

## DONALDSON REPORTS 18th CONSECUTIVE EARNINGS RECORD

 [Attachment](#)

### ***12 percent sales growth and improved operating margin drives record 4<sup>th</sup> quarter***

MINNEAPOLIS, MN (Sept. 4, 2007) — Donaldson Company, Inc. (NYSE: DCI) announced fourth quarter diluted earnings per share ("EPS") of \$.53, up 23 percent from \$.43 last year. Net income was \$43.3 million, versus \$36.2 million last year. Sales were \$524.7 million, up from \$468.2 million in fiscal 2006.

For the year, EPS was \$1.83, up 18 percent from \$1.55 last year. Net income increased 14 percent to \$150.7 million compared to \$132.3 million last year. Sales were \$1.919 billion, up 13 percent from \$1.694 billion in fiscal 2006.

"We are very pleased to announce that we achieved our 18<sup>th</sup> consecutive year of record earnings with an EPS increase of 18 percent for the year," said Bill Cook, Chairman, President and CEO. "We made great progress on the operating issues that impacted our results earlier in the year, delivering a 12.3 percent operating margin in the quarter, and bringing our operating margin back to our 11 percent target for the full year."

Key factors contributing to the quarter's results included:

#### Strong Engine Products sales

- International sales increased dramatically, with over 20 percent increases in our European off-road and aftermarket businesses. Our Asian off-road and aftermarket businesses posted sales increases of 23 and 15 percent respectively.
- NAFTA truck sales decreased a less-than-expected \$14 million in the fourth quarter following the implementation of the new EPA diesel emission standards earlier this year.

#### 17 percent sales increase for Industrial Products

- Industrial Filtration Solutions delivered an 18 percent sales increase due to very strong results in Europe and Asia.
- Special Applications sales were up 19 percent on strong disk drive filter and PTFE membrane sales.

#### Operating margin improvement

- We saw improvement in our global distribution efficiencies, while continuing our investments in new systems and process enhancements for the future.

"Our sales trends remain positive as we enter fiscal 2008," said Bill Cook. "We expect to continue to make progress on our operating initiatives throughout the year, which should provide additional operating leverage. As a result, we are expecting to deliver another earnings record in fiscal 2008."

#### Financial Statement Discussion

Translated at constant exchange rates, sales increased \$43.1 million, or 9.2 percent, during the quarter and \$177.3 million, or 10.5 percent, for the year. The impact of currency translation increased the reported sales growth to \$56.5 million, or 12.1 percent, for the quarter and to \$224.5 million, or 13.3 percent, for the year. The impact of foreign currency translation increased reported net earnings by \$1.2 million in the quarter and \$5.1 million for the year.

The fourth quarter and full year results also included an extra week of sales and earnings in the U.S., which increased sales by \$16 million, net income by \$0.7 million and EPS by \$.01.

Gross margins of 32.4 percent for the quarter and 31.5 percent for the year compare to prior year margins of 33.4 percent and 32.8 percent, respectively. We improved our distribution efficiencies, although these costs continued to be higher than normal as we invested in people, processes and technology to enhance our capabilities. We did not have a recurrence of the low margins on large system sales in Gas Turbine and Industrial Filtration Solutions Products that affected our third quarter gross margin. Plant rationalization and start up costs of \$0.6 million in the fourth quarter were lower than last year and significantly lower than the \$2.5 million from the third quarter.

Operating expenses for the quarter were 20.1 percent of sales, down from 20.9 percent in the prior year. Operating expenses for the year were 20.5 percent of sales, down from 21.5 percent last year.

Interest expense in the quarter increased \$1.6 million from last year. For the year, interest expense increased \$4.7 million as debt levels have increased this year due to our investments in working capital, the Aerospace Filtration Systems, Inc. acquisition in March, and our continued capital investments.

The effective tax rate of 30.9 percent for the quarter compares to 35.2 percent in last year's fourth quarter. The favorable comparison relates to the inclusion of the \$3.6 million tax charge in last year's fourth quarter for the dividend reinvestment plan pursuant to the American Jobs Creation Act of 2004. For the year, the effective tax rate was 26.4

percent compared to 30.1 percent last year. The favorable comparison for the full year is primarily due to last year's tax charge mentioned above and \$3 million of additional favorable discrete items compared to the previous year.

Free cash flow in the quarter was \$46.6 million versus \$25.9 million last year. The improvement was primarily driven by a \$15.6 million increase in net cash provided by operating activities as working capital improved \$14.2 million from the third quarter. Net expenditures on property and equipment were \$23.7 million in the quarter, a decrease of \$5.1 million from \$28.8 million last year. For the year, free cash flow was \$40.5 million versus \$79.1 million last year.

As a part of our ongoing share repurchase program, we repurchased 424,200 shares during the quarter for \$15.0 million. For the year, we repurchased 2,184,000 shares, or 2.6 percent of our diluted shares outstanding, for \$76.9 million.

### **Fiscal 2008 Outlook**

**Engine Products:** We expect 5 to 7 percent full year sales growth.

- Due to the continued impact of the EPA diesel emission standards, we expect our NAFTA Transportation Products sales to decrease \$30 to \$40 million in our first three quarters before growth returns in our fourth quarter.
- Production of new heavy construction and mining equipment by our international OEM Customers is forecasted to remain healthy. We expect NAFTA non-residential and public construction markets to benefit from continued infrastructure investment. Production of new agriculture equipment by our Customers is expected to remain strong globally.
- Our Aftermarket sales are expected to continue growing due to strong equipment utilization in the field and the increasing amount of equipment with our PowerCore™ filtration systems.

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

- Our Industrial Filtration sales are projected to grow 10 percent due to continued strong global manufacturing investment and production utilization conditions.
- We expect high-single digit percent sales growth in Gas Turbine Products over last year's 30 percent growth. Continued strength is expected from both the international power generation and the oil and gas market segments.
- Special Applications Products sales are expected to grow in the mid-single digit percent.

**Other:**

- Continued progress on our operating initiatives should deliver a full year operating margin of a minimum of 11 percent. Our operating income is expected to be up about 10 percent.
- Our tax rate is expected to be between 29 to 32 percent, although it will likely vary by quarter.
- With our anticipated higher tax rate, we expect our full year EPS to be between \$1.92 and \$2.01 per share, which would be our 19<sup>th</sup> consecutive earnings record.

***To view the complete earnings release, including financial tables, see the attached PDF file.***

### **About Donaldson Company, Inc.**

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 diesel engine equipment and industrial filtration solutions through innovative research and development, superior technology, and global presence. Our 12,000 employees contribute to the company's success by supporting our Customers at 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, 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 4, 2007

**FOR FURTHER INFORMATION:**

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9/4/2007