

a closer look at the details that defined our 2003

TO OUR SHAREHOLDERS

We live in a world that turns a little faster each day. Speed is the name of the game in 21st century life. Nowhere is this truer than in business. Companies of every shape and size, in every industry and market around the world, are constantly working to keep pace with our global society's demand for quicker, more convenient service.

These companies, in turn, need service partners who can help them focus on the details of managing a successful enterprise – even when things get moving so quickly they become a blur. Details make the difference between a satisfied and unsatisfied guest. Between a clean health inspection and fines or closures. Between a trusted brand name and a tarnished reputation.

At Ecolab, our focus on the details is about not only satisfying customer needs, but *exceeding* them. From our field associates to our researchers and engineers, Ecolab associates look closer and peer deeper than anyone else. The result is a broad, world-class product, system and service offering, which boasts advanced formulas and state-of-the-art dispensing systems that help manage use-costs and enhance employee safety, along with comprehensive in-service training and support that really gets down to the nitty-gritty. At its core, our Circle the Customer - Circle the Globe strategy is all about making sure we have every detail covered, in order to help protect our customers' brands and deliver shareholder value.

We firmly believe that details matter in everything we do, from the many ways in which we serve our customers, to the transparency of our financial reporting, to making sure we have the strongest possible leadership team in place to pilot this great company into the future. The board and I worked carefully on the leadership transition plan, and we made an excellent choice in appointing Doug Baker, currently our president and chief operating officer, to succeed me as chief executive when I step down July 1, 2004. Although I will remain active in Ecolab's growth by continuing as chairman of the board, I would not have been comfortable passing the

CEO baton to someone in whom I had anything less than 100 percent confidence. Doug, however, is absolutely the right person for the job, and I am very pleased that he will be my successor.

Yes, at Ecolab the details matter. Want more proof? Read on for a detailed look at our 2003 accomplishments:

A CLOSER LOOK AT OUR FINANCIAL PERFORMANCE

> We are very proud to report that Ecolab's net sales for 2003 reached an all-time high of \$3.8 billion and increased 11 percent over 2002. As always, our global sales-and-service team deserves the kudos for these results, as they worked vigorously throughout the year to achieve growth while overcoming the market difficulties and economic uncertainties that continued to afflict many areas of the world.

> Operating income was \$483 million for 2003, an increase of 22 percent from \$396 million in 2002. Operating income represented 12.8 percent of net sales, up from last year's 11.6 percent, and was led by excellent improvement from our European operations and strong performances by our Pest Elimination and Kay divisions.

> Diluted net income per share was \$1.06 for 2003, up 33 percent from \$0.80 in 2002. Several unusual items are included in both 2003 and 2002 net income. Excluding these items, diluted income per share from ongoing operations increased 12 percent to \$1.03 from \$0.92 in 2002.

> Our return on beginning shareholders' equity was 25 percent for 2003 compared with 24 percent in 2002. I'm pleased to report that this was the 12th consecutive year in which the company exceeded its long-term financial objective of a 20 percent return on beginning shareholders' equity.

> Ecolab's share price rose 11 percent in 2003 – a solid gain, although the Standard & Poor's 500 rose 26 percent. Over the past five years, Ecolab's share price has risen 53 percent compared with a 10 percent decline for the S&P 500. In addition, we increased our annual dividend rate for the 12th consecutive year as it rose 10 percent in December 2003 to an annual rate of \$0.32 per common share.

> We achieved record cash flow from operating activities of \$529 million, and our total debt to capitalization ratio declined to 34 percent. These results allowed us to again earn a debt rating within the “A” categories of the major rating agencies during 2003.

A CLOSER LOOK AT OUR PRODUCT OFFERINGS AND SERVICE CAPABILITIES

> Every year at Ecolab, we expand the breadth of detail-driven solutions we offer to our customers. During 2003, these included offerings such as *Typhoon* and *Inferno*, a pair of technologically advanced *Ecotemp* dishmachine models that deliver sparkling results via innovative solid products and are offered with our exclusive ventless steam removal system. There was also *Conquest*, a hand soap specifically developed for foodservice outlets in grocery stores. It provides proven antimicrobial action and a mild formula that's ideal for frequent handwashing.

Orange Force is a streak-free, nonabrasive, multi-surface cleaner with a pleasant orange fragrance. It is formulated with dual binding agents that pull dirt and grease away from surfaces. New for central sterile environments in the healthcare industry, our *Asepti-Solid* Instrument Care System packs terrific cleaning performance into small, lightweight solid blocks. And the *Easycare* system meets housekeeping needs in Europe by combining an array of highly concentrated cleaning products and our innovative *Perquin* dispenser.

More of our latest offerings are described in the “Review of Operations” section of this report.

> Our industry-leading sales-and-service team grew even stronger in 2003. We added 275 new associates to our global field organization, which is now 11,685 members strong.

> In order to strengthen our focus on and service to the growing North American janitorial and healthcare markets, in January 2004 we separated these two businesses, both of which had previously operated within the Professional Products Division. The newly created Healthcare Division has a management team and field organization dedicated to



Allan L. Schuman, Chairman of the Board and Chief Executive Officer

delivering growth in this specialized market. Professional Products is now focused exclusively on the janitorial market. This new organization will allow us an even greater focus on the actions necessary to achieve growth in both businesses.

A CLOSER LOOK AT OUR ACQUISITIONS AND DIVESTITURES

> In June, we sold our minority equity investment in Comac S.p.A., a Verona, Italy-based manufacturer of floor care

> We expanded our Pest Elimination business in Europe through the acquisition of Nigiko, a Paris-headquartered firm that provides pest services throughout France. Ecolab's second pest services acquisition in Europe – announced in November 2003 and finalized in early 2004 – marks another important step in our strategic efforts to build Pest Elimination into a truly worldwide offering.

As I said in my introduction to this letter, I am very pleased that Doug Baker has been chosen to succeed me as CEO, effective July 1, 2004. A 15-year Ecolab veteran, Doug has served as president and COO since 2002 and proven himself to be a highly capable leader. He clearly possesses the drive and talent to continue Ecolab's extraordinary record of success. Doug was also elected to our board of directors, effective February 2004.

> In July, we welcomed Steve Newlin to our leadership team as Industrial Sector president. Steve was previously president and chief operating officer of the Nalco Co., where he spent 23 years in a variety of management positions. He has responsibility for Ecolab's North American Pest Elimination, Food & Beverage, Healthcare, Water Care Services, Vehicle Care and Textile Care divisions.

> We promoted three of our key leaders: Luciano Iannuzzi was promoted in January 2004 to executive vice president of Ecolab's Europe, Africa and Middle East operations. With this

> Also in February 2004, our board of directors welcomed new members Beth M. Pritchard and Richard U. De Schutter. Beth is president and CEO of Organized Living Inc., which specializes in home and office storage and organization solutions. Richard is the former chairman and chief executive officer of the DuPont Pharmaceutical Co. We enthusiastically welcome Beth and Richard. They, along with Doug Baker, increase the number of directors on our board to 14.

> Ecolab was proud to once again be named to *Business Ethics* magazine's list of the "100 Best Corporate Citizens" in America. This recognition, our fourth in as many years, is a reaffirmation of our company's commitment to corporate integrity and good citizenship. It is also a credit to our associates, whose actions each day give life and meaning to our corporate culture of spirit, pride, determination, passion, commitment and integrity.

> Personally, I was honored to receive the National Restaurant Association Educational Foundation's Thad and Alice Eure Ambassador of Hospitality Award, its highest distinction for "extraordinary achievement, exemplary career leadership and substantial contributions to education in the hospitality, restaurant and foodservice industry." I greatly appreciated the opportunity to represent Ecolab in such an important way.

> > > > when details matter most > > > >

OUTLOOK FOR 2004:

Yes, a focus on the details is at the core of Ecolab's Circle the Customer - Circle the Globe efforts. We've realized tremendous success over the years by paying close attention to those details and responding with premium, highly innovative solutions to our customers' growing range of needs.

Our focus on the details will sharpen further during 2004. We will continue to adhere to our Circle the Customer - Circle the Globe strategy, closely examining all of our customers' operational needs and finding even more innovative, comprehensive ways to help meet them. The results, as always, will be premium product, system and service offerings that go far beyond the ordinary, addressing perennial customer issues such as labor availability, turnover and training, as well as worker safety, environmental concerns, food safety and security, and brand protection, to name just a few.

Our 20,000-plus associates will continue to be recognized as valued partners who each play a key role in our customers' success. Ecolab is united in our dedication to helping all manner of businesses and institutions succeed – and, by doing so, helping improve the quality of life for people everywhere.

This is indeed an ambitious mission we've set for ourselves. We are not afraid of thinking on a grand scale, even as we maintain a sharp focus on the details.

You've put your faith in a company with an unwavering vision and growth opportunities as far as the eye can see – and then some. We are wholeheartedly committed to delivering shareholder value and earning your continued trust. Those are details no company can afford to ignore. Here at Ecolab, we never have and never will.

Remember, with Ecolab the difference is in the details!



Allan L. Schuman
Chairman of the Board and Chief Executive Officer

The SARS crisis of early 2003 reminded everyone here at Ecolab of an important point: **Attention to details not only can make the difference between the life and death of a business, it can also mean life or death for human beings.**

People in China, Canada and the other areas affected by SARS were forced to take extraordinary measures to stop the spread of the deadly virus. Everyday details such as handwashing and surface cleaning suddenly became more critical than ever.

In response, we immediately mobilized our field associates to ensure that a steady supply of hand sanitizers and hard surface disinfectants would reach hospitals, clinics and additional facilities where they were needed. This often meant overcoming tremendous logistical challenges, given the heightened security precautions authorities undertook to contain the outbreak.

We are very proud that Ecolab products were called into service to aid in combating the virus, and that government and medical officials have looked to our associates for their cleaning and sanitation expertise. It feels great knowing Ecolab's work is helping businesses protect their brands. It feels even better knowing that we also have an impact on protecting peoples' lives.

Those are the details that *really* matter.