

details matter

2003 review of operations

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The fine points. The nuts and bolts. The inches. Whatever you call them, details matter. They definitely matter to Ecolab's customers, who look to us for products, systems and services that are not only ingenious, but also in-depth, positively impacting every facet of their operations. Details are equally important to Ecolab's investors. They know the unwaveringly aggressive execution of our Circle the Customer - Circle the Globe strategy is what generates the consistently superior performance they've come to expect from us.

Read on for a detailed summary of the specific actions taken by our operating divisions and business units during 2003, along with some insight into their anticipated performance in 2004.



UNITED STATES: INSTITUTIONAL

The Institutional Division achieved steady growth during 2003 despite economic challenges within its markets. It continued to increase market share in all of its core segments, and took strategic steps to further improve operating efficiency and customer retention.

HIGHLIGHTS

- > Seized market share from the competition and further strengthened its position in the corporate account arena, thereby enhancing its position as the industry leader in providing large, multi-unit restaurant and hospitality operations with consistent, chain-wide service and support.
- > Continued to penetrate the independent restaurant market by leveraging its solid distributor partnerships and through the introduction of two new *Ecotemp* dishmachines: the low-temperature *Typhoon* and the high-temperature *Inferno*, both of which feature exclusive, built-in solid product technology and a revolutionary ventless steam removal system.
- > Launched innovative new offerings such as *Formula 1*, a single-step, on-premise laundry system designed for the hospitality industry, and *X-Static Soft 'n Scented Static Control Blocks*, which mount directly inside dryers, providing precise static reduction, extra softness and a long-lasting aroma.

OUTLOOK

Institutional expects to drive further growth in 2004 by continuing to aggressively pursue new corporate and independent customers, and by rolling out several new, technologically advanced product and system innovations in its core markets. It also remains committed to the continued expansion and development of its industry-leading sales-and-service force, with priorities being training and field specialization.



KAY

Vigorous new account gains and new product sales paved the way for Kay to achieve double-digit sales and operating income growth during 2003, outpacing each of the core industries it serves.

HIGHLIGHTS

- > Maintained its strong competitive position, winning substantial new business, as well as strengthening its relationships with existing customers.
- > Further bolstered its business in the food retail industry via *MarketGuard*, a cross-divisional program through which Kay's offerings are aligned with Ecolab's Pest Elimination and Professional Products offerings in a comprehensive package.
- > Introduced more than two dozen new products including *Liquid Storm XP* and *Liquid Storm* packets, two highly anticipated additions to its *Liquid Storm* product line for power wash sinks.
- > Made investments to meet growing customer demand for web-enabled management data and Kay field service activity at the unit level. This advanced technology is becoming particularly popular among large quickservice restaurant chains and major food retail chains.

OUTLOOK

Kay forecasts another year of robust growth, with the division realizing annualized benefits from customers gained in 2003 and additional expected new account growth in 2004. Food retail growth is expected to be particularly strong, with more existing grocery accounts expected to participate in the *MarketGuard* program.



PEST ELIMINATION

2003 was another year of solid, double-digit growth for Pest Elimination as it continued to capitalize on the enormous cross-selling opportunities available within Institutional, Food & Beverage, Kay and other Ecolab accounts. Pest Elimination's performance was especially strong in the quickservice restaurant and food retail industries.

HIGHLIGHTS

- > Won a number of valuable new food retail accounts, including a nationally prominent discount retailing chain, through the cross-divisional *MarketGuard* program. With *MarketGuard*, Pest Elimination's offerings are marketed in tandem with Kay and Professional Products offerings.
- > Added to its *Checkpoint* Rodent Program with a line of exterior Discreet Bait Stations, which are rodent deterrent units placed strategically around the exterior of a facility. Designed to be indiscernible to a facility's customers, these units are offered in models that appear to be rocks or exhaust vents.
- > Further grew its *EcoSure* food safety consulting business with the addition of key corporate accounts. These included several major restaurant chains and a discount retailer.

OUTLOOK

Sustaining the momentum generated throughout 2003, Pest Elimination expects to continue its strong growth in 2004. The division will maintain its focus on developing innovative product and service programs that address the unique needs of each specific market it serves. Pest Elimination will also work with its European associates to create operational synergies and leverage opportunities to secure new global accounts.



PROFESSIONAL PRODUCTS

Professional Products posted good sales growth during 2003 in both of its core markets. Its results were bolstered by a large corporate account win in the janitorial sector and better penetration into the hospital acute care segment.

HIGHLIGHTS

- > Delivered growth in the retail and building service contractor segments both by leveraging its distributor network and by focusing increased field and support resources on national and regional corporate accounts.
- > Building on Ecolab's legendary solids platform, the division launched the *Asepti-Solids* product line into the hospital acute care segment, where it is utilized for central sterile instrument cleaning. It has experienced terrific success in the market.
- > Introduced *Endure 320 Advanced Care*, a waterless, antimicrobial healthcare hand rinse with a new lotion formula that provides high levels of mildness and efficacy. The product was immediately called into action on the front lines of the SARS outbreak.

OUTLOOK

Professional Products anticipates another year of strong sales growth in 2004, although the exit from a low-margin janitorial equipment distribution business will likely offset reported sales progress. Earnings, however, should show good gains as the division's product mix improves. The healthcare business, which will operate as a separate division beginning in 2004, expects the *Asepti-Solids* program's good growth trends to continue.



GCS SERVICE

Following the acquisitions made over the past few years that created and built the business, GCS Service undertook a number of actions designed to consolidate administrative operations and standardize service protocols in 2003. While this focus on internal development resulted in lower 2003 results, these actions have set GCS on a course for long-term growth.

HIGHLIGHTS

- > Established a single National Customer Service Center that contains a call center operation and an administrative support center that incorporates the work formerly handled by 33 regional branch locations, a move designed to greatly improve operating efficiency.
- > Continued to strengthen its field service protocols, enhancing response times and overall service capabilities.
- > Gained corporate account business in the quickservice market, the family-dining segment and the hospitality market, leveraging cross-selling opportunities with Ecolab's other divisions.
- > Received a number of awards from the Commercial Food Equipment Service Association (CFESA) for its field service organization, which is considered the most highly trained and professional in the industry – as evidenced by the fact that last year it led the industry in attaining CFESA technical certifications.

OUTLOOK

GCS Service expects the infrastructure investments of 2003 to begin paying off with sales and profit improvement in 2004 as the division leverages its national network for growth. It will also work to further increase the productivity and profitability of its field service organization via continuous training efforts and additional investments in efficiency-enhancing technologies.



TEXTILE CARE

The Textile Care Division signed a number of sizable corporate account agreements during 2003, which – along with improved profitability – helped to partially offset an otherwise very challenging year in which industry difficulties, such as customer consolidation and a reduced demand for rental uniform cleaning, resulted in lower sales.

HIGHLIGHTS

- > Focused significant energy on strengthening its field sales-and-service organization, particularly management, as the division renewed its commitment to aggressively growing its business in its core commercial laundry and shirt laundry segments.
- > Continued the process of exiting unprofitable accounts, thereby allowing its field and support resources to be more effectively utilized in the quest for valuable corporate account gains.
- > Introduced the *Energy Optimiser*, a heat exchange system for professional laundries that was originally developed by the Textile Care Division in Europe. It not only helps reduce energy costs, but also improves rinsing results and reduces drying times. The *Energy Optimiser* has been offered with the *Aquamiser*, a water reuse system, and Ecolab chemistry such as the popular *Turbo-Flextra Visco Conditioner*.

OUTLOOK

In 2004, Textile Care will continue to reinvigorate its business through aggressive sales-and-service efforts that emphasize its ability to deliver customer solutions that provide total cost management. Although the industry's challenging market environment will be an ongoing concern, the division plans to combat its effects via a focus on improved profitability.



FOOD & BEVERAGE

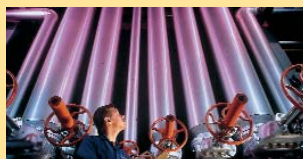
The Food & Beverage Division's 2003 sales and earnings rose modestly thanks to key corporate account gains, successful new product offerings and a new market-specific approach to merchandising Ecolab's value to customers, all of which helped offset weakened conditions in the dairy industry.

HIGHLIGHTS

- > Gained a considerable number of significant corporate accounts, particularly in the meat/poultry processing market, in which the division has been competing exceptionally well against national and regional competitors.
- > Successfully launched *Exxelerate CIP*, a premium liquid detergent for use in fluid milk processing facilities. It is formulated with a unique surfactant that allows the product to remove tough soils and rinse faster than traditional detergents.
- > Introduced *Lubodrive FP*, a conveyor lubricant specially formulated for use on high-speed PET packaging lines, and *Cosa CIP 1000*, a low-foaming, free-rinsing detergent designed to remove typical pharmaceutical and cosmetic processing soils.
- > Began merchandising its food safety and brand protection expertise via *EcoShield*, a comprehensive, cross-divisional marketing program through which individualized product and service messages are tailored to each of the division's specific markets.

OUTLOOK

Food & Beverage is well positioned for continued growth in 2004. It expects to build on its corporate account gains of 2003 by leveraging the strengths of its new product offerings and the *EcoShield* program. Further, with wholesale milk prices making a good recovery after hitting a 30-year low early in 2003, the division looks forward to improved agribusiness results during 2004.



WATER CARE SERVICES

Water Care Services showed good improvement in 2003, benefiting from strong, double-digit sales growth in the hospitality and cruise line industries.

HIGHLIGHTS

- > Initiated a segment-specific sales-and-service approach through which its field specialists are dedicated to serving a particular industry, whether it is hospitality, food and beverage, healthcare, or other targeted industries.
- > Leveraged cross-selling opportunities with other Ecolab divisions to secure a number of key account gains, particularly in the hospitality, food and beverage, healthcare and commercial laundry industries.
- > Signed several significant contracts with state-operated and privately run prisons by focusing increased attention on valuable prospects within the governmental sales arena.
- > Formally launched *Blackwater 100* to the cruise industry. This product helps prevent costly blockages in onboard plumbing lines that run between guest rooms and ships' waste treatment facilities.

OUTLOOK

On the strength of further gains in hospitality and healthcare, as well as good gains in the food and beverage industry, Water Care Services expects to accelerate its growth performance in 2004. The division will continue to pursue opportunities to build its business within Ecolab's existing customer base, as well as drive new account growth through aggressive sales-and-service efforts.



VEHICLE CARE

Vehicle Care showed good sales growth and improved its margins during 2003. The division's performance was buoyed by robust sales of new offerings, including a product line specially tailored for the growing self-service car wash sector.

HIGHLIGHTS

- > Exceeded growth targets for its *Westley's Self Serve* line for self-service car wash operations. *Westley's* pre-soaks, detergents and conditioners provide not only superior cleaning results, but also a higher level of foam, color and fragrance.
- > Made substantial gains in the in-bay automatic sector by forging new and strengthened alliances with wash equipment manufacturers.
- > Expanded sales-and-service efforts in the division's core sector, full-service conveyor car washes. Established a dedicated sales team focused solely on new account gains with the growing number of large chain operators in this arena.
- > Posted record sales for its *Solid Ovation* and *Harmony* product lines. *Solid Ovation* delivers concentrated power in a lightweight, convenient package, while *Harmony* features 11 products for conveyor washes designed to work together for maximum effectiveness.

OUTLOOK

Vehicle Care foresees continued good sales and profit growth in 2004, supported by an aggressive sales focus in each of its three major sectors: full-service conveyor, in-bay automatic and self-service. New product sales are expected to remain a key driver of the division's growth, as will a comprehensive new initiative to circle its customers with solutions from Ecolab's other businesses.



INTERNATIONAL: EUROPE/AFRICA/ MIDDLE EAST & EXPORT

Europe achieved good sales and better margin growth in fixed currencies in 2003, as steady gains in its Healthcare and Textile Care businesses, along with strategic acquisitions, led revenues. The weaker U.S. dollar leveraged these results to yield even stronger gains when translated to dollars.

HIGHLIGHTS

- > Institutional sales benefited from the pan-European introduction of *Oasis Pro* and *Penguin*, a professional cleaning system for large hospitality and healthcare facilities.
- > Food & Beverage posted continued good results across all segments, although regional economic challenges affected growth. Especially successful were its *Total Hygiene Management* program, which helped it win several large corporate accounts, and the *Kovex Foam System*, an innovative solution for improving hoof sanitation in dairy herds.
- > Professional Products transformed its business model, focusing more extensively on customer segments and on new product launches.
- > Healthcare had a good year, with the integration of Adams Healthcare positioning Ecolab as a leading player in the European hospital acute care market.
- > The Africa, Middle East and Export businesses were aligned with Europe in 2003. They achieved modest growth, with good results in Turkey and South Africa helping to offset continuing economic and political strife in Israel and elsewhere.

OUTLOOK

Ecolab Europe anticipates an improved performance in 2004 by undertaking key initiatives to outpace local economies and market challenges. It is set to focus on customer segmentation, distribution channel expansion and a variety of new product launches.



ASIA PACIFIC

Offsetting the SARS outbreak, which caused a significant downturn in the region's hospitality and travel industries, Ecolab's Asia Pacific management team increased sales and profits in 2003 by introducing SARS-related products and services, such as widely used hand sanitizers, and by utilizing other effective growth strategies.

HIGHLIGHTS

- > Aggressively worked to counterbalance the SARS downturn by seizing upon opportunities to enter new markets, including schools, commercial buildings and retail facilities. Boosted growth in core markets by organizing seminars on cleaning and sanitation practices with regional trade associations and academic institutions.
- > The *Ecotemp* dishmachine program's strong growth played a major role in further expanding Institutional's "street" business, as well as helped win key corporate accounts.
- > The Kay business enjoyed a strong year in Japan, where it leveraged its value-added approach to customer satisfaction to forge a leading supplier agreement with a major quickservice chain.
- > Increased its Food & Beverage market share in Japan, China, Taiwan and Singapore by targeting beverage producers in the fast-growing cold aseptic bottling industry.

OUTLOOK

With the region's hospitality and travel industries expected to gradually recover, the Asia Pacific management team has committed itself to growth, building on the initiatives begun in 2003 and further developing its strong historic base. Additionally, acquisitions are expected to help grow the burgeoning Pest Elimination business in the region.



CANADA

Canada achieved solid sales and earnings growth on the strength of its success with independent ("street") restaurants and steady Food & Beverage and Vehicle Care gains, along with increased sales of handcare offerings during the SARS crisis, which hit the Toronto area hard in early 2003.

HIGHLIGHTS

- > Adopted a truly multi-divisional approach to combating the effects of the SARS-related drop-off that hurt Canada's tourism industry. The various businesses worked cooperatively to develop new growth opportunities within alternative markets, delivering good sales gains despite the tough external obstacles.
- > Grew its Institutional street business by forging enhanced relationships with its distributor partners. The launch of new *Inferno* and *Typhoon* dishmachines from *Ecotemp* helped street sales.
- > Continued to enjoy success throughout Canada's food and beverage processing industry, particularly with meat and poultry producers, and benefited from multi-facility, North America-wide corporate account wins with large food product manufacturers.

OUTLOOK

With an anticipated rebound of the hospitality industry expected to improve sales opportunities, Canada is forecasting good gains in 2004. The improved hospitality climate should drive increased corporate account gains, and street business is expected to continue to grow due to Canada's strengthened distributor relationships. Food & Beverage business is expected to remain sound, with growth projected in the meat and food processing sectors.



LATIN AMERICA

The Latin America business delivered excellent sales and profit growth in the face of ongoing political and economic upheaval in the region. High points included double-digit Pest Elimination and Institutional growth throughout the region, led by robust growth in Mexico, Central America and the Caribbean.

HIGHLIGHTS

- > Continued to expand its business in the food retail industry, with particularly strong new account sales in Mexico, Brazil, Chile and the Caribbean.
- > Grew Food & Beverage sales in most countries. Growth was aided by the successful rollout of *Vortexx ES*, an advanced hard-surface sanitation solution, and several new lubricants in the second half of the year.
- > Bolstered its Pest Elimination growth by aggressively targeting new corporate account business within the food and beverage processing, food retail, and quickservice restaurant industries.
- > Succeeded in taking a variety of strategic measures to counterbalance the challenging political and economic environments in the region – particularly the political situation in Venezuela, which paralyzed the country's economy early in the year.

OUTLOOK

Latin America anticipates growth across all divisions in 2004, with Pest Elimination expecting to register the strongest gains. Tourism is expected to remain steady in the Caribbean, further driving Institutional growth in the region. Strong Professional Products sales are also forecasted in Chile. Continuing success in the food retail industry and the beverage/brewery segment will help offset lingering regional market difficulties.