

## DONALDSON REPORTS 19th CONSECUTIVE RECORD YEAR

 [Attachment](#)

*Fourth quarter EPS up 13 percent*

MINNEAPOLIS (September 2, 2008) — Donaldson Company, Inc. (NYSE: DCI) announced fourth quarter diluted earnings per share ("EPS") of \$0.60, a 13 percent increase from \$0.53 in the prior year. Net income was \$48.6 million, up 12 percent from \$43.3 million last year. Sales were \$607.4 million, a 16 percent increase from \$524.7 million in the fourth quarter of 2007.

For the year, EPS was \$2.12, an increase of 16 percent from \$1.83 last year. Net income increased 14 percent to \$172.0 million versus \$150.7 million last year. Sales were \$2.2 billion, up 16 percent from \$1.9 billion in fiscal 2007.

"We are very pleased to announce that we have achieved our 19<sup>th</sup> consecutive year of record earnings," said Bill Cook, Chairman, President and CEO. "We also set a new sales record in the fourth quarter, exceeding \$600 million for the first time, and a new sales record for the year as we delivered our first \$2 billion sales year. Our sales strength was broad-based again this quarter as Engine Products were up 13 percent and Industrial Products were up 20 percent. Geographically, sales grew 24 percent in Europe and 17 percent in Asia, driven by the combination of organic sales volume growth and the benefits of the stronger foreign currencies, and sales grew 9 percent in NAFTA."

"Our sales trends remain positive as we enter fiscal 2009. We expect to continue making progress on our operating improvement initiatives while continuing to invest in our business for future growth. Although we expect raw material costs to continue to increase, we will work to offset the impact through internal cost reduction efforts, raw material price indexing in some markets, and price increases in other markets. While we are cautious about global economic conditions, we believe that the combination of our business model and extensive diversification of our products, end markets, and geographies will lead to our 20<sup>th</sup> consecutive year of record earnings."

### **Financial Statement Discussion**

The impact of foreign currency translation increased reported sales by \$37.9 million, or 7.2 percent, in the quarter and \$122.5 million, or 6.4 percent, for the year. The impact of foreign currency translation increased reported net earnings by \$3.3 million in the quarter and \$12.9 million for the year.

The fourth quarter and full year results of the prior year included an extra week of sales and earnings in the U.S., which increased prior year sales by \$16 million, net income by \$0.7 million, and EPS by \$0.01.

Our gross margin was 33.2 percent for the quarter and 32.5 percent for the year, compared to prior year margins of 32.4 percent and 31.5 percent, respectively. The primary drivers for the improved margin include higher production volumes, cost controls, productivity improvements, and some recovery of previously incurred product development costs, all of which were partially offset by higher commodity costs. We use the Last-In, First-Out (LIFO) accounting method for our U.S. inventories, which charges the increasing commodity costs to income immediately, and this resulted in a charge to pretax income of \$5.0 million in the fourth quarter.

Operating expenses for the quarter were 22.0 percent of sales, up from 20.1 percent last year. For the year, operating expenses were 21.5 percent of sales, up from 20.5 percent last year. The increases were driven by business mix, higher research and development costs to support our product development initiatives, and higher information technology spending to improve our global Customer support capabilities.

The effective tax rates of 26.6 percent for the quarter and 27.2 percent for the year compare to 30.9 percent and 26.4 percent for the same periods last year. The current quarter benefited from a favorable geographic mix and a dividend from a foreign subsidiary.

As part of our ongoing share repurchase program, we repurchased 542,072 shares during the quarter for \$22.9 million. For the year, we repurchased 2,245,790 shares for \$92.2 million.

### **Fiscal 2009 Outlook**

#### **Engine Products: We expect 10 to 12 percent full year sales growth.**

- We expect our NAFTA Transportation Products' sales to begin growing in the second half of fiscal 2009 in advance of the next diesel emission regulations. Build rates are expected to continue to grow modestly in Europe and Japan.
- We expect the NAFTA and Western European residential construction markets to remain weak. However, high commodity prices and global infrastructure projects are expected to keep global demand strong for our mining, heavy construction, and agriculture equipment end markets.
- Our Aftermarket sales are expected to continue growing due to our ongoing expansion into new geographies and

good equipment utilization internationally. We also expect to continue benefiting from the increasing amount of equipment in the field with our PowerCore™ technology as well as our other new proprietary filtration systems.

**Industrial Products: We expect 8 to 10 percent full year sales growth.**

- Our Industrial Filtration Solutions' sales are projected to grow 8 to 12 percent due to continued global manufacturing investment conditions and growing demand for our new products.
- We expect our Gas Turbine Products' sales to increase 5 to 10 percent for fiscal 2009. Continued strength is expected from both the international power generation and the oil and gas markets.
- Special Applications Products' sales are expected to grow 5 to 10 percent driven by growth in our membrane products sales.

**Other:**

- In our guidance, we assume exchange rates will remain at current levels.
- Full year company sales are expected to be up 9 to 11 percent.
- We expect our operating margin will be a minimum of 11 percent for the full year.
- Our full year tax rate is expected to be between 29 and 32 percent.
- We expect our EPS to be between \$2.30 and \$2.40 per share, which would be our 20<sup>th</sup> consecutive EPS and earnings records.

*To read the entire earnings release, including financial tables, view the attached PDF file.*

**About Donaldson Company**

Donaldson is a leading worldwide provider of air and liquid filtration systems and replacement parts that improve people's lives, enhance our Customers' equipment performance, and protect our environment. We are a technology-driven company committed to satisfying our Customers' needs for filtration solutions through our innovative research and development, superior technology, and global presence. Our 13,000 employees contribute to our success by supporting our Customers at our more than 100 sales, manufacturing, and distribution locations around the world.

Donaldson is a member of the S&P MidCap 400 and Russell 1000 indices, and our shares trade on the NYSE under the symbol DCI. Additional information is available at [www.donaldson.com](http://www.donaldson.com).

**SAFE HARBOR STATEMENT UNDER THE SECURITIES REFORM ACT OF 1995**

The company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Act") and is making this cautionary statement in connection with such safe harbor legislation. This announcement contains forward-looking statements, including forecasts, plans, and projections relating to our business and financial performance, which involve uncertainties that could materially impact results.

The company wishes to caution investors that any forward-looking statements are subject to uncertainties and other risk factors that could cause actual results to differ materially from such statements, including but not limited to risks associated with: currency fluctuations, commodity prices, world economic factors, political factors, the company's international operations, highly competitive markets, governmental laws and regulations, the implementation of our new information systems, and other factors included in our Annual and Quarterly Reports. We undertake no obligation to publicly update or revise any forward-looking statements.

**FOR IMMEDIATE RELEASE:**

Tuesday, September 2, 2008

**FOR FURTHER INFORMATION:**

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