



Douglas M. Baker, President and CEO (left)
Allan L. Schuman, Chairman of the Board (right)

We **GO** to the ends of the earth

to deliver superior customer results
and shareholder value.

To our shareholders:

As you can see, at Ecolab, the operative word is **GO**.

Our team of more than 21,000 associates is continually on the move, around the clock, across the globe. We go aggressively – anywhere, anytime – to help our business partners. We work relentlessly to solve their problems. We zealously protect their reputations. And, above all, we spare no

effort to contribute to their success.

We don't let anything slow us down. We pride ourselves in our ability to manage and adapt to change. Our successful leadership transition proved, once again, the power of our dedicated team to do just that. Doug Baker, a 15-year veteran of Ecolab, became chief executive officer on July 1, retaining his title of president of Ecolab. Al Schuman, who served as Ecolab's chief executive officer for

nine years and as an Ecolab associate for 47 years, remains chairman of the company's board of directors.

While Ecolab's leadership may have changed, there is no question the character and pillars that support Ecolab's success remain constant. We've never stopped pushing toward our unwavering and unstoppable objective: **growth**. We accomplish this in the same manner we

always have – innovative systems and second-to-none service for our hundreds of thousands of customers around the globe.

This uncompromising drive for results on behalf of our customers and shareholders is nothing new. Ecolab has been aggressively driving growth for more than 80 years. Certainly a lot has changed since we began. We started out as a one-employee operation selling a single cleaning product to a handful of hospitality customers. Today we're a growing \$4+ billion enterprise that provides a myriad of differentiated cleaning, sanitation and service offerings to customers in an array of industries the world over. Our success is based, in large part, on the fact that we never run from a challenge.

Our culture – *spirit, pride, determination, commitment, passion and integrity* – continues to thrive throughout Ecolab's global ranks, keeping us focused squarely on tomorrow and our unstoppable quest for growth.

The strength of our Ecolab culture has never changed – and never will. Nor will our company's unwavering commitment to excellence in everything we do, from developing the latest product, system and service innovations for our customers to delivering consistently strong returns to our many valued shareholders.

Ecolab is well-positioned to go as far as our imaginations can take us – as our most recent performance clearly demonstrates. Here is a rundown of our 2004 accomplishments:

GO Financial performance

We are pleased to report that Ecolab's net sales for 2004 reached a record-breaking

\$4.2 billion and increased 11 percent over 2003.

- Operating income was \$534 million for 2004, an increase of 11 percent from \$483 million in 2003. Operating income represented 12.8 percent of net sales, consistent with last year's 12.8 percent, and was led by differentiated new products and operating efficiencies.
- Diluted net income per share was \$1.19 for 2004, up 12 percent from \$1.06 in 2003. Excluding unusual items, diluted income per share from ongoing operations increased 16 percent from \$1.03 in 2003.
- Our return on beginning shareholders' equity was 24 percent for 2004, the 13th 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 28 percent in 2004 – outperforming the Standard & Poor's 500 by 19 percentage points. In addition, we increased our annual dividend rate for the 13th consecutive year as it rose 9 percent in December 2004 to an annual rate of \$0.35 per common share.
- We achieved record cash flow from operating activities of \$582 million, and our total debt to capitalization ratio declined to 31 percent. These results allowed us to again earn a debt rating within the "A" categories of the major rating agencies during 2004.

GO Product offerings & service capabilities

In 2004, we continued to go to great lengths to deliver innovative new solutions to our customers. We introduced our pioneering enzyme-based no-rinse floor cleaner, *Wash 'n Walk*, which is revolutionizing the

way the industry approaches floor care. We also unveiled our *Grease Express* line, which includes a high-temperature grill cleaner and fast foam degreaser that both significantly speed up the grease removal process in restaurants and foodservice operations.

The *Gatekeeper* and *Gatekeeper XP* traps allow for discreet, pesticide-free rodent protection both indoors and out. Our *CanCare* technology prevents corrosion, spotting and scale buildup on canned products that use water for process heating and cooling. And *Asepti-Solid II* offers exceptional instrument cleaning for healthcare facilities with hard water issues.

You can see more of our latest offerings in the "Review of Operations" section of this report.

The No. 1 sales force in the industry grew even bigger and better in 2004. We added more than 800 new associates to our global field organization, which is now over 12,000 members strong. And their expertise reached a new level as well, with the addition of robust training initiatives including Ecolab University online and cross-functional mentoring programs.

GO Acquisitions & divestitures

We further expanded our wide-ranging food safety offering with the acquisition of Daydots International in February. Daydots, based in Fort Worth, Texas, is a manufacturer and supplier of food safety products, including food rotation labels and food preparation and handling bags. Its sales were approximately \$22 million. Daydots helps customers in more effective and safe management of their food inventory, food handling and other kitchen product needs

through unique food labels and handling bags.

- In April, we sold a \$20 million grease management product line to National Fire Services of Gurnee, Ill. This action allows us to focus our resources where we believe they can generate greater customer and shareholder value.
- In May, we purchased Elimco, a \$4 million pest services provider based in Cape Town, South Africa. This acquisition, along with the earlier pest services acquisitions in the United Kingdom and France, supports Ecolab's efforts to build a worldwide Pest Elimination organization.
- In June, we acquired VIC International's restoration and maintenance business unit located in Knoxville, Tenn. The business, which focuses on professional stone care products designed to protect, repair and restore natural stone floors, had annual sales of approximately \$5 million.
- In July, we acquired Alcide, a Redmond, Wash.-based producer of biocidal and sanitation products that are primarily used in the agribusiness, meat and poultry industries. It had worldwide sales of approximately \$24 million in calendar 2003. Alcide offers Ecolab proven, valuable technology that will provide a great addition to our product offering for our food and beverage customers, and for hard surface and skin sanitation in other markets.
- And, in January 2005, we announced our acquisition of Midland Research Laboratories, a \$16 million Lenexa, Kan.-based provider of water treatment products, process chemicals and services for the commercial, institutional, industrial, food and sugar processing markets. This acquisition reflects Ecolab's ongoing interest in water care products and services for the middle market.

GO Leadership team

As mentioned earlier in this letter, we executed a smooth leadership transition when Doug Baker succeeded Al Schuman as CEO, effective July 1, 2004. Doug had served as president and COO since 2002, and has been with Ecolab since 1989 in a variety of business leadership positions. Doug was also elected to Ecolab's board of directors in February 2004.

Other significant developments in our leadership team include:

- In May, we were pleased to welcome the return of Phil Mason, who is now executive vice president of Asia Pacific and Latin America. Phil previously worked at Ecolab from 1974 to 1997, and was instrumental in building our international business in Asia. We are fortunate to have someone with Phil's experience and business savvy lead these important growth regions.
- After 30 years of service, Maurizio Nisita retired from Ecolab in June. Maurizio most recently served as Ecolab's senior vice president of Global Operations, overseeing the company's 55 manufacturing plants and distribution centers around the globe. His unwavering commitment to exceptional standards secured consistency and uniformity of Ecolab's products on a global basis.
- And in February 2005, William L. Jews retired from Ecolab's board of directors. Bill had served on Ecolab's board since 1999, most recently as a member of the Audit Committee and as the chair of the Finance Committee. We thank Bill for his strong counsel and outstanding service to Ecolab, and wish him well.

GO Recognition & achievement

For the fifth straight year, Ecolab was proud to be named to *Business Ethics* magazine's list of the "100 Best Corporate Citizens" in America. As always, it is an honor to be included on this elite list, which applauds corporate integrity and good citizenship. This year we were proud to be ranked 10th on the list. We have a great responsibility to all of our stakeholders, and we continue to focus on doing what's right for our associates, our customers and our shareholders.

Ecolab was also named as one of the best companies for sales professionals by *Selling Power* magazine. We've always known Ecolab's most important asset is its dedicated sales-and-service team. This recognition is a terrific acknowledgement of our efforts to carefully select, train, compensate and develop our field associates.

In addition, Ecolab was also highlighted as one of the 26 "Best-Managed Companies in America" by *Forbes* magazine. This was a reaffirmation of our commitment to ongoing talent development, performance and results. We were proud to receive recognition for these efforts.

Outlook for 2005:

The message is clear: At Ecolab, we never stop. **We GO.**

In 2005 and beyond, we aim to establish the industry's next level of performance and deliver the best results for our customers and shareholders. We're aggressively pursuing higher growth by focusing on the key areas of our Circle the Customer - Circle the Globe strategy: building our core businesses; investing in new products, programs and

businesses; and backing them up with outstanding service.

That's why we offer answers to just about every type of cleaning, food safety and brand protection issue that anyone can imagine. That's why our products and services not only produce sparkling clean and hygienic results, but at the same time help save in major cost areas like water, energy and labor. And that's why we continue to introduce innovative technologies to make our customers' lives easier – cleaner – and better.

As always, new products and programs will help lead the charge. Ecolab's research and development team is dedicated to raising the standard of clean throughout the globe. They strive to elevate industry benchmarks and stay well ahead of the competition. They tackle this challenge with tenacity and determination – because they relish being the best.

We're driving these advancements on a

global scale, and we plan to further expand our global presence along the way. We took a quantum leap toward this goal in 2004 by establishing our U.S. Healthcare Division, catering to the needs of a growing \$3 billion market. We're also rapidly rolling out our proven Pest Elimination services to new locations across the globe. And we're advancing our core business throughout the world with small chains and independent operators in the restaurant and food and beverage manufacturing markets, which represent tremendous growth opportunities.

Above all, we remain committed to growing our global sales-and-service force. We already have the largest, most dynamic field presence in the industry, and we are persistent in making key investments to enhance our abilities. We continue to equip our team with the right technology, tools and training to tackle any challenge. And they possess the knowledge and know-how to

provide the highest level of professional, personalized service that our customers have come to rely on.

We will press ahead to accomplish these aggressive goals as we move forward, not only in 2005, but also every year thereafter. You won't see us waiting around for opportunities to come to us. We can't wait to go after them.

Ecolab is ready for the future. Just watch us **GO!**



Douglas M. Baker
President and Chief Executive Officer



Allan L. Schuman
Chairman of the Board

Some things should never change – and never will

Doug Baker,
President and Chief Executive Officer

In the months leading up to July 1, when I took the reins as Ecolab's new chief executive officer, the same question cropped up in meetings both inside and outside of Ecolab. *What are you going to change when you become CEO?*

I think some people were afraid of my response – after all, Ecolab has a long legacy of industry leadership, aggressive growth and superior shareholder returns. Believe me, we're certainly not letting up now.

So when people ask me what's going to change, I start by telling them what's not going to change.

We're not going to change the passion. I love Ecolab, and I'm not alone. It's a great place to work. We bring our hearts and heads to work every day, and put them to good use. It's truly an incredible team.

We're not going to change the attitude. My predecessor Al Schuman taught us to "think big, act big and be big." That's our attitude, and it will always remain our attitude. It fuels our aggressiveness and pushes us to go after all the goals we want to – and will – accomplish.

Above all, we're not going to change the caring, which is the heart of the Ecolab culture. We believe in the real meaning behind the words *spirit, pride, determination, commitment, passion* and *integrity*, which guide us in our daily actions. We care about our customers and one another, and we will do what's right to succeed.

But I am committed to change one thing: With the help of all of our associates, we will improve the value of the business and our capabilities – all for the better, each and every day. With more than 21,000 talented and determined associates around the world giving it everything they've got, we can't go wrong.

Ecolab is clear about its mission: Exceed the expectations of our customers, achieve excellent returns for our shareholders, and work together to help everyone in our organization be successful. These things should never change – and never will.

