1.51	10.0%
Dividends paid per share	\$2.95	\$2.27	9.2%
Shareholders' equity per share	\$7.19	\$6.27	14.7%
Diluted shares outstanding (000s)	45,612	46,664	(2.3)%
Employees at year-end	8,230	8,478	(2.9)%
Sales per employee (000s)	\$138.2	\$128.8	7.3%

Donaldson Company, Inc., is a leading worldwide manufacturer of filtration systems and replacement parts. The company's product mix includes air and liquid filters and exhaust and emission control products for mobile equipment; in-plant air cleaning systems; air intake systems for industrial gas turbines; and specialized filters for such diverse applications as computer disk drives, aircraft passenger cabins and semiconductor processing. Products are manufactured at more than three dozen Donaldson plants around the world and through three joint ventures.

Our financial objective is to build shareholder value through superior share price appreciation and consistent dividend payouts. We believe value is created by delivering consistent, double-digit growth in earnings per share. Growth will be achieved by aggressively pursuing new opportunities in our existing and related markets. Consistency will be reinforced by maintaining a diversified portfolio of related filtration businesses around the world.

***Mission Statement* To provide superior return for our shareholders, through consistent, long-term earnings growth built on global leadership in filtration solutions, thereby creating security, opportunity and challenge for our employees.**

Expanding south of the border

From the heart of America to the far reaches of the world, Donaldson sells, services and manufactures products our customers need, where and when they need them.

Long before NAFTA, we realized the geographic and market advantages of working in Mexico. From a relatively modest start 20 years ago, our presence has grown to include three manufacturing plants.

Our new 200,000-square-foot facility in Monterrey will enable us to bring more gas turbine filter production in-house and expand our capacity to meet increasing customer demands. The facility, our fourth plant worldwide devoted to gas turbines, will produce filter housings, inlet ducting and silencing products.

We're also expanding our Aguascalientes facility, where 200 employees manufacture 5 million air, liquid and oil filters each year.

In addition to producing large volumes of filters for shipment to the United States and Mexico, our Mexican facilities also serve our European and South American customers.



We're around
the **WORLD**



We're there
for special
MEMORIES

Helping technology products run smoothly

Digital cameras, TV set-top boxes, MP3 players, navigational systems in automobiles – these are just some of the many places you'll find Donaldson disk drive



filters, as disk drives expand beyond the personal computer market and make their way into more consumer and office products.

As disk drives become increasingly complex, so do their filtration needs. Our filters remove harmful particles and chemicals from the drive and help keep the drives operating reliably.

In fiscal 2001, Donaldson manufactured more than 250 million disk drive filters. To keep up with our growth and provide the latest in state-of-the-art cleanroom facilities, we're expanding our Wuxi, China, operation. We'll continue to evolve and adapt our technology to meet the needs of our customers.

And you just never know where our disk drive filters will show up. Did you ever imagine in a sewing machine? In the near future, a disk drive in a sewing machine will allow the operator to log on to a Web site, download a pattern, store it and direct the machine to follow it.

Although growth in the personal computer market has recently slowed, the demand for disk drives and our filters will continue to grow with new and future applications such as cell phones; game machines, like Microsoft's Xbox and Sony's Playstation2; personal digital assistants and more.





We're keeping the **LIGHTS** on



Supplying power to the people

Donaldson is a key player in the booming gas turbine business – an industry that's striving to keep pace with the world's immense demand for power. We entered this market more than 30 years ago with the first self-cleaning filter system and today hold the leadership position in air filtration systems worldwide working with all of the makers of large and small turbines, including General Electric, Siemens Westinghouse and Solar. We experienced yet another record year in 2001 with sales up more than 66 percent over last year.

From permanent solutions like gas turbines to backup power sources, Donaldson is uniquely positioned to capitalize on the insatiable demand for energy with filtration technology that protects a broad spectrum of power generation.

For example, diesel generators are providing much-needed backup power to computer centers, office buildings, hospitals and municipalities and are often the sole sources of power for remote locations in the Third World. As the key supplier of air and liquid filters to Caterpillar's diesel generator business, the industry leader, our diesel generator business was up 28 percent over last year, and we expect 20 percent annual growth over the next five years.

The next chapter of this unfolding power story centers on fuel cells – the energy-saving and environmentally sound power source that will revolutionize the way we view and use energy. Utilizing hydrogen and oxygen, the only byproducts of fuel cell energy are water and heat. Though the technology has been around for more than a century, it's now on the brink of commercial viability, and Donaldson's Fuel Cell Contamination Control™ (FC3™) business is playing a key role.

Manufacturers are using our patent-pending air, chemical and noise filtration technology on fuel cells that power mass transit buses, which are expected to be introduced in 2002. Future applications are likely to include passenger cars, residential power generation and portable devices including cell phones and laptop computers. The possibilities for the use of fuel cells are vast, and Donaldson's FC3 systems will be there ensuring their reliability and performance.



Solving more than filtration problems

Donaldson unveiled its breakthrough PowerCore™ air-intake system in 1999, and it's now being used in a variety of products, from a John Deere lawn and garden tractor to a Caterpillar power generator to a Volvo mid-sized truck.

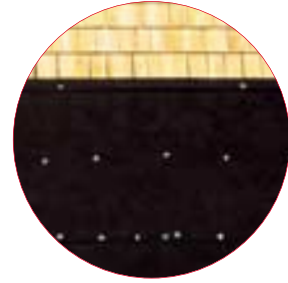
PowerCore systems offer superior filtration performance in a smaller package, and that's what manufacturers love. As our customers' products become more compact and stylized, space is at a premium. Our PowerCore systems give designers and engineers more freedom and choice in their designs.

For John Deere, a PowerCore system was the best solution to its problem of superior filtration in a very small space – nothing



else worked. For Volvo, the space saved with our smaller filter enabled them to design their truck with more cargo space.

With worldwide patents, PowerCore system's unique configuration and performance are difficult to duplicate, allowing us and our OEMs to retain the important replacement parts, or aftermarket, business. First-year sales exceeded our expectations, as did customer eagerness to try this innovative technology. PowerCore systems will be on at least seven new models of trucks, tractors and equipment next year.



We're in your
BACKYARD



Improving air quality for the workplace

More than 21 million U.S. workers are exposed to poor indoor air quality, not to mention many millions more around the world. We're doing our part to clean the air with dust collection systems that filter harmful particles and fumes, enhancing conditions for employees, products, and manufacturing processes.

In 2001, we introduced the Torit Downflo® Oval 1™ (DFO™) dust collection system, which offers a revolutionary oval cartridge filter, redesigned cabinet and an enhanced cleaning system applicable in thousands of businesses in the powder, metal, wood-working and processing industries worldwide. For our customers, this patented system means more effective and efficient filtration while requiring less floor space.

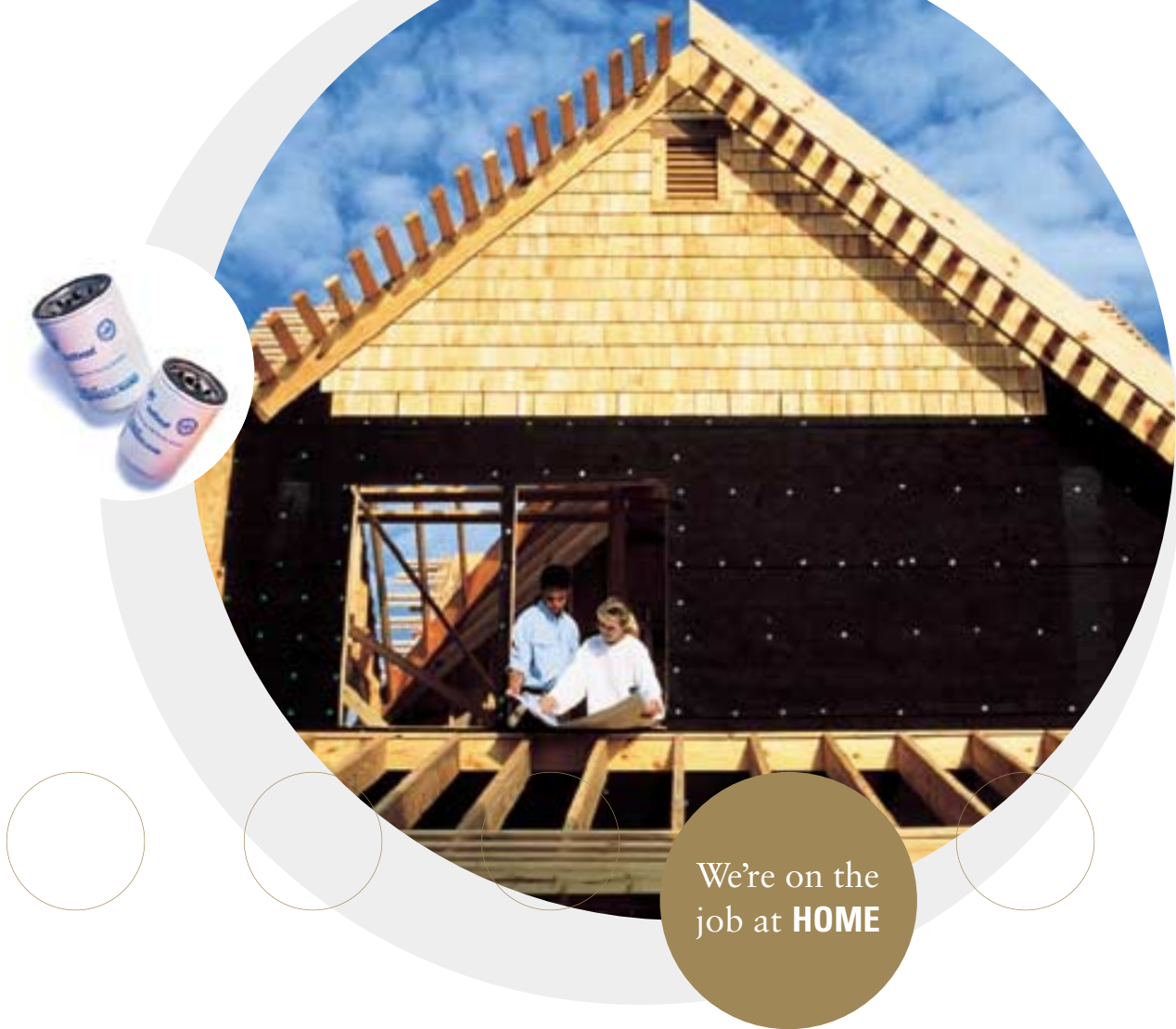
One metalworking customer, using the new DFO, was able to more than double production capacity. Their "old" dust collector was extremely undersized because of restricted floor space, and thus several of their steel cutting tables could run at only 40 percent capacity. Our new, smaller DFO fit into the available space and enabled them to ramp up to full production.

Customer acceptance has been excellent with over 300 DFO units already sold. This new product introduction, combined with our new Sample Analysis Lab that enables us to more accurately determine the best product solution, reinforces our leading position in the worldwide industrial dust collection market.



We're enhancing
worker **SAFETY**





We're on the
job at **HOME**

Helping engines run smoothly

Not just for the construction site anymore, skid-steer loaders are becoming more popular than ever. They're increasingly used by consumers for home improvement projects and landscaping, in addition to the heavy-duty construction, agriculture and masonry industries. They're a bright spot – with 12 percent yearly growth – in a construction equipment industry that has been relatively flat over the past year.

As the supplier of choice to Bobcat, the skid-steer market leader, Donaldson plays a big part in the healthy skid-steer market. For more than 30 years, we've been working with Bobcat to supply a variety of filter and exhaust systems. It's a true partnership that has grown through Bobcat's new designs and international expansion.



We've also supported other important customers as they've entered the skid-steer market, including Case-New Holland, Caterpillar and John Deere. Skid-steer loaders are tough machines that require heavy-duty filtration, and Donaldson filters are there to ensure they keep running smoothly.



DEAR SHAREHOLDERS,

If there is beauty in watching a complex organization run well in rough water, then Donaldson's fiscal 2001 was an artwork. Together, the people who operate the many, disparate parts of this filtration portfolio turned in what might be their finest performance ever. Numerically, the results were perhaps less than eye-popping – a 10 percent earnings increase is the slowest progress we've made in years. The beauty was that this occurred in the face of a strong and sometimes dispiriting headwind that many expected would deny us our 12th consecutive double-digit growth year. Overcoming the obstacles and delivering the results speak volumes about the people who did the work and about the strength of the company's strategy. Twelve consecutive years, despite the economic dips of '91, '96 and '01, belie the indictment that as an industrial manufacturer, we have to be a cyclical performer. Over this 12-year period, we have averaged 16 percent EPS growth, but each year have delivered at least 10 percent.

Pictured from left to right:

WILLIAM M. COOK

Senior Vice President, International and Chief Financial Officer

WILLIAM G. VAN DYKE

Chairman, President and Chief Executive Officer

JAMES R. GIERTZ

Senior Vice President, Commercial and Industrial

NICKOLAS PRIADKA

Senior Vice President, Engine Systems and Parts

LOWELL F. SCHWAB

Senior Vice President, Operations

High-quality earnings came the old-fashioned way – strong revenue, lower costs and tight expense control. We maintained ROI in the 19 to 20 percent range and ROE above 25 percent – levels that compare favorably with our long-term performance. We kept the operations growing and delivered year 12 – the consistent, above-average performance that creates shareholder value, and security and opportunity for our people.

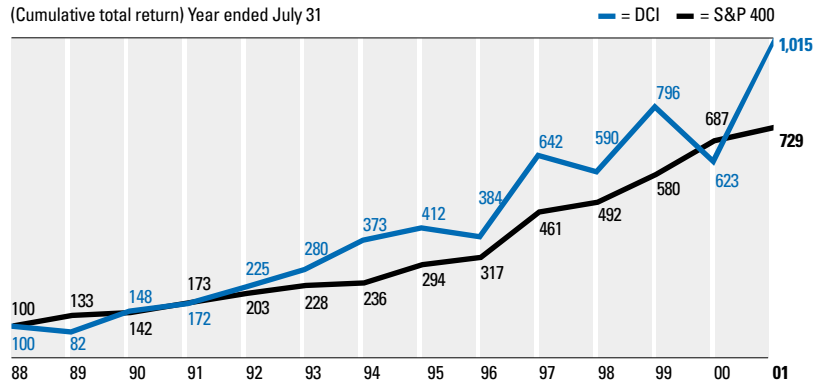
This year's results reaffirm that our long-term, focused investment in filtration technology deployed into leadership positions in distinct and divergent end markets will drive consistent, superior results. Our heroes have been different every year, as various pieces of this filtration portfolio have compensated for others that were having a difficult time.

This year, the North American heavy truck market experienced a truly breathtaking plunge. Donaldson experienced a drop in truck and automotive revenue of almost 50 percent. But, our portfolio structure meant the drop in these applications would slow, but not cripple, the company.

The transportation revenue loss was washed away by the continuing boom in our gas turbine business, where sales grew by more than 66 percent

LONG-TERM PERFORMANCE

(Cumulative total return) Year ended July 31



to \$195 million. Special recognition and thanks go to the Donaldson people who ramped up output and made it happen. Donaldson's leading, world-wide market share derives from our unique, proven ability to deliver the best gas turbine air inlet systems in the industry at the required cost and quality, and do it on time – over and over.

But this year was more than just a gas turbine story. Gas turbine offset transportation, while other markets, such as the engine aftermarket and special applications, provided modest growth. And most of our businesses maintained or improved their margins.

Another part of the story this year came from overseas as both Europe and Asia-Pacific turned in great local currency results. Europe participated in the gas turbine upswing, completed the DCE integration and showed improved results in almost every market, driving a 16 percent increase in operating income. Asia-Pacific operating income increased 44 percent, derived from a strong disk drive business and Nippon-Donaldson's ROI improvement project, which produced Japan's best results and highest returns in a decade.

Plant rationalization has emerged as the major initiative in managing our cost structure. This work

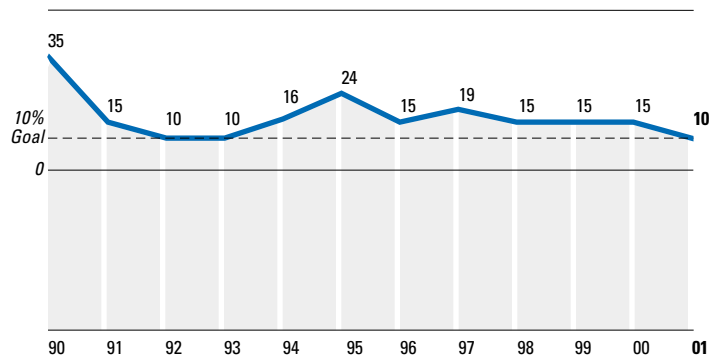
engages almost every area of our operation, e.g., plant rationalization can't succeed without aggressive product line rationalization. Despite the difficult business conditions this past year, we funneled resources to this work – closing five manufacturing and assembly facilities. This investment in cleaning up our infrastructure cost us 17 cents per share, about two-thirds of this coming in the first half. We started to see the benefits of those expenditures in the fourth quarter, reenergizing the work that's in front of us.

Donaldson takes a pay-as-you-go approach to plant rationalization costs, absorbing them into the operating earnings of the year – no "special charges." This may explain the pride we take in our numbers. We made our 12th consecutive double-digit earnings growth year – up 15 cents per share – after absorbing 17 cents in plant rationalization costs – investments in our future. Effectively, we spent the year to secure our future – then we made the year.

Plant rationalization also includes opening new facilities to gain scale and cost advantages. We have four new facilities coming on stream this year. A new plant near Philadelphia for our Tetratrec™ PTFE membrane business will allow us to close

CONSISTENT DOUBLE-DIGIT EPS GROWTH

(Annual EPS % change)



three smaller facilities nearby, while doubling manufacturing capacity. Our new gas turbine plant in Monterrey, Mexico, will bring a portion of the now-subcontracted work back inside our walls. We target producing about two-thirds of our gas turbine work internally, and this allows us to move back toward that standard. We are also building a new clean room in China for disk drive filter production and a new filter plant in Eastern Europe.

In sum, we will continue to pare those facilities that don't work for us from a cost standpoint, while adding plants that will. Looking into the next fiscal year, we will continue to invest in plant rationalization, but cost levels aren't expected to approach the levels of fiscal 2001.

At this juncture, we can't speak with much assurance about the business outlook. Prior to September 11, our expectation was for business levels to be generally consistent with our fourth quarter. While we didn't see a meaningful upturn coming, the harsh conditions of fiscal 2001 were to provide easier comparisons going forward.

Growth was again projected for gas turbines and disk drives. The big negatives from 2001, such as foreign currency, the truck market collapse and contracting capital spending, appeared unlikely

to repeat in 2002. Completion of the DCE acquisition integration and last year's plant rationalization moves will produce benefits. The sum was to be an easier year than the one just past. But now the picture is less clear. While we might see a lift from defense and construction spending, the unknowns around the economy as a whole erase any sense of comfort.

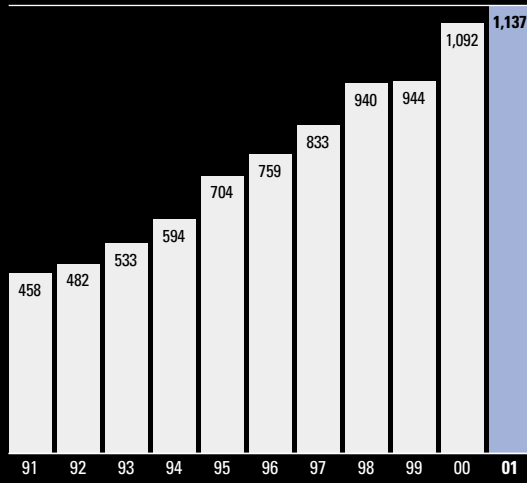
Yet despite the circumstances, our focus remains on delivering superior return on investment, while striving to bring in our 13th consecutive year of double-digit earnings growth. Our 8,200 capable, tough-minded people and a sound, vital strategy are a powerful combination. We know that we are in control of most of the work that will determine our success. DCI's demonstrated ability to repeatedly deliver, even while on a sharp economic downslope, reassures us of our ability to manage successfully through another tough year, if that's what comes.

Sincerely,

WILLIAM G. VAN DYKE

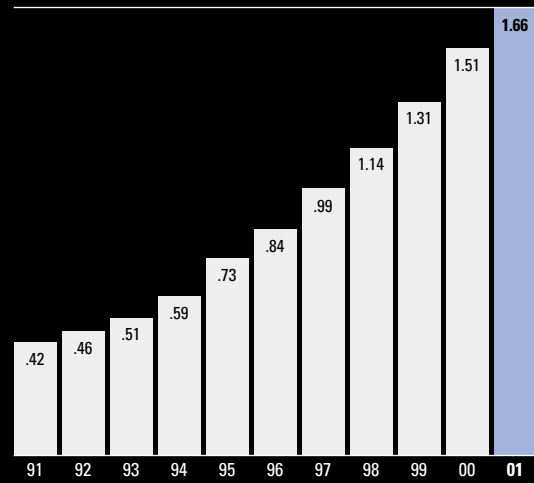
Chairman, President and Chief Executive Officer

NET SALES
(Millions of dollars)



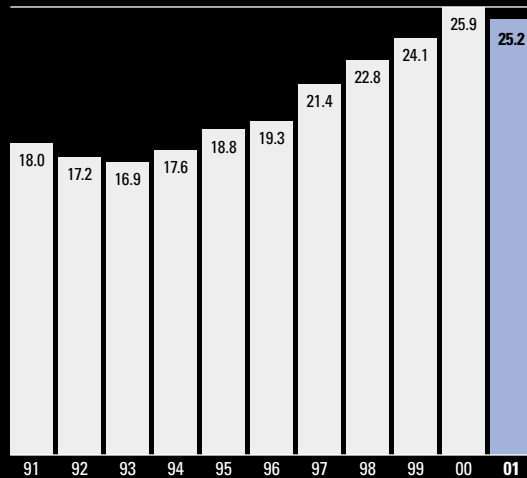
Donaldson has posted 18 consecutive years of revenue increases.

EARNINGS PER SHARE
(Dollars)



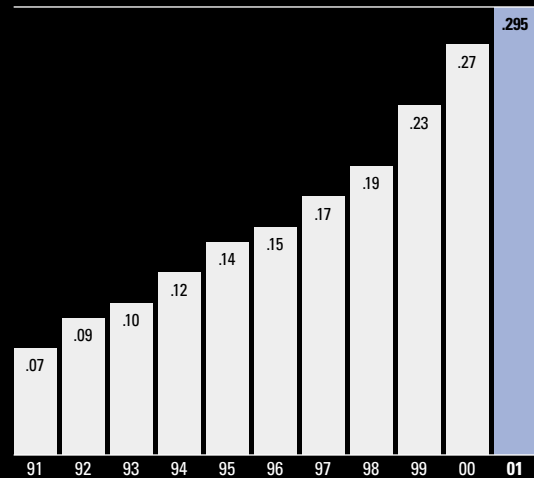
Earnings per share were up 10 percent in 2001, the 12th consecutive year of double-digit increases in EPS.

RETURN ON EQUITY
(% Per annum)



Donaldson Company is delivering shareholder value through consistently high returns on shareholders' equity.

DIVIDENDS PER SHARE
(Dollars)



Dividends paid per share increased 9 percent in 2001. The company distributes about 20 percent of net income to shareholders through regular quarterly dividends.

INDUSTRIAL PRODUCTS *Operating Segment*

2001 Revenue **\$530** MILLION



PRODUCTS

DUST COLLECTION

Under the trade names Torit, DCE and Aercology, Donaldson provides equipment to control and capture process dust, fumes and mist in manufacturing and industrial processing plants. In addition, a full line of replacement filter cartridges, bags and spare parts are offered.

GAS TURBINE SYSTEMS

Donaldson provides complete systems to deliver clean air to combustion turbines. Products include self-cleaning filter units, static air filter units, inlet ducting and silencing, evaporative coolers, chiller coils, inlet heating and anti-icing systems. Also, a full line of replacement filters and parts is offered.

SPECIAL APPLICATIONS

Donaldson provides a wide range of high efficiency media, filters and filtration systems for various commercial, industrial and product applications.

APPLICATIONS

Product is applied in a wide variety of industrial settings including metal working plants, paint operations, welding stations, woodworking shops and food processing plants.

Essentially all combustion turbines require inlet air filtration and noise attenuation systems. These turbines provide base electricity, peaking capacity, remote power generation for special applications such as pipelines and off-shore oil drilling platforms.

Products for the **computer disk drive** market include particulate filters, desiccant pouches and chemical adsorbing filter pouches. Customers include major disk drive manufacturers such as IBM, Seagate and Western Digital.

Products for **special market** applications include aircraft cabin air filters, chemical filter systems for semi-conductor processing facilities, as well as other filters for process-critical applications.

Donaldson sells **expanded PTFE membrane** through its Tetratrec unit. Primary applications for this membrane are industrial dust collection, product recovery applications and specialty fabrics.

2001 REVENUE

\$217
MILLION

\$195
MILLION

\$118
MILLION

ROUTES TO MARKET

Dedicated field sales force coordinates multiple selling channels to end-users including: direct selling, distribution, installers, OEM accounts and telemarketing.

Products are primarily sold to gas turbine OEMs (e.g., General Electric, Solar, Siemens Westinghouse). Replacement parts are sold direct to end-users.

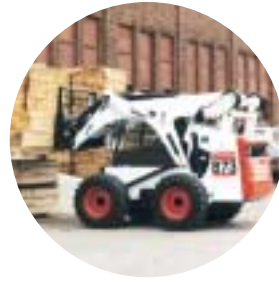
Products are sold to disk drive manufacturers by a direct sales force supported by product development and application engineers.

Products are primarily sold direct to end-users.

Membrane and laminates are sold to various filter and garment manufacturers.

ENGINE PRODUCTS *Operating Segment*

2001 Revenue **\$607** MILLION



END-MARKETS

OFF-ROAD EQUIPMENT
Products sold to industrial equipment and defense contractor OEMs for agriculture, construction, mining, military and other industrial applications.

TRUCKS
Products sold to manufacturers of medium- and heavy-duty trucks.

AFTERMARKET
Broad line of replacement filters and hard parts for all of the equipment applications noted at left.

REPRESENTATIVE CUSTOMERS

Caterpillar, John Deere, Komatsu, CNH, Volvo Construction Equipment, General Dynamics and Stewart & Stevenson

Freightliner, PACCAR, Volvo, Scania, International and Mitsubishi

Original equipment dealers (such as Freightliner dealers or Caterpillar dealers), independent distributors and private label accounts

2001 REVENUE

\$182
MILLION

\$80
MILLION

\$345
MILLION

PRODUCT FAMILIES

Engine Intake Air Filtration Systems	✓
Exhaust Systems	✓
Hydraulic Filtration Systems	✓
Lube, Fuel and Coolant Filtration Systems	✓
Cabin Air Filters	✓

✓
✓
✓
✓

✓
✓
✓
✓
✓

Donaldson sells a broad line of filters and housings for **industrial hydraulic** and lubricating fluids.

Products are sold through an extensive network of industrial distributors.

ELEVEN-YEAR COMPARISON OF RESULTS

Donaldson Company, Inc. and Subsidiaries

(Thousands of dollars, except per share amounts)

	2001	2000	1999	1998
OPERATING RESULTS				
Net sales	\$1,137,015	\$1,092,294	\$944,139	\$940,351
Gross margin	\$ 341,734	327,521	275,681	263,262
Gross margin percentage	30.1%	30.0%	29.2%	28.0%
Operating income	\$ 112,108	105,594	88,390	86,799
Operating income percentage	9.9%	9.7%	9.4%	9.2%
Interest expense	\$ 11,608	9,880	6,993	4,671
Earnings before income taxes	\$ 104,928	100,333	89,210	86,441
Income taxes	\$ 29,380	30,100	26,763	29,390
Effective income tax rate	28.0%	30.0%	30.0%	34.0%
Net earnings	\$ 75,548	70,233	62,447	57,051
Return on sales	6.6%	6.4%	6.6%	6.1%
Return on average shareholders' equity	25.2%	25.9%	24.1%	22.8%
Return on investment	19.1%	19.4%	19.0%	20.5%
FINANCIAL POSITION				
Total assets	\$ 706,830	677,525	542,246	512,987
Current assets	\$ 407,227	383,347	326,388	300,817
Current liabilities	\$ 217,279	243,590	142,055	165,068
Working capital	\$ 189,948	139,757	184,333	135,749
Current ratio	1.9	1.6	2.3	1.8
Current debt	\$ 59,416	85,313	20,696	45,896
Long-term debt	\$ 99,259	92,645	86,691	51,553
Total debt	\$ 158,675	177,958	107,387	97,449
Shareholders' equity	\$ 319,093	280,165	262,763	255,671
Long-term capitalization ratio	23.7%	24.9%	24.8%	16.8%
Property, plant and equipment, net	\$ 207,658	204,545	182,180	178,867
Net expenditures on property, plant and equipment	\$ 38,924	36,417	29,539	54,705
Depreciation and amortization	\$ 38,577	34,326	27,686	25,272
SHAREHOLDER INFORMATION				
Net earnings per share – assuming dilution	\$ 1.66	1.51	1.31	1.14
Dividends paid per share	\$.295	.27	.23	.19
Shareholders' equity per share	\$ 7.19	6.27	5.69	5.28
Shares outstanding (000s)	44,383	44,658	46,197	48,382
Common stock price range, per share				
High	\$ 33.05	24.81	25.88	27.19
Low	\$ 19.13	19.13	14.44	18.56

Amounts are adjusted for all stock splits and reflect adoption of SFAS 128.

Operating income is gross margin less selling, general and administrative, and research and development expense.

Return on investment is net earnings divided by average long-term debt plus average shareholders' equity.

Long-term capitalization ratio is long-term debt divided by long-term debt plus shareholders' equity.

⁽¹⁾Excludes the cumulative effect of an accounting change of \$2,206, or \$.08 per share, in 1994.

1997	1996	1995	1994	1993	1992	1991
\$833,348	\$758,646	\$703,959	\$593,503	\$533,327	\$482,104	\$457,692
250,273	222,874	197,979	166,599	152,236	133,574	129,858
30.0%	29.4%	28.1%	28.1%	28.5%	27.7%	28.4%
82,715	75,642	65,531	52,079	45,246	41,249	41,304
9.9%	10.0%	9.3%	8.8%	8.5%	8.6%	9.0%
2,358	2,905	3,089	3,362	2,723	2,681	3,526
79,094	71,120	63,172	50,193	44,682	41,721	39,385
28,474	27,684	24,636	18,244	16,468	15,952	15,337
36.0%	38.9%	39.0%	36.3%	36.9%	38.2%	38.9%
50,620	43,436	38,536	31,949 ⁽¹⁾	28,214	25,769	24,048
6.1%	5.7%	5.5%	5.4%	5.3%	5.3%	5.3%
21.4%	19.3%	18.8%	17.6%	16.9%	17.2%	18.0%
20.8%	18.5%	17.6%	16.0%	15.0%	14.8%	14.9%
467,501	402,850	381,042	337,360	300,217	286,348	253,194
283,367	250,751	247,904	220,308	196,014	187,360	169,398
177,346	138,578	123,747	115,757	93,666	89,956	77,537
106,021	112,173	124,157	104,551	102,348	97,404	91,861
1.6	1.8	2.0	1.9	2.1	2.1	2.2
42,674	13,145	20,800	16,956	7,595	11,425	6,380
4,201	10,041	10,167	16,028	18,920	23,482	25,673
46,875	23,186	30,967	32,984	26,515	34,907	32,053
243,865	228,880	221,173	189,697	174,008	160,303	138,947
1.7%	4.2%	4.4%	7.8%	9.8%	12.8%	15.6%
154,595	124,913	110,640	99,559	90,515	84,899	72,863
47,327	39,297	25,334	24,642	15,005	15,538	16,208
21,494	21,674	20,529	16,365	14,752	14,047	12,187
.99	.84	.73	.59 ⁽¹⁾	.51	.46	.42
.17	.15	.14	.12	.10	.09	.07
4.93	4.52	4.23	3.58	3.19	2.91	2.51
49,452	50,650	52,370	53,020	54,564	55,138	55,478
20.38	14.00	14.00	13.06	10.06	7.94	6.56
12.69	11.94	10.94	9.13	7.00	5.19	4.06

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

The following discussion of the company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto (including Note H, Segment Reporting) and other financial information included elsewhere in this Report.

Fiscal 2001 Compared to Fiscal 2000 The company reported record sales in 2001 of \$1.137 billion. This was an increase of 4.1 percent over prior-year sales of \$1.092 billion. Excluding the impact of businesses acquired in 2000, sales for the year ended July 31, 2001 were up 0.5 percent over the prior year. This modest growth in sales for the year reflected the diversification of our Industrial Products and Engine Products segments as shown by the strength in the gas turbine market offsetting the slump in the North American truck market. Sales for the Industrial Products segment were a record \$530.2 million, up 26.7 percent over the prior year. Excluding the acquisition of DCE, sales for the year were up 18.9 percent from the prior year. Leading this increase were sales in gas turbine products with an increase over the prior year of 66.6 percent to record sales of \$195.0 million, reflecting the continued high demand in this market. Sales in dust collection and special application products also increased from the prior year by 12.5 percent and 8.9 percent, respectively. Excluding the acquisition of DCE, dust collection product sales decreased 4.4 percent from the prior year. Sales for the Engine Products segment of \$606.8 million were down 10.0 percent over the prior year reflecting the U.S. economic weakness and the strong U.S. dollar overseas. Worldwide markets for medium and heavy-duty trucks were severely depressed, reflected in a decrease in transportation product sales of 47.6 percent from the prior year. Excluding the company's second quarter exit from a block of truck related business due to unfavorable commercial terms, sales were down 37.1 percent from the prior year. Sales in off-road products decreased 5.9 percent from the prior year while aftermarket product sales increased 5.0 percent.

Domestic Industrial Products sales increased 28.1 percent from the prior year. This increase was led by strong sales of gas turbine systems products domestically reflecting continued demand for large turbines in North America, with domestic sales almost doubling from the prior year. Domestic dust collection product sales grew slightly with an increase of 1.7 percent while sales in special application products domestically decreased 8.2 percent. Domestic

Engine Products sales were down 10.5 percent from the prior year. The medium and heavy-duty truck market continued to show its effects on the company's transportation product sales domestically with a decrease of 51.8 percent from the prior year. This was somewhat offset by increases in domestic aftermarket and off-road product sales of 1.7 percent and 13.1 percent, respectively.

In U.S. dollars, total international sales increased 5.6 percent from the prior year. Excluding the negative impact of foreign currency translation of \$35.6 million, sales increased 14.4 percent over the prior year. Total international Industrial Products sales were up 24.9 percent from the prior year. Sales of all products within this segment were strong internationally, with increases across the board. Leading this growth were sales of dust collection products with an increase of 34.1 percent from the prior year. Sales of gas turbine products and special application products increased 20.2 percent and 18.9 percent from the prior year, respectively. Total international Engine Products sales were down 8.9 percent compared to the prior year despite an increase in aftermarket product sales of 11.3 percent. International sales of off-road and transportation products decreased from the prior year by 28.3 percent and 29.0 percent, respectively.

The company reported record net earnings for 2001 of \$75.5 million compared to \$70.2 million in 2000, an increase of 7.6 percent. Net earnings per share – diluted were \$1.66, up 10.0 percent from \$1.51 in the prior year. With only a modest increase in sales, the increase in net earnings is also a result of cost management, particularly in plant rationalization efforts throughout the year and other cost reduction initiatives in the second half of the year. This along with the decrease in the company's effective tax rate due to increased profitability from foreign operations helped to offset the effect of negative foreign currency exchange rates. The Industrial Products segment continued to grow, contributing 46.6 percent of consolidated sales, approximately 70.0 percent of the operating income and all of the growth in operating income for the year. International operating income totaled approximately 68.9 percent and 62.1 percent of consolidated operating income in 2001 and 2000, respectively. International operations also contributed all of the growth in operating income. Europe's operating income increased 7.1 percent (16.2 percent in local currency) as a result of strong gas turbine results, the completion of the DCE integration and improved results in most markets. Asia-Pacific's operating

income increased by 38.0 percent (44.4 percent in local currency), led by increases from Japan's ROI improvement project and strong disk drive results in the Hong Kong and Wuxi, China, operations.

Gross margin for 2001 remained virtually flat with only a slight increase to 30.1 percent compared to 30.0 percent in the prior year. This reflects an improved product mix and benefits of plant rationalization efforts, offsetting strong pricing pressure from major customers.

Operating expenses as a percentage of sales for 2001 and 2000 were 20.2 percent and 20.3 percent, respectively. Operating expenses in 2001 totaled \$229.6 million compared to \$221.9 million in 2000, an increase of \$7.7 million, or 3.5 percent. The increase in operating expenses relative to the prior year reflects higher sales levels and the continued impact of the businesses acquired in 2000. Selling expenses in 2001 were flat as compared to 2000. General and administrative expenses increased \$7.2 million from the prior year.

Interest expense increased \$1.7 million, or 17.5 percent, primarily due to higher short-term debt levels throughout the year related to last year's acquisitions. Other income totaled \$4.4 million in 2001 compared to other income of \$4.6 million in the prior year. The major components of other income in 2001 were: interest income of \$1.2 million, earnings from non-consolidated joint ventures of \$3.0 million, and other miscellaneous income and expense items netting to \$0.2 million of miscellaneous income.

The effective income tax rate of 28.0 percent in 2001 decreased from the 30.0 percent tax rate in 2000. The tax rate was adjusted in the third quarter to provide for the increased contributions from the company's international operations in lower tax rate countries and reflects the foreign tax credit generated by the receipt of a dividend from the company's operations in Japan. The company anticipates that it will have a comparable proportion of income coming from its international operations located in lower tax rate countries in 2002. The company anticipates that its effective income tax rate will be approximately 28.0 percent in 2002.

Total backlog was \$355.3 million, up 7.2 percent from the same period last year. In the Industrial Products segment, total backlog increased 16.8 percent from the same period last year. In the Engine Products segment, total backlog was down 1.3 percent compared to the same period last year. Hard order backlog, goods scheduled for delivery in 90 days, was \$179.9 million, down 2.1 percent from \$183.7 million in the prior year. Within the Industrial Products segment, hard order backlog for gas turbine

products increased 28.7 percent from the prior year. This increase was offset by decreases in dust collection and special application products of 26.2 percent and 24.1 percent, respectively, resulting in a slight overall increase in the Industrial Products segment from the prior year. In the Engine products segment, overall hard order backlog decreased 4.5 percent from the prior year. Within this segment, off-road and transportation products posted decreases of 6.4 percent and 16.3 percent, respectively, while aftermarket hard order backlog increased 4.5 percent from the prior year.

Fiscal 2000 Compared to Fiscal 1999 The company exceeded one billion dollars in sales in 2000, reporting record sales of \$1.092 billion. This was an increase of 15.7 percent over prior-year sales of \$944.1 million. Businesses acquired in this fiscal year contributed \$56.7 million of revenues for the year. Excluding the impact of acquisitions, sales for the year ended July 31, 2000 were up 9.7 percent over the prior year. Sales for the Engine Products segment of \$674.0 million were up 10.2 percent over the prior year. Sales for the Industrial Products segment of \$418.3 million were up 25.7 percent over the prior year. Overall, growth was strong across essentially all the markets within both the Engine Products and Industrial Products segments with the exception of a 5.9 percent decline in sales of transportation products within the Engine Products segment, reflecting a slowdown in the North America heavy-duty truck market and a decrease in automotive sales due to the loss of the CK platform business. Continued increases in sales for the gas turbine systems and special application products reflected continued high demand in those markets. The increase in sales also reflected strengthening in other markets such as dust collection, engine aftermarket and off-road products.

Domestic Engine Products sales were up 8.7 percent from the prior year. This increase was led by strong sales in engine aftermarket products, which increased domestically by 23.6 percent including businesses acquired during the year. Exclusive of acquisitions, domestic aftermarket product sales increased 10.4 percent. Domestic sales in off-road equipment products were also strong with an increase of 14.7 percent from the prior year reflecting growth in the agricultural, mining and large equipment markets compared to the prior year. Domestic sales in transportation products were down 1.8 percent with mixed results coming from an increase of 10.2 percent

in domestic truck sales offset by a sharp decline in domestic automotive sales. Domestic Industrial Products sales increased 17.8 percent from the prior year including businesses acquired during the year. Exclusive of acquisitions, domestic Industrial Products sales were still strong with an increase of 15.6 percent. This increase was led by continued strong sales of gas turbine systems products (55.4 percent increase from the prior year) reflecting continued demand for large turbines in North America. Domestic dust collection product sales grew at a more modest rate with an increase of 7.2 percent while increases in special applications products increased only slightly overall.

In U.S. dollars, total international sales increased 23.0 percent from the prior year. Excluding the negative impact of foreign currency translation of \$12.3 million, sales increased 26.8 percent over the prior year. Total international Engine Products sales were up 13.3 percent compared to the prior year despite lower overall sales of automotive products. International sales of off-road products and aftermarket products were strong, posting increases of 21.9 percent and 20.1 percent from the prior year, respectively. International Industrial Products sales were up 39.0 percent from the prior year including businesses acquired during the year. Businesses acquired during the year contributed \$28.7 million of international sales in the Industrial Products segment. Excluding these sales, the Industrial Products segment showed an increase of 15.9 percent in international sales from the prior year. A sharp increase in international sales in dust collection products was due largely to acquisitions during the year but excluding acquisitions, sales still showed an increase of 6.7 percent. Also contributing to the increase in international sales for the Industrial Products segment were disk drive products and gas turbine products with increases of 18.8 percent and 14.9 percent, respectively, over the prior year.

The company reported record net earnings for 2000 of \$70.2 million compared to \$62.4 million in 1999, an increase of 12.5 percent. Net earnings per share – diluted were \$1.51, up 15.3 percent from the prior year. This reflects revenue growth as well as the impact of the company's stock repurchase program. An increase in sales levels from the prior year and the benefit from continued cost reduction efforts were the primary reasons for the higher earnings. The Industrial Products segment contributed almost half of the operating profit and all of the earnings growth for 2000. International operating income totaled approximately 62.1 percent and 57.6 percent of consolidated operating income in 2000 and 1999, respectively.

Gross margin for 2000 increased to 30.0 percent compared to 29.2 percent in the prior year. The increase in gross margin for the year reflects the growth in net sales achieved in both operating segments of the company as well as the positive impact of the continuous focus on productivity improvements.

Operating expenses as a percentage of sales for 2000 and 1999 were 20.3 percent and 19.8 percent, respectively. Operating expenses in 2000 totaled \$221.9 million compared to \$187.3 million in 1999, an increase of \$34.6 million, or 18.5 percent. The increase in operating expenses relative to the prior year reflects higher sales levels and the impact of the acquired businesses. Selling expenses in 2000 increased \$17.1 million, primarily due to the higher sales levels. General and administrative expenses increased \$13.8 million from the prior year due to several factors including increased programming and information technology costs associated with Year 2000 efforts, increases in workers' compensation, increases in medical costs and employee compensation. In addition, there was \$1.8 million of goodwill amortization related to the businesses acquired during the year.

Interest expense increased \$2.9 million, or 41.3 percent, primarily due to an increase in debt for the financing of acquisitions in the year as well as an increase in short-term borrowing. Other income totaled \$4.6 million in 2000 compared to other income of \$7.8 million in the prior year. The major components of other income in 2000 were: interest income of \$2.7 million, earnings from non-consolidated joint ventures of \$4.4 million, charitable contributions of \$0.9 million, loss on sale of fixed assets of \$1.0 million, and other miscellaneous income and expense items netting to \$0.6 million of miscellaneous expense.

The effective income tax rate of 30.0 percent in 2000 was unchanged from the 30.0 percent tax rate in 1999.

Total backlog of \$331.3 million was up 16.8 percent from the prior year-end. Hard order backlog, goods scheduled for delivery in 90 days, was \$183.7 million and \$157.1 million at July 31, 2000 and 1999, respectively. Hard order backlog for the Engine Products segment decreased slightly from 1999. This decrease resulted from a decrease in backlog for truck and automotive products of 32.1 percent, offset by double-digit increases in both aftermarket products and off-road equipment products of 22.2 percent and 15.5 percent, respectively. Hard order backlog for the Industrial Products segment increased \$28.2 million from 1999. This increase was due to significant increases in backlog for both dust collection and

gas turbine products of 81.1 percent and 45.6 percent, respectively, followed by a more modest increase in special application products of 6.6 percent.

Liquidity and Capital Resources

Financial Condition At July 31, 2001, the company's capital structure was comprised of \$59.4 million of current debt, \$99.3 million of long-term debt and \$319.1 million of shareholders' equity. The ratio of long-term debt to total long-term capital was 23.7 percent and 24.9 percent at July 31, 2001 and 2000, respectively.

Total debt outstanding decreased \$19.3 million to \$158.7 million outstanding at July 31, 2001. The decrease resulted from a reduction in short-term borrowings outstanding at the end of the year of \$25.6 million as compared to the prior year, offset by an increase in long-term debt of \$6.6 million from the prior year. The increase in long-term debt is primarily due to the addition of a guaranteed note of \$6.4 million in our Japan operations.

The company has a multi-currency revolving credit facility totaling \$100.0 million with a group of banks and an additional \$35.0 million available for use under uncommitted facilities which provide unsecured borrowings for general corporate purposes. There was \$57.7 million outstanding under these facilities at July 31, 2001. The company believes that the combination of present capital resources, internally generated funds, and unused financing sources are adequate to meet cash requirements for 2002.

Shareholders' equity increased \$38.9 million in 2001 to \$319.1 million. The increase was primarily due to current year earnings of \$75.5 million offset primarily by \$10.3 million of treasury stock repurchases and \$13.1 million of dividend payments as well as a foreign currency translation adjustment in other comprehensive income of \$13.7 million.

Cash Flows During fiscal 2001, \$82.8 million of cash was generated from operating activities, compared with \$88.5 million in 2000 and \$100.9 million in 1999. The decrease in 2001 was primarily due to an increase in accounts receivable of \$35.2 million during the year and contribution to employee pension plans offsetting increased earnings.

In addition to cash generated from operating activities, the company decreased its outstanding short-term debt by \$24.4 million while net long-term debt increased by \$8.3 million. Cash flow generated by operations was used primarily to support \$38.9 million for capital expenditures, \$10.3 million for stock repurchases and \$13.1 million for dividend payments. Cash and cash equivalents increased \$4.1 million during 2001.

Capital expenditures for property, plant and equipment totaled \$38.9 million in 2001, compared to \$36.4 million in 2000 and \$29.5 million in 1999. Capital expenditures primarily related to productivity enhancing investments at various plants worldwide and continuing upgrades to the U.S. information systems.

Capital spending in 2002 is planned to be \$45.1 million. Significant planned expenditures include the further upgrade of U.S. information systems and investment in manufacturing equipment and tooling. It is anticipated that 2002 capital expenditures will be financed primarily by cash generated from operations.

Dividends The company's dividend policy is to maintain a payout ratio which allows dividends to increase with the long-term growth of earnings per share, while sustaining dividends in down years. The company's dividend payout ratio target is 20.0 percent to 25.0 percent of the average earnings per share of the last three years. The current quarterly dividend of 7.5 cents per share equates to 20.1 percent of the 1999 through 2001 average net earnings per share.

Share Repurchase Plan In January 2001, the Board of Directors authorized the company to repurchase 4.5 million shares of common stock of which no shares had been repurchased as of July 31, 2001. Management and the Board of Directors believe the share repurchase program is an excellent means of returning value to the shareholders.

In fiscal 2001, the company repurchased 0.5 million shares of common stock on the open market for \$10.3 million under the share repurchase plan authorized in November 1998, at an average price of \$21.16 per share. The company repurchased 1.7 million shares for \$35.9 million in 2000 and 2.4 million shares for \$44.5 million in 1999.

Environmental Matters The company has established reserves for potential environmental liabilities and plans to continue to accrue reserves in appropriate amounts. While uncertainties exist with respect to the amounts and timing

of the company's ultimate environmental liabilities, management believes that such liabilities, individually and in the aggregate, will not have a material adverse effect on the company's financial condition or results of operations.

New Accounting Standards In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Major provisions of these statements are as follows: all business combinations must now use the purchase method of accounting, the pooling of interest method of accounting is now prohibited; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as a part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized, but tested for impairment annually, except in certain circumstances, and whenever there is an impairment indicator; all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting; effective August 1, 2002, goodwill is no longer subject to amortization. The company has adopted the provisions of these statements as of August 1, 2001. As required by SFAS 142, the company will perform an impairment test on goodwill and other intangible assets as of the adoption date. Thereafter, the company will perform impairment tests annually and whenever events or circumstances occur indicating that goodwill or other intangible assets might be impaired. Beginning August 1, 2001, amortization of goodwill will cease. Goodwill amortization expense was \$3.8 million, \$2.7 million and \$0.7 million at July 31, 2001, 2000 and 1999, respectively. The company estimates that goodwill amortization expense would have been approximately \$3.5 million in 2002.

Market Risk The company's market risk includes the potential loss arising from adverse changes in foreign currency exchange rates and interest rates. The company manages foreign currency market risk, from time to time, through the use of a variety of financial and derivative instruments. The company does not enter into any of these instruments for trading purposes to generate revenue. Rather, the company's objective in managing these risks is to reduce fluctuations in earnings and cash flows associated with changes

in foreign currency exchange rates. The company uses forward exchange contracts and other hedging activities to hedge the U.S. dollar value resulting from anticipated foreign currency transactions. The company's market risk on interest rates is the potential increase in fair value of long-term debt resulting from a potential decrease in interest rates. See further discussion of these market risks below.

Foreign Currency During 2001, the U.S. dollar strengthened throughout the year relative to the currencies of the foreign countries in which the company operates. The stronger dollar had a negative impact on the company's international results because the foreign denominated revenues and earnings directly translated into fewer U.S. dollars.

It is not possible to determine the true impact of foreign currency translation changes; however, the direct effect on net sales and net earnings can be estimated. For the year ended July 31, 2001, the impact of foreign currency translation resulted in an overall decrease in net sales of \$35.6 million and a decrease in net earnings of \$3.2 million. The most significant impact on the company's results due to foreign currency translation was in Europe, where the stronger U.S. dollar relative to both the euro and pound sterling directly resulted in a decrease in net sales of \$23.2 million and a decrease in net earnings of \$2.9 million. The strength of the U.S. dollar relative to the Japanese yen during 2001 resulted in a decrease in net sales of \$6.7 million and a decrease in net earnings of \$0.2 million. In addition, fluctuation in the exchange rates for the Australian dollar and the South African rand also contributed to the company's translation losses, resulting in a decrease in net sales of \$2.4 million and \$3.0 million respectively. Going forward, the company expects local currency results to remain strong; excluding the effect of translation, revenues outside the U.S. increased 14.4 percent for the year ended July 31, 2001.

The company maintains significant assets and operations in Europe, countries of the Asia-Pacific Rim, South Africa and Mexico. As a result, exposure to foreign currency gains and losses exists. A portion of the company's foreign currency exposure is hedged by incurring liabilities, including bank debt, denominated in the local currency in which the company's foreign subsidiaries are located.

The foreign subsidiaries of the company purchase products and parts in various currencies. As a result, the company may be exposed to cost increases relative to local currencies in the markets to which it sells. To mitigate such adverse trends, the company, from time to time, enters into forward exchange contracts and other hedging

activities. Additionally, foreign currency positions are partially offsetting and are netted against one another to reduce exposure.

Some products made in the United States are sold abroad, primarily in Canada. As a result, sales of such products are affected by the value of the U.S. dollar relative to other currencies. Any long-term strengthening of the U.S. dollar could depress these sales. Also, competitive conditions in the company's markets may limit its ability to increase product pricing in the face of adverse currency movements.

Interest Our exposure to market risks for changes in interest rates relates primarily to our short-term investments, short-term borrowings and interest rate swap agreement. We have no earnings or cash flow exposure due to market risks on our long-term debt obligations as a result of the fixed-rate nature of the debt. However, interest rate changes would affect the fair market value of the debt. At July 31, 2001, the fair value of the company's long-term debt approximates market. Market risk is estimated as the potential decrease in fair value resulting from a hypothetical one-half percent increase in interest rates and amounts to approximately \$3.2 million.

On June 6, 2001, the company entered into an interest rate swap agreement effectively converting a portion of the company's interest rate exposure from a fixed rate to a variable rate basis to hedge against the risk of higher borrowing costs in a declining interest rate environment. The company does not enter into interest rate swap contracts for speculative or trading purposes; as the differential to be paid or received on the interest rate swap agreement is accrued and recognized as an adjustment to interest expense as interest rates change. The interest rate swap agreement has an aggregate notional amount of \$27.0 million maturing on July 15, 2008. The variable rate is based on the current six-month London Interbank Offered Rates ("LIBOR"). This transaction resulted in a decrease to interest expense of \$45,000 for the year ended July 31, 2001.

Forward-Looking Statements

The company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is making this cautionary statement in connection with such safe harbor legislation. This Annual Report to Shareholders, any Form 10-K, Form 10-Q or Form 8-K of the company or any other written or oral

statements made by or on behalf of the company may include forward-looking statements which reflect the company's current views with respect to future events and financial performance but involve uncertainties that could significantly impact results. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "project," "should" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forecasts and projections in this Annual Report are "forward-looking statements," and are based on management's current expectations of the company's near-term results, based on current information available pertaining to the company.

The company wishes to caution investors that any forward-looking statements made by or on behalf of the company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited to: risks associated with changing world economic and political factors, the company's international operations, interest and currency rate fluctuations, commodity prices, highly competitive markets, changes in capital spending levels by customers, changes in product demand and changes in the geographic and product mix of sales, integration of acquisitions and acquisition opportunities, ongoing plant and product line rationalization projects, ongoing information technology improvements, research and development expenditures, government laws and regulations, including diesel emissions controls. For a more detailed explanation of the foregoing and other risks, see exhibit 99 to our current Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission. The company wishes to caution investors that other factors may in the future prove to be important in affecting the company's results of operations. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Investors are further cautioned not to place undue reliance on such forward-looking statements as they speak only to the company's views as of the date the statement is made. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CONSOLIDATED STATEMENTS OF EARNINGS

Donaldson Company, Inc. and Subsidiaries

(Thousands of dollars, except share and per share amounts) Year ended July 31,

	2001	2000	1999
Net sales	\$1,137,015	\$1,092,294	\$944,139
Cost of sales	795,281	764,773	668,458
Gross Margin	341,734	327,521	275,681
Selling, general and administrative	201,201	194,623	163,688
Research and development	28,425	27,304	23,603
Operating Income	112,108	105,594	88,390
Interest expense	11,608	9,880	6,993
Other (income) expense, net	(4,428)	(4,619)	(7,813)
Earnings Before Income Taxes	104,928	100,333	89,210
Income taxes	29,380	30,100	26,763
Net Earnings	\$ 75,548	\$ 70,233	\$ 62,447
Weighted Average Shares – Basic	44,381,082	45,716,482	46,899,127
Weighted Average Shares – Diluted	45,612,165	46,664,196	47,793,180
Net Earnings Per Share – Basic	\$ 1.70	\$ 1.54	\$ 1.33
Net Earnings Per Share – Diluted	\$ 1.66	\$ 1.51	\$ 1.31

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Donaldson Company, Inc. and Subsidiaries

(Thousands of dollars, except share amounts) At July 31,

2001

2000

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 36,136	\$ 32,017
Accounts receivable, less allowance of \$6,309 and \$4,380	230,046	202,361
Inventories		
Raw materials	50,426	45,064
Work in process	21,209	20,171
Finished products	40,999	54,128
Total Inventories	112,634	119,363
Deferred income taxes	12,746	18,411
Prepays and other current assets	15,665	11,195
Total Current Assets	407,227	383,347
Property, Plant and Equipment, at cost		
Land	6,890	7,432
Buildings	117,029	119,203
Machinery and equipment	345,073	333,310
Construction in progress	22,603	9,756
	491,595	469,701
Less accumulated depreciation	(283,937)	(265,156)
	207,658	204,545
Deferred Income Taxes	-	408
Intangible Assets	61,658	63,885
Other Assets	30,287	25,340
	\$ 706,830	\$ 677,525
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$ 59,393	\$ 85,034
Current maturities of long-term debt	23	279
Trade accounts payable	100,287	90,188
Accrued employee compensation and related taxes	29,945	29,759
Accrued liabilities	17,597	27,974
Other current liabilities	10,034	10,356
Total Current Liabilities	217,279	243,590
Long-term Debt	99,259	92,645
Deferred Income Taxes	9,189	-
Other Long-term Liabilities	62,010	61,125
Commitments and Contingencies (Note J)		
Shareholders' Equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized, none issued	-	-
Common stock, \$5.00 par value, 80,000,000 shares authorized, 49,655,954 shares issued in 2001 and 2000	248,280	248,280
Additional paid-in capital	-	2,967
Retained earnings	203,499	142,176
Accumulated other comprehensive loss	(24,235)	(10,523)
Treasury stock - 5,273,121 and 4,998,342 shares in 2001 and 2000, at cost	(108,451)	(102,735)
Total Shareholders' Equity	319,093	280,165
	\$ 706,830	\$ 677,525

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Donaldson Company, Inc. and Subsidiaries

(Thousands of dollars) Year ended July 31,

	2001	2000	1999
OPERATING ACTIVITIES			
Net earnings	\$ 75,548	\$ 70,233	\$ 62,447
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	38,577	34,326	27,686
Equity in (earnings) loss of affiliates	(635)	74	(2,187)
Deferred income taxes	7,093	(449)	489
Other	(12,949)	3,121	10,344
Changes in operating assets and liabilities, net of acquired businesses			
Accounts receivable	(35,220)	(5,704)	(13,244)
Inventories	2,816	(26,227)	21,382
Prepays and other current assets	2,838	(3,316)	(3,095)
Trade accounts payable and other accrued expenses	4,731	16,437	(2,960)
Net Cash Provided by Operating Activities	82,799	88,495	100,862
INVESTING ACTIVITIES			
Purchases of property and equipment, net	(38,924)	(36,417)	(29,539)
Acquisitions and investments in affiliates	-	(88,220)	(230)
Net Cash Used in Investing Activities	(38,924)	(124,637)	(29,769)
FINANCING ACTIVITIES			
Proceeds from long-term debt	9,462	5,752	35,546
Repayments of long-term debt	(1,136)	(4,522)	(404)
Change in short-term borrowings	(24,417)	66,328	(24,422)
Purchase of treasury stock	(10,297)	(35,923)	(44,535)
Dividends paid	(13,092)	(12,384)	(10,830)
Exercise of stock options	525	326	1,617
Net Cash (Used in) Provided by Financing Activities	(38,955)	19,577	(43,028)
Effect of exchange rate changes on cash	(801)	(1,053)	(1,084)
Increase (Decrease) in Cash and Cash Equivalents	4,119	(17,618)	26,981
Cash and Cash Equivalents, Beginning of Year	32,017	49,635	22,654
Cash and Cash Equivalents, End of Year	\$ 36,136	\$ 32,017	\$ 49,635

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Donaldson Company, Inc. and Subsidiaries

(Thousands of dollars, except per share amounts)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
BALANCE JULY 31, 1998	\$248,280	\$ 1,570	\$ 39,594	\$ (5,135)	\$ (28,638)	\$255,671
Comprehensive income						
Net earnings			62,447			62,447
Foreign currency translation				(535)		(535)
Comprehensive income						61,912
Treasury stock acquired					(44,535)	(44,535)
Stock options exercised			(3,350)		3,004	(346)
Performance awards		(1,071)	(174)		802	(443)
Tax reduction – employee plans		1,334				1,334
Cash dividends (\$.23 per share)			(10,830)			(10,830)
BALANCE JULY 31, 1999	248,280	1,833	87,687	(5,670)	(69,367)	262,763
Comprehensive income						
Net earnings			70,233			70,233
Foreign currency translation				(4,853)		(4,853)
Comprehensive income						65,380
Treasury stock acquired					(35,923)	(35,923)
Stock options exercised			(3,360)		2,555	(805)
Tax reduction – employee plans		1,134				1,134
Cash dividends (\$.27 per share)			(12,384)			(12,384)
BALANCE JULY 31, 2000	248,280	2,967	142,176	(10,523)	(102,735)	280,165
Comprehensive income						
Net earnings			75,548			75,548
Foreign currency translation				(13,717)		(13,717)
Additional minimum pension liability				(341)		(341)
Net gain on cash flow hedging derivatives				346		346
Comprehensive income						61,836
Treasury stock acquired					(10,297)	(10,297)
Stock options exercised		(6,196)	(1,124)		4,262	(3,058)
Performance awards			(9)		319	310
Tax reduction – employee plans		3,229				3,229
Cash dividends (\$.295 per share)			(13,092)			(13,092)
BALANCE JULY 31, 2001	\$248,280	\$ –	\$203,499	\$(24,235)	\$(108,451)	\$319,093

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Donaldson Company, Inc. and Subsidiaries



Summary of Significant Accounting Policies

Description of Business Donaldson Company, Inc., is a leading worldwide manufacturer of filtration systems and replacement parts. The company's product mix includes air and liquid filters and exhaust and emission control products for mobile equipment; in-plant air cleaning systems; air intake systems and exhaust products for industrial gas turbines; and specialized filters for such diverse applications as computer disk drives, aircraft passenger cabins and semi-conductor processing. Products are manufactured at more than three dozen Donaldson plants around the world and through three joint ventures.

Principles of Consolidation The consolidated financial statements include the accounts of Donaldson Company, Inc. and all majority-owned subsidiaries (the company). All significant inter-company accounts and transactions have been eliminated. The company also has three joint ventures that are not majority-owned, all accounted for on the equity method. Certain amounts in prior periods have been reclassified to conform to the current presentation. The reclassifications had no impact on the company's net earnings or shareholders' equity as previously reported.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency Translation For most foreign operations, local currencies are considered the functional currency. Assets and liabilities are translated using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates prevailing throughout the period. Translation gains or losses, net of applicable deferred taxes, are accumulated in the foreign currency adjustment in accumulated other comprehensive income(loss) in shareholders' equity. There were no significant foreign currency transaction gains or losses in 2001. Foreign currency transaction losses of \$0.2 million in 2000 and gains of \$0.2 million in 1999 are included in earnings before income taxes.

Cash Equivalents The company considers all highly liquid temporary investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost which approximates market value.

Inventories Inventories are stated at the lower of cost or market. Domestic inventories are valued using the last-in, first-out (LIFO) method, while the international subsidiaries use the first-in, first-out (FIFO) method. Inventories valued at LIFO were approximately 53 percent and 52 percent of total inventories at July 31, 2001 and 2000, respectively.

The FIFO cost of inventories valued under the LIFO method exceeded the LIFO carrying values by \$22.5 million and \$21.2 million at July 31, 2001 and 2000, respectively.

Property, Plant and Equipment Property, plant and equipment are stated at cost. Additions, improvements or major renewals are capitalized, while expenditures that do not enhance or extend the asset's useful life are charged to operating expense as incurred. Depreciation is computed principally by use of declining balance methods on facilities and equipment acquired on or prior to July 31, 1992. The company adopted the straight-line depreciation method for all property acquired after July 31, 1992. Accelerated depreciation methods are generally used for income tax purposes.

The estimated useful lives of property, plant and equipment are as follows:

Buildings	10 to 40 years
Machinery and equipment	3 to 10 years

Intangible Assets Intangible assets, primarily consisting of goodwill, are amortized on a straight-line basis over periods ranging up to 20 years. Amortization expense was \$3.8 million, \$2.7 million and \$0.7 million at July 31, 2001, 2000 and 1999, respectively. Accumulated amortization was \$9.6 million and \$5.8 million as of July 31, 2001 and 2000, respectively.

Impairment of Long-Lived Assets The company reviews the long-lived assets, including identifiable intangibles and associated goodwill, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets and any related goodwill, the carrying value is reduced to the estimated fair value as measured by the undiscounted cash flows.

Income Taxes Deferred tax assets and liabilities are recognized for the expected future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

Comprehensive Income The company adopted Statement of Financial Accounting Standards (SFAS) 130, “Reporting Comprehensive Income,” in the first quarter of fiscal 1999. Comprehensive income consists of net income, foreign currency translation adjustments, additional minimum pension liability and net gain or loss on cash flow hedging derivatives, and is presented in the Consolidated Statements of Changes in Shareholders’ Equity. Accumulated other comprehensive income consists of accumulated foreign currency translation adjustment, accumulated additional minimum liability related to pension and accumulated net gain or loss on cash flow hedging derivatives. The adoption of SFAS 130 had no impact on the company’s results of operations or shareholders’ equity.

Earnings Per Share The company follows SFAS 128, “Earnings per Share,” to present earnings per share calculations. The company’s basic net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares. The company’s diluted net earnings per share is computed by dividing net earnings by the weighted average number of outstanding common shares and dilutive shares relating to stock options.

The following table presents information necessary to calculate basic and diluted earnings per share:

(In thousands, except per share amounts)	2001	2000	1999
Weighted average shares – basic	44,381	45,716	46,899
Dilutive shares	1,231	948	894
Weighted average shares – diluted	45,612	46,664	47,793
Net earnings for basic and diluted earnings per share computation	\$75,548	\$70,233	\$62,447
Net earnings per share – basic	\$ 1.70	\$ 1.54	\$ 1.33
Net earnings per share – diluted	\$ 1.66	\$ 1.51	\$ 1.31

Treasury Stock Repurchased Common Stock is stated at cost and is presented as a separate reduction of shareholders’ equity.

Research and Development All expenditures for research and development are charged against earnings in the year incurred.

Stock-Based Compensation SFAS 123, “Accounting for Stock-Based Compensation,” encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the company’s stock at the date of the grant over the amount an employee must pay to acquire the stock. Compensation cost for performance equity units is recorded based on the quoted market price of the company’s stock at the end of the period.

Revenue Recognition Revenue is recognized when product is shipped and invoiced or performance of services is complete.

Product Warranties The company provides for estimated warranty costs and accrues for specific items at the time their existence is known and the amounts are determinable.

Derivative Instruments and Hedging Activities The company adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment of FASB Statement No. 133,” effective beginning fiscal 2001. SFAS 133 and SFAS 138 require the company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the hedged assets, liabilities or firm commitments are recognized through earnings or in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative’s change in fair value will be immediately recognized in earnings. The company enters into foreign exchange contracts and other hedging activities to mitigate potential foreign currency gains and losses relative to local currencies in the markets to which it sells.

In order to comply with the implementation requirements of SFAS 133 and SFAS 138, the company undertook a comprehensive review of its contractual relationships to ensure that all potential free-standing and embedded derivatives were identified. As a result, all of the company's existing derivative positions qualified for hedge accounting per SFAS 133 and SFAS 138, and the impact of adoption was not considered material to the company's results of operations or financial position. The company's documentation policies for derivatives were revised as considered necessary to comply with SFAS 133 requirements. However, the company made no substantive changes to its risk management strategy as a result of adopting SFAS 133 and SFAS 138. As a result of the implementation of SFAS 133 and SFAS 138, the company has recorded a credit to other comprehensive income of \$0.3 million for the year ended July 31, 2001.

In June 2001 the company entered into an interest rate swap agreement which was determined to be a fair value hedge under SFAS 133 and SFAS 138 (see Note D). As of July 31, 2001, the interest rate swap had a fair value of \$0.2 million which has been recorded as an increase to long-term debt. As a result of adopting these new accounting standards, there has been no material impact on the results of operations of the company for fiscal year ended July 31, 2001.

New Accounting Standards In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Major provisions of these statements are as follows: all business combinations must now use the purchase method of accounting, the pooling of interest method of accounting is now prohibited; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as a part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized, but tested for impairment annually, except in certain circumstances, and whenever there is an impairment indicator; all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting; effective August 1, 2002,

goodwill is no longer subject to amortization. The company has adopted the provisions of these statements as of August 1, 2001. As required by SFAS 142, the company will perform an impairment test on goodwill and other intangible assets as of the adoption date. Thereafter, the company will perform impairment tests annually and whenever events or circumstances occur indicating that goodwill or other intangible assets might be impaired. Beginning August 1, 2001, amortization of goodwill will cease. Goodwill amortization expense was \$3.8 million, \$2.7 million and \$0.7 million at July 31, 2001, 2000 and 1999, respectively. The company estimates that goodwill amortization expense would have been approximately \$3.5 million in 2002.



Acquisitions, Plant Closure and Plant Opening

Acquisitions All acquisitions were accounted for as purchases. The purchase prices assigned to the net assets acquired were based on the fair value of such assets and liabilities at the respective acquisition dates. The operating results of these acquired companies have been included in the consolidated statement of earnings from the dates of acquisition. Consolidated pro forma earnings and earnings per share would not be materially different from the reported amounts for all years presented.

The company completed the purchase of all of the outstanding shares of AirMaze Corporation for \$31.9 million in cash effective November 1, 1999. AirMaze Corporation was merged into Donaldson Company, Inc. effective April 1, 2000. AirMaze products include heavy-duty air and liquid filters, air/oil separators and high purity air filter products. AirMaze manufacturing facilities are located in Stow, Ohio and Greeneville, Tennessee. The excess of purchase price over the fair values of the net assets acquired was \$26.8 million and has been recorded as goodwill which is being amortized on a straight-line basis over 20 years. AirMaze operations are a part of the company's Engine Products segment. As of July 31, 2001, the balance of restructuring liabilities recorded in conjunction with the acquisition was approximately \$0.2 million for costs associated with the termination and relocation of employees. Costs incurred and charged to this reserve associated with the termination and relocation of employees amounted to \$0.3 million for the fiscal year ended July 31, 2001.

The integration of AirMaze resulted in a reduction in the work force of approximately 15 employees during fiscal 2001. Adjustments to this reserve for the fiscal year ended July 31, 2001, amounted to a decrease of \$0.7 million. The remaining employee terminations and relocations are expected to be completed by the end of fiscal 2002.

The company acquired the DCE dust control business of Invensys, plc for \$56.4 million effective February 1, 2000. DCE, headquartered in Leicester, England (UK) with smaller facilities in Germany and the United States and assembly operations in South Africa, Australia and Japan, is a major participant in the global dust collection industry. The excess of purchase price over the fair values of the net assets acquired was \$33.2 million and has been recorded as goodwill which is being amortized on a straight-line basis over 20 years. DCE operations are part of the company's Industrial Products segment. As of July 31, 2001, the balance of restructuring liabilities recorded in conjunction with the acquisition was approximately \$2.1 million of costs associated with the closure and sale of acquired facilities as well as termination and relocation of employees. Costs incurred and charged to these reserves associated with the closure and sale of acquired facilities amounted to \$0.8 million for the fiscal year ended July 31, 2001. Costs incurred and charged to these reserves associated with the termination and relocation of employees amounted to \$0.8 million during the year ended July 31, 2001. The integration of DCE resulted in a reduction in the work force of approximately 140 employees during fiscal 2001. Adjustments to these reserves for the fiscal year ended July 31, 2001, amounted to an increase of \$0.9 million. The remaining closure or sale of facilities and employee terminations and relocations are expected to be completed by the end of fiscal 2002.

Plant Closures During 2001, the company closed its manufacturing facilities located in Mooresville, North Carolina, and Louisville, Kentucky. The closures of these facilities were completed by the end of the fiscal year. For the closure of the Mooresville manufacturing facility, a pretax charge of \$0.7 million was recorded in fiscal 2001 in general and administrative expense in the company's consolidated statement of earnings. For the closure of the Louisville manufacturing facility, costs were charged against the purchase liabilities recorded in conjunction with the acquisition of DCE. See discussion of these purchase liabilities

in Note B. These charges were primarily related to severance and other employee related costs associated with the elimination of approximately 130 positions in Mooresville and 80 positions in Louisville.

During 2000, the company closed its manufacturing facilities located in Oelwein, Iowa. The closure of the facility was completed by the end of the calendar year. A pretax charge of \$2.8 million was recorded in fiscal 1999 in general and administrative expense in the company's consolidated statement of earnings. The charge was primarily related to severance and other employee related costs associated with the elimination of approximately 125 positions.

Plant Opening During fiscal 2000, the company opened a new manufacturing facility in Auburn, Alabama. The facility was constructed to produce mufflers for the truck manufacturers located in the southwestern U.S. region and employs approximately 100 employees.



Credit Facilities

In December 1997, the company amended and renewed a five-year multi-currency revolving facility with a group of participating banks under which it may borrow up to \$100.0 million. The agreement provides that loans may be made under a selection of currencies and rate formulas including Base Rate Advance or Eurocurrency Rate Advance. The interest rate on each advance is based on certain adjusted leverage and debt-to-capitalization ratios. Facility fees and other fees on the entire loan commitment are payable for the duration of this facility. There was \$50.0 million outstanding under this credit facility, leaving \$50.0 million available for further borrowing under such facility at both July 31, 2001 and 2000. The weighted average interest rate on short-term borrowings outstanding at July 31, 2001 and 2000 was 3.99 percent and 6.83 percent, respectively.

The company also has three agreements under uncommitted credit facilities which provide unsecured borrowings for general corporate purposes. At July 31, 2001, there was \$35.0 million available for use under these facilities. There was \$7.7 million and \$12.6 million outstanding under these facilities at July 31, 2001 and 2000, respectively. The weighted average interest rate on short-term borrowings outstanding at July 31, 2001 and 2000 was 3.98 percent and 6.89 percent, respectively.

International subsidiaries may borrow under various credit facilities. As of July 31, 2001 and 2000, borrowings under these facilities were \$1.7 million and \$22.4 million, respectively. The weighted average interest rate on these international borrowings outstanding at July 31, 2001 and 2000 was 10.7 percent and 4.7 percent, respectively.



Long-Term Debt

Long-term debt consists of the following:

(Thousands of dollars)	2001	2000
6.20% Unsecured senior notes due July 15, 2005, interest payable semi-annually, principal payment of \$23.0 million is due July 15, 2005	23,000	\$23,000
6.31% Unsecured senior notes due July 15, 2008, interest payable semi-annually, principal payment of \$27.2 million is due July 15, 2008	27,157	27,000
6.39% Unsecured senior notes due August 15, 2010, interest payable semi-annually, principal payments of \$5.0 million, to be paid annually commencing August 16, 2006	25,000	25,000
1.9475% Guaranteed senior note due January 29, 2005, interest payable semi-annually, principal amount of 1.2 billion Yen is due January 29, 2005	9,592	10,962
1.51% Guaranteed note due March 28, 2006, interest payable quarterly, principal amount of .8 billion Yen is due March 28, 2006.	6,395	—
Variable Rate Industrial Development Revenue Bonds ("Lower Floaters") due September 1, 2024, principal amount of \$8.0 million, interest payable monthly, and an interest rate of 2.8% as of July 31, 2001	8,000	5,667
Other	138	1,295
Total	99,282	92,924
Less current maturities	23	279
Total long-term debt	\$99,259	\$92,645

Annual maturities of long-term debt for the next five years are \$32.6 million in 2005 and \$6.4 million in 2006. Annual maturities in 2002, 2003 and 2004 are not significant. The company estimates that the carrying value of long-term debt approximates its fair market value.

On June 6, 2001, the company entered into an interest rate swap agreement effectively converting a portion of the company's interest rate exposure from a fixed rate to a variable rate basis to hedge against the risk of higher borrowing costs in a declining interest rate environment. The company does not enter into interest rate swap contracts for speculative or trading purposes; as the differential to be paid or received on the interest rate swap agreement is accrued and recognized as an adjustment to interest

expense as interest rates change. The interest rate swap agreement has an aggregate notional amount of \$27.0 million maturing on July 15, 2008. The variable rate is based on the current six-month London Interbank Offered Rates ("LIBOR"). This transaction resulted in a decrease to interest expense of \$45,000 for the year ended July 31, 2001.

Total interest paid relating to all debt was \$11.1 million, \$9.1 million and \$6.0 million in 2001, 2000 and 1999, respectively. In addition, total interest expense recorded in 2001, 2000 and 1999 was \$11.6 million, \$9.9 million and \$7.0 million, respectively. Certain note agreements contain debt covenants related to working capital levels and limitations on indebtedness. Further, the company is restricted from paying dividends or repurchasing Common Stock if its tangible net worth (as defined) does not exceed certain minimum levels. As of July 31, 2001, the company was in compliance with all such covenants.



Employee Benefit Plans

Pension Plans Donaldson Company, Inc. and certain of its subsidiaries have defined benefit pension plans for substantially all hourly and salaried employees. The domestic plan provides defined benefits pursuant to a cash balance feature whereby a participant accumulates a benefit comprised of a percentage of current salary which varies with years of service, interest credits and transition credits. The international plans generally provide pension benefits based on years of service and compensation level. The company's general funding policy is to make contributions as required by applicable regulations. The assets are primarily invested in diversified equity and debt portfolios. In 2000, the actuarial valuation date was changed from July 31 to April 30. This change did not have a material impact on the actuarial valuation.

Costs for the company's pension plans include the following components:

(Thousands of dollars)	2001	2000	1999
Net periodic cost:			
Service cost	\$ 6,935	\$ 6,084	\$ 5,609
Interest cost	11,626	9,852	9,188
Expected return on assets	(12,862)	(11,475)	(10,006)
Transition amount amortization	173	(1,097)	(1,097)
Prior service cost amortization	119	64	30
Actuarial (gain) loss amortization	(829)	71	1,094
Curtailment loss	—	—	684
Net periodic benefit cost	\$ 5,162	\$ 3,499	\$ 5,502

The funded status of the company's pension plans as of April 30, 2001 and April 30, 2000, is as follows:

(Thousands of dollars)	2001	2000
Change in benefit obligation:		
Benefit obligation, August 1	N/A	\$131,996
Adjustment for change in measurement date	N/A	1,841
Benefit obligation, May 1	\$137,056	133,837
Addition of non-U.S. plans	16,589	—
Service cost	6,936	6,085
Interest cost	11,626	9,852
Participant contributions	125	—
Plan amendments	174	568
Actuarial (gain)/loss	(10,012)	(11,472)
Currency exchange rates	(2,022)	—
Acquisition	—	6,419
Benefits paid	(10,371)	(8,233)
Benefit obligations, April 30	\$150,101	\$137,056
Change in plan assets:		
Fair value of plan assets, August 1	N/A	\$130,387
Adjustments for change in measurement date	N/A	17,461
Fair value of plan assets, May 1	\$146,210	147,848
Addition of non-U.S. plans	7,857	—
Actual return on plan assets	(10,978)	(1,659)
Company contributions	11,250	2,168
Participant contributions	125	—
Currency exchange rates	(892)	—
Acquisition	—	6,086
Benefits paid	(10,371)	(8,233)
Fair value of plan assets, April 30	\$143,201	\$146,210
Reconciliation of funded status:		
Funded (unfunded) status	\$ (6,900)	\$ 9,154
Unrecognized actuarial (gain) loss	2,322	(12,196)
Unrecognized prior service cost	2,527	2,472
Unrecognized net transition obligation	3,792	(3,769)
Fourth quarter contributions	1,891	52
Net amount recognized in consolidated balance sheet	\$ 3,632	(4,287)
Amounts recognized in consolidated balance sheet consist of:		
Prepaid benefit cost	\$ 9,853	\$ 4,614
Accrued benefit liability	(6,220)	(8,901)
Additional minimum liability	(5,126)	(280)
Intangible asset	4,784	280
Accumulated other comprehensive income	341	—
Net amount recognized in consolidated balance sheet	\$ 3,632	\$ (4,287)

The 2000 actuarial valuation results have been revised to reflect the final valuation of a plan assumed in the acquisition of AirMaze (see Note B).

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were \$20.9 million, \$17.1 million, and \$5.8 million, respectively, as of April 30, 2001 and \$8.6 million, \$5.4 million and \$0.8 million, respectively, as of April 30, 2000.

Weighted-average actuarial assumptions	April 30, 2001	July 31, 2000	July 31, 1999
Discount rate	7.50%	8.00%	7.50%
Expected return on plan assets	9.50%	9.00%	9.00%
Rate of compensation increase	5.50%	6.00%	6.00%

Pension expense related to international plans were \$4.3 million, \$2.5 million and \$2.5 million for 2001, 2000 and 1999, respectively.

401(k) Savings Plan The company provides a contributory employee savings plan which permits participants to make contributions by salary reduction pursuant to section 401(k) of the Internal Revenue Code. The company's contributions under this plan are based on the level of employee contributions including a variable contribution based on performance of the company. Total contribution expense was \$4.1 million, \$4.2 million and \$4.9 million for the years ended July 31, 2001, 2000 and 1999, respectively.



Shareholders' Equity

Stock Rights On January 12, 1996, the Board of Directors of the company approved the extension of the benefits afforded by the company's existing rights plan by adopting a new shareholder rights plan. Pursuant to the new Rights Agreement, dated as of January 12, 1996, by and between the company and Wells Fargo Bank Minnesota, National Association, as Rights Agent, one Right was issued on March 4, 1996 for each outstanding share of Common Stock, par value \$5.00 per share, of the company upon the expiration of the company's existing Rights. Each of the new Rights entitles the registered holder to purchase from the company one one-thousandth of a share of Series A Junior Participating Preferred Stock, without par value, at a price of \$130.00 per one one-thousandth of a share. The Rights, however, will not become exercisable unless and until, among other things, any person acquires 15 percent or more of the outstanding Common Stock of the company.

If a person acquires 15 percent or more of the outstanding Common Stock of the company (subject to certain conditions and exceptions more fully described in the Rights Agreement), each Right will entitle the holder (other than the person who acquired 15 percent or more of the outstanding Common Stock) to purchase Common Stock of the company having a market value equal to twice the exercise price of a Right. The new Rights are redeemable under certain circumstances at \$.01 per Right and will expire, unless earlier redeemed, on March 3, 2006.

Employee Incentive Plans In November 1991, shareholders approved the 1991 Master Stock Compensation Plan. The Plan extends through December 2001 and allows for the granting of nonqualified stock options, incentive stock options, restricted stock, stock appreciation rights (SARs), dividend equivalents, dollar-denominated awards and other stock-based awards. The Plan allows for the granting of performance awards to a limited number of key executives. The awards are payable in Common Stock and are based on a formula which measures performance of the company over a three-year period. Performance award expense totaled \$2.4 million and \$1.7 million in 2001 and 2000, respectively. There was no performance award expense in 1999. Options under the Plan are granted to key employees at or above 100 percent of the market price at the date of grant. Options are exercisable for up to 10 years from the date of grant.

Stock Options Stock options issued during fiscal 1999, 2000 and 2001 become exercisable for non-executives in each of the following three years, in an equal number of shares each year and become exercisable for executives immediately upon the date of grant. Stock options issued during fiscal 1997 and 1998 become exercisable in each of the following three years, in an equal number of shares each year, for both executives and non-executives. Stock options issued prior to fiscal 1997 for non-executives and during fiscal 1996 for executives become exercisable in a four-year period in an equal number of shares each year. Prior to fiscal 1996, stock options vested immediately for executives. At July 31, 2001, options to purchase 3,464,159 shares are outstanding.

In fiscal 1997, the company adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 encourages entities to adopt a fair value-based method of accounting for employee stock compensation plans, but allows companies to continue to account for those plans using the accounting prescribed by APB Opinion 25, "Accounting for Stock Issued to Employees." The company has elected to continue to account for stock-based compensation using APB 25, making pro forma disclosures of net earnings and earnings per share as if the fair value-based method had been applied. Accordingly, no compensation expense has been recorded for the stock option plan. Had compensation expense for the stock option plan been determined under SFAS 123 in fiscal 2001, 2000 and 1999, the company's net income and diluted earnings per share would have been approximately \$71.0 million and \$1.56, and \$67.7 million and \$1.45, and \$61.1 million and \$1.28, respectively. The pro forma effect on net income and earnings per share is not representative of the pro forma net earnings in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

For purposes of computing compensation cost of stock options granted, the fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk free interest rate of 4.72 percent, 6.50 percent and 5.50 percent in 2001, 2000 and 1999, respectively; two or seven year lives in 2001 and 2000 and two, three, or seven year lives in 1999; expected volatility of 30.5 percent, 29.7 percent and 26.3 percent in 2001, 2000 and 1999, respectively; and 1 percent expected dividend yield in 2001, 2000 and 1999. Black-Scholes is a widely accepted stock option pricing model; however, the ultimate value of stock options granted will be determined by the actual lives of options granted and the actual future price levels of the company's common stock.

The weighted average fair value for options granted during fiscal 2001, 2000 and 1999 is \$8.01, \$7.49 and \$5.62 per share, respectively.

The number and option price of options granted were as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at July 31, 1998	3,348,176	\$12.95
Granted	495,149	20.10
Exercised	(432,505)	8.65
Canceled	(28,498)	18.35
Outstanding at July 31, 1999	3,382,322	14.50
Granted	489,086	23.01
Exercised	(204,004)	10.09
Canceled	(14,468)	20.41
Outstanding at July 31, 2000	3,652,936	15.86
Granted	862,515	26.04
Exercised	(1,025,995)	12.88
Canceled	(25,297)	21.19
Outstanding at July 31, 2001	3,464,159	\$19.24

At July 31, 2001 and 2000 there were 2,954,542 and 3,109,926 options exercisable, respectively. Shares reserved at July 31, 2001 for outstanding options and future grants were 8,140,639.

The following table summarizes information concerning currently outstanding and exercisable options:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$5 to \$10	201,888	1.21	\$ 8.73	201,888	\$ 8.73
\$10 to \$15	837,194	2.69	12.15	837,194	12.15
\$15 to \$20	738,728	6.11	18.08	670,441	17.89
\$20 to \$25	964,827	7.22	22.90	794,297	22.92
\$25 and above	721,522	8.34	26.67	450,722	27.17
	3,464,159	5.77	\$19.24	2,954,542	\$18.41



Income Taxes

The components of earnings before income taxes are as follows:

(Thousands of dollars)	2001	2000	1999
Earnings before income taxes:			
United States	\$ 48,705	\$ 54,913	\$55,811
Foreign	56,223	45,420	33,399
Total	\$104,928	\$100,333	\$89,210

The components of the provision for income taxes are as follows:

(Thousands of dollars)	2001	2000	1999
Income Taxes:			
Current:			
Federal	\$ 8,502	\$18,192	\$16,717
State	622	2,361	2,471
Foreign	13,163	9,996	7,086
	22,287	30,549	26,274
Deferred:			
Federal	7,304	52	426
State	417	3	24
Foreign	(628)	(504)	39
	7,093	(449)	489
Total	\$29,380	\$30,100	\$26,763

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows:

(Thousands of dollars)	2001	2000	1999
Deferred tax assets:			
Compensation and retirement plans	\$ 3,619	\$ 12,839	\$ 8,950
Accrued expenses	6,938	7,818	9,617
NOL carryforwards	6,092	8,174	3,560
Inventories	1,938	1,526	1,595
Investment in joint venture	636	754	588
Cumulative translation adjustment	—	4,574	2,494
Other	3,215	3,162	3,267
Gross deferred tax assets	22,438	38,847	30,071
Valuation allowance	\$ (2,054)	\$ (4,499)	\$ (2,432)
Net deferred tax assets	20,384	34,348	27,639
Deferred tax liabilities:			
Depreciation and amortization	(16,209)	(14,626)	(11,235)
Other	(618)	(903)	(1,625)
Gross deferred tax liabilities	(16,827)	(15,529)	(12,860)
Net deferred tax assets	\$ 3,557	\$ 18,819	\$ 14,779

The following table reconciles the U.S. statutory income tax rate with the effective income tax rate:

	2001	2000	1999
Statutory U.S. federal rate	35.0%	35.0%	35.0%
State income taxes	0.4	1.5	1.8
Foreign taxes at lower rates	(8.2)	(6.1)	(5.5)
Other	0.8	(0.4)	(1.3)
	28.0%	30.0%	30.0%

At July 31, 2001, certain international subsidiaries had available net operating loss carryforwards of approximately \$20.0 million to offset future taxable income. The majority of such carryforwards expire after 2003. Due to the uncertainty of the realizability of a portion of these losses, a valuation allowance of \$2.1 million has been recorded as of July 31, 2001. Unremitted earnings of international subsidiaries amounted to approximately \$133.5 million at July 31, 2001. The majority of those earnings are intended to be indefinitely reinvested and, accordingly, no deferred U.S. income taxes have been provided. If a portion were to be remitted, foreign tax credits would substantially offset any resulting incremental U.S. income tax liability. It is not practicable to estimate the amount of unrecognized taxes on these undistributed earnings due to the complexity of the computation.

The company made cash payments for income taxes of \$16.2 million, \$24.6 million and \$20.8 million in 2001, 2000 and 1999, respectively.



Segment Reporting

The company adopted SFAS 131, “Disclosures about Segments of an Enterprise and Related Information,” effective with fiscal year-end 1999. This standard requires companies to disclose selected financial data by operating segment. A segment is defined as a component with business activity resulting in revenue and expense that has separate financial information evaluated regularly by the company’s chief operating decision maker in determining resource allocation and assessing performance. The company has identified two reportable segments: Engine Products and Industrial Products. Segment selection was

based on the internal organizational structure, management of operations and performance evaluation by management and the company’s Board of Directors.

The Engine Products segment sells to original equipment manufacturers (OEMs) in the construction, industrial, mining, agriculture and transportation markets and to independent distributors, OEM dealer networks, private label accounts and large private fleets. Products include air intake systems, exhaust systems, liquid filtration systems and replacement filters.

The Industrial Products segment sells to various industrial end-users, OEMs of gas-fired turbines, OEMs and end-users requiring highly purified air. Products include dust, fume and mist collectors, static and pulse-clean air filter systems and specialized air filtration systems.

Corporate and Unallocated include corporate expenses determined to be non-allocable to the segments, interest income and expense, non-operating income and expense, and expenses not allocated to the business segments in the same period. Assets included in Corporate and Unallocated principally are cash and cash equivalents, inventory reserves, certain prepaids, certain investments, other assets and assets allocated to intercompany transactions.

The company has developed an internal measurement system to evaluate performance and allocate resources based on profit or loss from operations before income taxes. The company’s manufacturing facilities serve both reporting segments. Therefore, the company uses a complex allocation methodology to assign costs and assets to the segments. A certain amount of costs and assets are assigned to intercompany activity and are not assigned to either segment. Certain accounting policies applied to the reportable segments differ from those described in the summary of significant accounting policies. The reportable segments account for receivables on a gross basis and account for inventory on a standard cost basis.

Segment allocated assets are primarily accounts receivable, inventories and property, plant and equipment. Reconciling items included in Corporate and Unallocated are created based on accounting differences between segment reporting and the consolidated, external reporting as well as internal allocation methodologies.

Segment detail is summarized as follows (in thousands):

	Engine Products	Industrial Products	Corporate & Unallocated	Total Company
2001				
Net sales	\$606,810	\$530,205	\$ -	\$1,137,015
Depreciation and amortization	23,100	11,268	4,209	38,577
Equity earnings in unconsolidated affiliates	3,017	-	-	3,017
Earnings before income taxes	49,539	72,891	(17,502)	104,928
Assets	315,706	228,505	162,619	706,830
Equity investments in unconsolidated affiliates	14,115	-	-	14,115
Capital expenditures, net of acquired businesses	23,308	11,370	4,246	38,924
2000				
Net sales	\$673,982	\$418,312	\$ -	\$1,092,294
Depreciation and amortization	20,959	8,509	4,858	34,326
Equity earnings in unconsolidated affiliates	4,392	-	-	4,392
Earnings before income taxes	57,453	53,862	(10,982)	100,333
Assets	320,805	172,837	183,883	677,525
Equity investments in unconsolidated affiliates	13,600	-	-	13,600
Capital expenditures, net of acquired businesses	22,236	9,028	5,153	36,417
1999				
Net sales	\$611,378	\$332,761	\$ -	\$ 944,139
Depreciation and amortization	18,486	7,506	1,694	27,686
Equity earnings in unconsolidated affiliates	3,610	-	-	3,610
Earnings before income taxes	61,896	36,373	(9,059)	89,210
Assets	327,035	160,201	55,010	542,246
Equity investments in unconsolidated affiliates	13,833	-	-	13,833
Capital expenditures, net of acquired businesses	19,723	8,008	1,808	29,539

Following are net sales by product within the Engine Products segment and Industrial Products segment:

(In thousands)	2001	2000	1999
Engine Product segment:			
Off-road products	\$ 181,795	\$ 193,229	\$181,200
Transportation products	79,670	151,950	162,291
Aftermarket products	345,345	328,803	267,887
Total Engine Product segment	606,810	673,982	611,378
Industrial Product segment:			
Dust collection products	217,343	193,119	153,480
Gas turbine products	195,042	117,038	84,229
Special application products	117,820	108,155	95,052
Total Industrial Product segment	530,205	418,312	332,761
Total company	\$1,137,015	\$1,092,294	\$944,139

Geographic sales by origination and property, plant and equipment (in thousands):

	Net Sales	Property, Plant & Equipment - Net
2001		
United States	\$ 711,268	\$138,631
Europe	211,397	36,801
Asia-Pacific	185,395	19,609
Other	28,955	12,617
Total	\$1,137,015	\$207,658
2000		
United States	\$ 688,899	\$135,480
Europe	206,429	37,698
Asia-Pacific	166,221	22,304
Other	30,745	9,063
Total	\$1,092,294	\$204,545
1999		
United States	\$ 616,254	\$122,513
Europe	166,431	28,616
Asia-Pacific	138,453	21,911
Other	23,001	9,140
Total	\$ 944,139	\$182,180

Sales to one customer accounted for 12 percent of net sales in 2001. There were no sales over 10 percent of net sales to any customer in 2000. Sales to one customer accounted for 11 percent of net sales in 1999.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors
of Donaldson Company, Inc.

We have audited the accompanying consolidated balance sheets of Donaldson Company, Inc. (a Delaware corporation) and subsidiaries as of July 31, 2001 and 2000, and the related consolidated statements of earnings, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Donaldson Company, Inc. and subsidiaries as of July 31, 1999, were audited by other auditors whose report dated September 8, 1999, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Donaldson Company, Inc. and subsidiaries as of July 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Minneapolis, Minnesota,
August 27, 2001



Quarterly Financial Information (Unaudited)

(Thousands of dollars, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Net Sales	\$289,869	\$279,631	\$269,721	\$297,794
Gross Margin	85,956	86,316	79,180	90,282
Net Earnings	16,804	18,105	17,826	22,813
Diluted Earnings Per Share	.37	.40	.39	.50
Dividends Declared Per Share	.075	.075	.075	.075
2000				
Net Sales	\$246,550	\$259,256	\$285,277	\$301,211
Gross Margin	73,881	79,595	84,812	89,233
Net Earnings	17,008	17,406	17,450	18,369
Diluted Earnings Per Share	.36	.37	.38	.40
Dividends Declared Per Share	.07	.07	.07	.07



Commitments and Contingencies

The company is involved in litigation arising in the ordinary course of business. In the opinion of management, the outcome of litigation currently pending will not materially affect the company's results of operations, financial condition or liquidity.

WORLDWIDE OPERATIONS

World Headquarters

Donaldson Company, Inc.
Minneapolis, Minnesota

U.S. Plants

Auburn, Alabama
Old Saybrook, Connecticut
Dixon, Illinois
Frankfort, Indiana
Cresco, Iowa
Grimmell, Iowa
Nicholasville, Kentucky
Port Huron, Michigan
Chillicothe, Missouri
Stow, Ohio
Philadelphia, Pennsylvania
Greeneville, Tennessee
Baldwin, Wisconsin
Stevens Point, Wisconsin

Distribution Centers

Ontario, California
Rensselaer, Indiana
Antwerp, Belgium
Singapore

Joint Ventures

Advanced Filtration Systems Inc.
Champaign, Illinois
MSCA, LLC
Monticello, Indiana
PT Panata Jaya Mandiri
Jakarta, Indonesia

Subsidiaries

Torit Australia Pty. Ltd.
Sydney, Australia
Donaldson Australasia Pty. Limited
Wyong, Australia
Donaldson Sales, Inc.
Barbados
Donaldson Coordination Center, B.V.B.A.
Lewen, Belgium
Donaldson Europe, B.V.B.A.
Lewen, Belgium
Brugge, Belgium (plant)
DCE Scandinavia APS
Horsholm, Denmark
Donaldson France, S.A.S.
Bron, France
Tecnov Donaldson, S.A.S.
Domjean, France
DCE S.A.
Paris, France
DCE Neotechnik GmbH
Bielefeld, Germany
Donaldson Gesellschaft m.b.H.
Dülmen, Germany
Donaldson India Filter Systems Pvt. Ltd.
New Delhi, India
PT Donaldson Systems Indonesia
Jakarta, Indonesia
Donaldson Italia s.r.l.
Ostiglia, Italy
Nippon Donaldson Limited
Tokyo, Japan
Donaldson Luxembourg S.a.r.l.
Luxembourg
Donaldson, S.A. de C.V.
Aguascalientes, Mexico
Diemo S.A. de C.V.
Guadalajara, Mexico

Donaldson Filtration Industrial
S. de R.L. de C.V.
Monterrey, Mexico
Donaldson Torit, B.V.
Haarlem, Netherlands
DCE Benelux B.V.
Krommenie, Netherlands
Air Master China Ltd.
Hong Kong, S.A.R., People's Republic
of China
Donaldson Far East Limited
Hong Kong, S.A.R., People's Republic
of China
Guilin Air King Enterprises Ltd.
Guilin, People's Republic of China
Donaldson (Wuxi) Filters Co., Ltd.
Wuxi, People's Republic of China
Donaldson Filtration (Asia Pacific)
Pte. Ltd.
Singapore
Donaldson Filtration Systems
(Proprietary) Ltd.
Cape Town, South Africa
Donaldson Korea Co., Ltd.
Seoul, South Korea
DCE Donaldson Sistemas
de Filtracion, S.L.
Barcelona, Spain
Donaldson Filtros Iberica S.L.
Madrid, Spain
Donaldson Filter Components Limited
Hull, United Kingdom
DCE Donaldson Ltd.
Leicester, United Kingdom
Tetratrec Europe Limited
Wigan, United Kingdom

CORPORATE AND SHAREHOLDER INFORMATION

NYSE Listing

The common shares of Donaldson Company, Inc. are traded on the New York Stock Exchange, under the symbol DCI.

Shareholder Information

For any concerns relating to your current or prospective shareholdings, please contact Shareowner Services at (800)468-9716 or (651)450-4064.

Dividend Reinvestment Plan

As of September 21, 2001, 1,107 of Donaldson Company's approximately 1,799 shareholders of record were participating in the Dividend Reinvestment Plan. Under the plan, shareholders can invest Donaldson Company dividends in additional shares of company stock. They may also make periodic voluntary cash investments for the purchase of company stock.

Both alternatives are provided without service charges or brokerage commissions. Shareholders may obtain a brochure giving further details by writing Wells Fargo Bank Minnesota, N.A., Shareowner Services, P.O. Box 64854, St. Paul, MN 55164-0854.

Annual Meeting

The annual meeting of shareholders will be held at 10 a.m. on Friday, November 16, 2001, at Donaldson Company, Inc., 1400 West 94th Street, Bloomington, Minnesota. You are welcome to attend.

10-K Reports

Copies of the Report 10-K, filed with the Securities and Exchange Commission, are available on request from Shareholder Services, Donaldson Company, Inc., M.S. 101, P.O. Box 1299, Minneapolis, MN 55440.

Auditors

Arthur Andersen LLP
Minneapolis, Minnesota

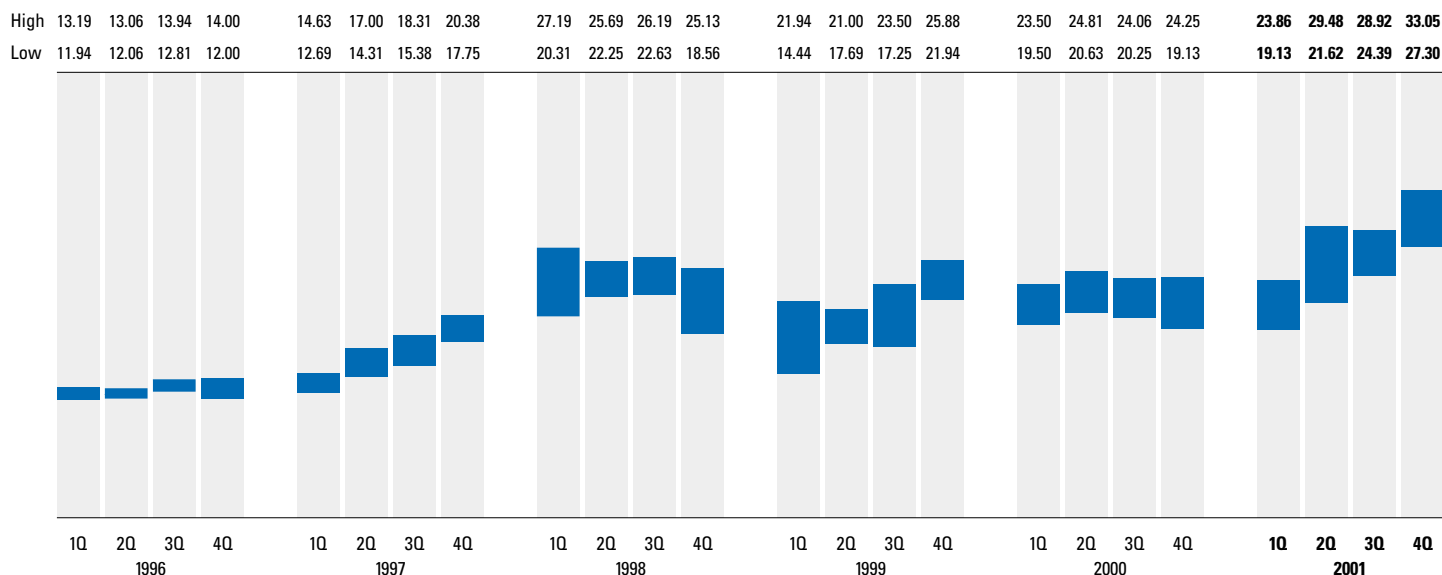
Public Relations Counsel

Padilla Speer Beardsley Inc.
Minneapolis, Minnesota

Transfer Agent and Registrar

Wells Fargo Bank Minnesota, N.A.
South St. Paul, Minnesota

SIX-YEAR QUARTERLY HIGH-LOW STOCK PRICES



BOARD OF DIRECTORS

F. Guillaume Bastiaens, 58,
Vice Chairman,
Cargill, Inc., Minneapolis
(Agribusiness).
Director since 1995.^{(2) (3)}

Paul B. Burke, 45,
Chairman and Chief Executive Officer,
BMC Industries, Inc., Minneapolis
(Manufacturing).
Director since 1996.^{(1) (3)}

Janet M. Dolan, 52,
President and Chief Executive Officer,
Tennant Company, Minneapolis
(Manufacturing).
Director since 1996.^{(2) (3)}

Jack W. Eugster, 56,
Non-Executive Chairman,
ShopKo Stores, Inc., Green Bay, WI
(Specialty Discount Retailer).
Director since 1993.^{(1) (3)}

John F. Grundhofer, 62,
Chairman,
U.S. Bancorp, Minneapolis
(Financial Services).
Director since 1997.^{(1) (3)}

Kendrick B. Melrose, 61,
Chairman and Chief Executive Officer,
The Toro Company, Minneapolis
(Manufacturing).
Director since 1991.^{(1) (2)}

Jeffrey Noddle, 55,
President and Chief Executive Officer,
SUPERVALU INC., Minneapolis
(Food Retailer and Distributor).
Director since 2000.^{(1) (2)}

S. Walter Richey, 65,
Retired Chairman, President
and Chief Executive Officer,
Meritex, Inc., Minneapolis
(Distribution Services).
Director since 1991.^{(2) (3)}

Stephen W. Sanger, 55,
Chairman and Chief
Executive Officer,
General Mills, Inc., Minneapolis
(Consumer Products).
Director since 1992.^{(1) (2)}

William G. Van Dyke, 56,
Chairman, President and
Chief Executive Officer,
Donaldson Company, Inc.
Director since 1994.

⁽¹⁾ Human Resources Committee

⁽²⁾ Audit Committee

⁽³⁾ Corporate Governance Committee

CORPORATE OFFICERS

William G. Van Dyke, 56,
Chairman, President and
Chief Executive Officer.
29 years service.

William M. Cook, 48,
Senior Vice President, International
and Chief Financial Officer.
21 years service.

James R. Giertz, 44,
Senior Vice President,
Commercial and Industrial.
8 years service.

Nickolas Priadka, 55,
Senior Vice President,
Engine Systems and Parts.
32 years service.

Lowell F. Schwab, 53,
Senior Vice President, Operations.
22 years service.

Dale M. Couch, 58,
Vice President and General Manager,
Asia Pacific.
4 years service.

Norman C. Linnell, 42,
Vice President, General Counsel
and Secretary.
6 years service.

John E. Thames, 51,
Vice President, Human Resources.
13 years service.

Geert Henk Touw, 56,
Vice President and General Manager,
Europe/Africa/Middle East.
16 years service.

Thomas A. Windfeldt, 52,
Vice President, Controller
and Treasurer.
21 years service.



Donaldson Company, Inc.
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Minneapolis, Minnesota
U.S.A.

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