

Donaldson Reports 17th Consecutive Record Year

 [Attachment](#)

11 percent sales growth and strong operating margin drive record 4th quarter

MINNEAPOLIS (Sept. 5, 2006) — Donaldson Company, Inc. (NYSE: DCI) announced fourth quarter diluted earnings per share ("EPS") of \$.43 versus \$.29 last year. Net income was \$36.2 million compared to \$25.1 million last year. Sales were \$468.2 million, up 10.7 percent from \$422.7 million in fiscal 2005. EPS, net income and sales were all fourth quarter records.

For the year, EPS, net income and sales were also records. EPS was \$1.55, up from \$1.27 last year. Net income was \$132.3 million versus \$110.6 million last year, a 19.7 percent increase. Sales of \$1.694 billion were up from \$1.596 billion in the prior year.

"We are very pleased to announce another record year, and are especially pleased that we finished the year with solid sales growth and strong margin performance," said Bill Cook, Chairman, President and CEO. "We have focused on numerous initiatives in our plants and customer service groups to improve both our support to our customers and our operating results."

Key factors contributing to the quarter included:

- Strong Engine Products results.
 - Sales were strong in Europe, with double-digit sales increases in our off-road, truck and aftermarket businesses.
 - NAFTA off-road equipment markets remained healthy and heavy truck build rates remained at high levels. Equipment utilization rates are strong, spurring demand for our replacement filters.
- Improving conditions for gas turbine systems. Global gas turbine sales were up 35 percent in the fourth quarter as the expected strong quarter materialized.
- Increased profitability for Industrial Products. Improvement initiatives, higher sales volumes and a focus on selling more replacement filters helped boost the profitability in our Industrial Products segment.

"We are entering fiscal 2007 with solid sales and operating expectations," said Cook. "Our incoming orders remain strong, and our operations are running very well. We see enough good things in our businesses to be confident of delivering another record year in 2007, with EPS expected to be in the range of \$1.72 to \$1.82 per share."

Income Statement Discussion

Translated at constant exchange rates, sales increased \$41.7 million, or 9.9 percent, during the quarter and \$123.9 million, or 7.8 percent, for the year. The impact of foreign currency translation increased the reported sales growth to \$45.4 million, or 10.7 percent, in the fourth quarter and reduced the reported sales growth to \$98.6 million, or 6.2 percent, for the year. The impact of foreign currency translation increased reported net earnings by \$0.2 million in the fourth quarter and decreased reported net earnings by \$0.8 million for the year.

Gross margin of 33.4 percent and 32.9 percent for the fourth quarter and the full-year compares to prior year margins of 31.8 percent and 31.7 percent, respectively. This year's fourth quarter benefited from our cost reduction efforts and improved production efficiencies along with selective price increases.

Fourth quarter operating expenses were 20.9 percent of sales, down from 22.3 percent in the prior year. For the year, operating expenses were 21.5 percent of sales, down from 21.9 percent last year. The current year includes \$2.8 million of stock option expense that was not included last year. The fourth quarter operating expenses in the prior year included \$6.4 million of previously disclosed litigation expenses.

Fourth quarter interest expense was \$2.6 million, down from \$2.7 million last year. For the year, interest expense was \$9.9 million, up from \$9.4 million last year. Other income was \$0.1 million in the quarter, down from \$1.4 million last year. For the year, other income was \$6.3 million, down from \$7.7 million last year.

The effective tax rate of 35.2 percent for the fourth quarter and 30.1 percent for the year compares to prior year rates of 35.7 percent and 28.6 percent, respectively. Both the current and prior year's fourth quarter and full-year tax rates include the impacts of the tax charges taken for the dividend reinvestment plan pursuant to the American Jobs Creation Act of 2004 of \$3.6 million and \$4.0 million, respectively. We expect our effective tax rate to be approximately 29 percent in fiscal 2007.

As part of our ongoing share repurchase program, we repurchased 1,434,800 shares during the fourth quarter for \$45.8 million. For the year, we repurchased 3,783,000 shares, or 4.6 percent of outstanding shares, for \$118.9 million. At year end, we had 80.5 million shares outstanding.

Engine and Industrial Products Segments

See the chart on page 7 for segment detail.

Outlook

Engine Products: We expect mid-single digit sales growth in fiscal 2007.

- NAFTA heavy-duty truck build rates should remain at their current high levels through calendar 2006 as our truck manufacturer customers are near capacity. Build rates are then expected to decrease in calendar 2007 with the implementation of the new diesel emission standards.
- Strong worldwide conditions are expected to continue in the production of new construction and mining equipment by our customers.
- Our engine aftermarket sales are expected to grow with continued strong equipment utilization, ongoing growth by our OEM customers of their replacement parts business, and the increasing amount of equipment in the field with our PowerCore(TM) filtration systems.

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

- Industrial filtration sales are expected to grow with healthy global industrial conditions.
- We expect full-year gas turbine sales to continue rebounding with sales increasing approximately 20 percent.
- Market conditions for special applications products are expected to remain strong.

To view the complete Donaldson release, including financials, see the attached PDF file.

About Donaldson Company, Inc.

Donaldson is a leading worldwide provider of filtration systems and replacement parts. We are a technology-driven company committed to satisfying our customer's needs for filtration solutions through innovative research and development. We serve customers in the diesel engine and industrial markets including in-plant air cleaning, compressed air and gas purification, power generation, disk drive filtration, off-road equipment and on-road trucks. Our 11,000 employees contribute to the company's success at over 30 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 filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements.

FOR IMMEDIATE RELEASE:

Tuesday, September 5, 2006

FOR FURTHER INFORMATION:

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9/5/2006