

DONALDSON REPORTS RECORD FIRST QUARTER SALES AND EARNINGS

 [Attachment](#)

11 percent sales growth and strong operating margin drive 16 percent EPS increase

MINNEAPOLIS (Nov. 27, 2006) — Donaldson Company, Inc. (NYSE: DCI) announced first quarter diluted earnings per share ("EPS") of \$0.43 versus \$0.37 last year. Net income was \$36.0 million, up 11.8 percent, compared to \$32.2 million last year. Sales were \$446.4 million, up 10.7 percent from \$403.4 million in the first quarter of 2006.

"We are pleased to start the year with continued solid sales growth and an operating margin of 12 percent," said Bill Cook, Chairman, President and CEO. "Sales in both our Engine and Industrial Products segments were up 11 percent, and our incoming orders remain strong. Our plants around the world are operating very well. The start-ups at our new plants in China and the Czech Republic have been completed, and they are now up and running per our plans. Overall, economic conditions remain good for most of our businesses around the world. As a result, we are on course for another year of record earnings, our 18th consecutive, in fiscal 2007."

Income Statement Discussion

Translated at constant exchange rates, sales increased \$38.8 million, or 9.6 percent. The impact of currency translation increased the reported sales growth to \$43.0 million, or 10.7 percent. Currency translation impact increased reported net earnings by \$0.8 million.

Gross margin of 32.2 percent compares to a prior year margin of 32.6 percent. Operating expenses were 20.2 percent of sales, down from 21.8 percent in the prior year due to the combination of operating leverage with our revenue increase and our cost containment efforts.

The effective tax rate of 31.2 percent for the quarter compares to a prior year rate of 26.7 percent. The higher tax rate is primarily a result of the mix of earnings in different tax jurisdictions. In addition, in last year's first quarter, we filed an amended tax return, which resulted in additional R&D tax credits, thus lowering the tax rate for that quarter.

As part of our ongoing share repurchase program, we repurchased 99,700 shares during the quarter for \$3.7 million.

Outlook

Engine Products: We continue to expect mid-single digit full year sales growth in our fiscal 2007 including the impact of the NAFTA new truck production decline in 2007.

- NAFTA heavy duty truck build rates should remain at their current high levels through December as production at our truck manufacturer Customers is near capacity. Build rates are then expected to decrease with the implementation of the new EPA diesel emission standards.
- Strong international conditions are expected to continue in the production of new construction and mining equipment by our Customers. While residential construction in the U.S. has recently softened, NAFTA non-residential and public construction markets are expected to remain healthy.
- Both our NAFTA and international aftermarket sales are expected to continue growing with continued strong equipment utilization, continued growth by our OEM Customers of their replacement parts business, and the growing amount of equipment in the field with our PowerCore™ filtration systems.

Industrial Products: We expect low double-digit sales growth in fiscal 2007.

- Our Industrial filtration sales are expected to continue growing with healthy global manufacturing investment and utilization conditions at our Customers.
- Our full-year gas turbine sales should continue rebounding with sales increasing approximately 20 percent over last year. Strength is seen in both the international power generation and the global oil and gas segments we serve.
- Conditions for our special applications products are expected to remain solid due primarily to continued strength in the hard disk drive market.

Other:

- We expect the full year impact from expensing stock options to be \$0.03 to \$0.04 per share, with 75 percent of the full year expense (\$0.02 to \$0.03 per share) expected in the second quarter due to the timing of our annual option grants.
- Our tax rate is expected to be 29 to 31 percent for the year although our rate will vary by quarter due to country earnings mix and discrete events.
- We expect our full year fiscal 2007 EPS to be between \$1.72 and \$1.82 per share.

The view the entire Donaldson release, including financial tables, open the attached PDF file.

About Donaldson Company

Donaldson is a leading worldwide provider of filtration systems and replacement parts. We are a technology-driven company committed to satisfying Customers' needs for filtration solutions through innovative research and development. We serve customers in the diesel engine and industrial markets providing in-plant air cleaning, compressed air and gas purification, power generation, disk drive filtration, off-road equipment and on-road trucks. Our 11,500 employees contribute to the company's success at over 35 manufacturing locations around the world. Donaldson is a member of the S&P MidCap 400 Index and Donaldson shares are traded on the NYSE under the symbol DCI. Additional company information is available at www.donaldson.com.

Safe Harbor Statement under the Private Securities Litigation 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:

Monday, November 27, 2006

FOR FURTHER INFORMATION:

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