

1996 Annual Report

Ecolab

Spirit. Pride. Determination. Commitment. Passion. Integrity.

About the Cover



Mark Smith (right)
*District Manager, Food and Beverage
Division, Ecolab, United States*

Thanks to the knowledge and dedication of Mark, and a 350-member sales-and-service force, Ecolab Food and Beverage has earned its reputation as the leader in the markets it serves. Mark manages the division's Twin Cities District.

Kevin Smith (center)
*Assistant Vice President and Area
Manager, Institutional Division, Ecolab,
United States*

Kevin, along with Institutional's more than 3,000-member sales force throughout the world, responds to customers' needs quickly, efficiently, at any hour of the day. This kind of commitment to our customers has helped make service excellence Institutional's hallmark.

Kimara Donkor (left)
*Material Planner, Global Operations,
Ecolab, United States*

As a material planner, Kimara works with Ecolab's divisional and operational associates and plays a key role in assisting the Textile Care Division with its service, inventory, manufacturing and new product initiatives. Textile Care offers innovative programs for commercial and industrial laundries.

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Ecolab is dedicated to being the global leader. With the industry's most advanced products, systems and technology – superior solutions for a cleaner world – Ecolab upholds its leadership position, year after year. But equally important are our associates. The people who create and innovate. Develop and manufacture. And provide worldwide service that's second-to-none.

Whether working for Institutional, Water Care Services or Kay, in Marketing, Manufacturing or Customer Service, Ecolab's employees demonstrate the kind of spirit, pride, determination, commitment, passion and integrity that make our company great. These traits, put into words in 1996 and found in Ecolab's "Culture Statement," have earned us the respect of customers worldwide. And have earned us our reputation as industry leader.

Description of Business

From spotless glassware to crisp, clean linen. From shining floors to pure milk from the dairy. If it's clean and sanitary, chances are, Ecolab helped make it that way. Founded in 1923, Ecolab is the leading global developer and marketer of premium cleaning, sanitizing and maintenance products and services for the hospitality, institutional and industrial markets. Customers include hotels and restaurants; foodservice, healthcare and educational facilities; quickservice (fast-food) units; commercial laundries; light industry; dairy plants and farms; and food and beverage processors around the world.

Backed by nearly 75 years of experience, Ecolab offers premium products, equipment and programs, and provides superior service through the industry's largest sales-and-service force, more than 5,600-members strong. It operates directly in 30 countries in North America, Asia Pacific, Latin America and Africa, employing more than 9,500 associates. In Europe, Ecolab reaches customers through a joint venture, Henkel-Ecolab, headquartered in Düsseldorf, Germany. Henkel-Ecolab does business in 23 countries, including Eastern European markets, and employs nearly 4,000 associates, including a direct sales-and-service force of nearly 2,400. Ecolab serves customers in an additional 100-plus countries through distributors, licensees and export operations.

Ecolab common stock is traded on the New York Stock Exchange and the Pacific Stock Exchange under the symbol ECL. Ecolab news releases and other selected investor information are available by calling 1-800-FACT-ECL (1-800-322-8325) or on the Internet at www.ecolab.com.

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1996 Business Overview

Businesses

Ecolab

Reaching customers in more than 150 countries around the world to provide products, systems and services to meet all their cleaning and sanitation needs is the premise behind Ecolab's Circle the Customer – Circle the Globe strategy. To this end, Ecolab develops and markets complementary offerings through seven business units in the United States: Institutional, Pest Elimination, Kay, Textile Care, Professional Products, Food and Beverage, and Water Care Services. In addition, as a global supplier, Ecolab reaches customers in Canada, Asia Pacific, Latin America, and Africa through direct subsidiaries, joint ventures, export operations, licensees and distributors.

Business Mix



- Institutional 43%
- Pest Elimination 7%
- Kay 5%
- Textile Care 4%
- Professional Products 6%
- Water Care Services 1%
- Food and Beverage 11%
- International 23%

Customers/Markets

Customers:

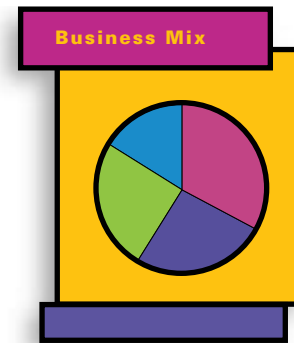
- Restaurants
- Hotels
- Quickservice operations
- Schools
- Laundries
- Healthcare facilities
- Dairy farms and plants
- Food, beverage and brewery processing plants
- Office buildings
- Shopping malls
- Light industry

Markets:

- United States
- Canada
- Asia Pacific
- Latin America
- Africa

Henkel-Ecolab

In Europe, Ecolab completes its Circle the Customer – Circle the Globe strategy through Henkel-Ecolab, a joint venture headquartered in Düsseldorf, Germany. Henkel-Ecolab's business mirrors that of Ecolab's elsewhere, offering the same premium products and services to global chains that require worldwide consistency and individual customers that prize value-added quality.



- Institutional 33%
- Professional Hygiene 26%
- Food (P3) Hygiene (Food and Beverage) 25%
- Textile Hygiene (Textile Care) 16%

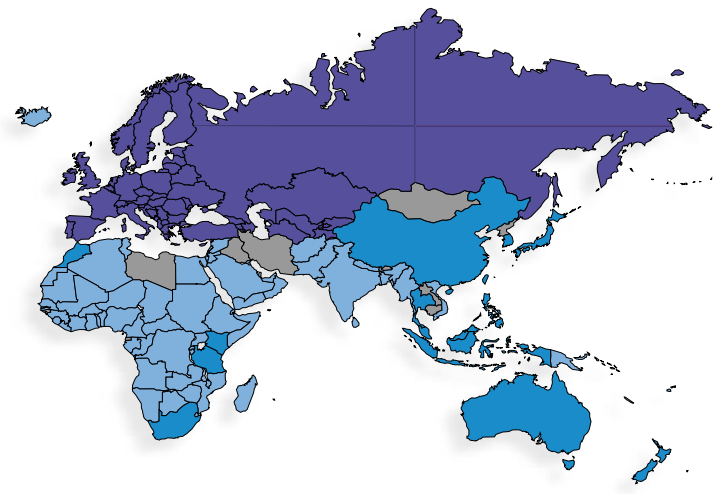
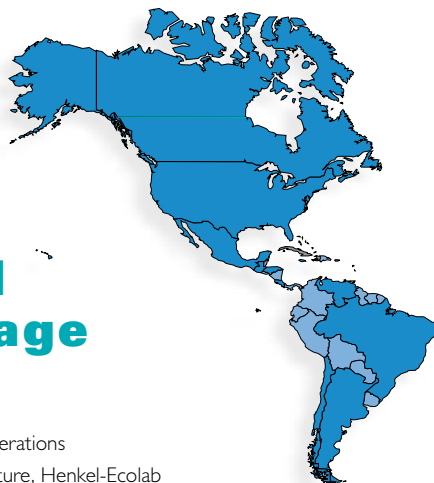
Customers:

- Restaurants
- Hotels
- Laundries
- Healthcare facilities
- Dairy farms and plants
- Food, beverage and brewery processing plants
- Schools
- Office buildings
- Light industry

Market:

- Europe

Global Coverage



- Ecolab Direct Operations
- Ecolab's Joint Venture, Henkel-Ecolab
- Ecolab Export, Distributors or Licensees

Services/Products

Institutional: Detergents and sanitizers for warewashing, on-premise laundry, specialty cleaning products, product dispensing equipment and racks and related kitchen equipment for foodservice, lodging and healthcare industries.

Pest Elimination: Commercial pest elimination and prevention technology and services.

Kay: Sanitation products emphasizing single-use packets, grill cleaners and floorcare coating products, and highly structured training programs for the quickservice market.

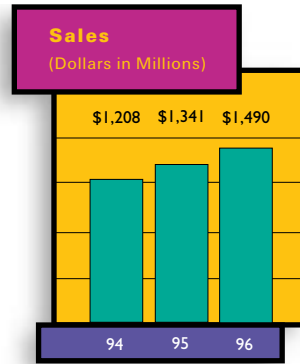
Textile Care: Cleaning and sanitizing products and services for large commercial laundries.

Professional Products: Detergents and sanitizers, floorcare, odor-control and infection-control products, and gym floor finishes for the janitorial and healthcare markets.

Water Care Services: Water treatment programs for boilers, cooling water and waste treatment systems, and pool and spa management programs.

Food and Beverage: Cleaning and sanitizing products, equipment, systems and services for the agribusiness, beverage, brewery, dairy and food industries.

Net Sales



Sales-and-Service Associates

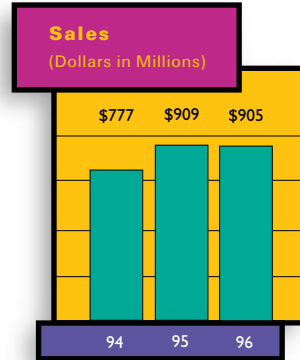
December 31	1994	1995	1996
Institutional	2,235	2,235	2,315
Pest Elimination	910	985	1,035
Kay	85	100	115
Textile Care	135	135	145
Professional Products	60	65	200
Water Care	–	100	100
Food and Beverage	270	285	350
Canada	240	240	265
Asia Pacific	580	635	595
Latin America	330	375	400
Africa	–	125	85
Total	4,845	5,280	5,605

Institutional: Warewashing and related products and services for commercial, hotel, restaurant and catering kitchens.

Professional Hygiene: Detergents, sanitizers, floorcare and odor-control products, and highly specialized disinfectants and other cleaning and sanitizing products for the healthcare industry.

Food (P3) Hygiene: Cleaning and sanitizing products for the agribusiness, beverage, brewery, dairy and food processing industries.

Textile Hygiene: Cleaning and sanitizing products and services for large and on-premise laundry market sectors.

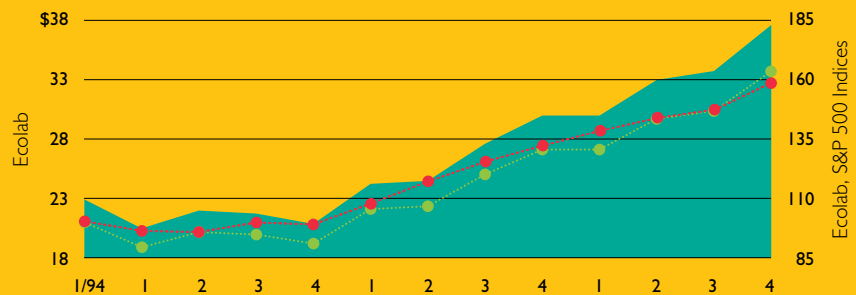


December 31	1994	1995	1996
Total	2,440	2,470	2,370

Ecolab Stock Performance

Quarter	1996		1995	
	High	Low	High	Low
First	\$32.63	\$29.13	\$24.88	\$20.00
Second	\$33.88	\$29.50	\$25.50	\$22.50
Third	\$33.75	\$29.50	\$28.13	\$24.25
Fourth	\$39.50	\$33.50	\$31.75	\$27.25

- Ecolab Stock Price
- Ecolab Stock Price Index, Jan. 1, 1994 = 100
- S&P 500 Index, Jan 1, 1994 = 100



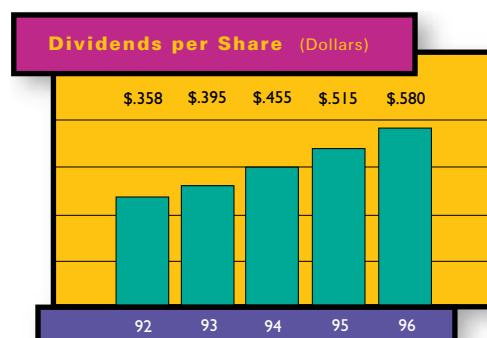
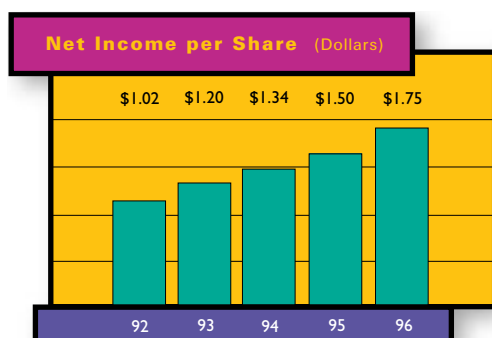
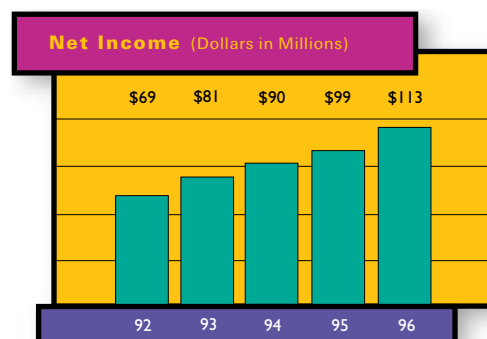
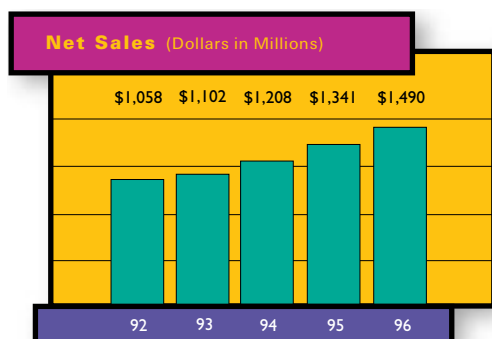
1994

1995

1996

Financial Highlights

December 31 (dollars in thousands, except per share)	1996	1995	1994	Percent Change	
				1996	1995
Net Sales	\$1,490,009	\$1,340,881	\$1,207,614	11%	11%
Net Income	113,185	99,189	90,464	14	10
Percent of Sales	7.6%	7.4%	7.5%		
Net Income per Common Share	1.75	1.50	1.34	17	12
Average Common Shares Outstanding	64,496	66,097	67,550	(2)	(2)
Cash Dividends Declared per Common Share	0.58	0.515	0.455	13	13
Cash Provided by Continuing Operating Activities	254,269	163,463	154,346	56	6
Capital Expenditures	111,518	109,894	88,457	1	24
Shareholders' Equity	519,963	456,658	461,808	14	(1)
Return on Beginning Equity	24.8%	21.5%	21.6%		
Total Debt	176,292	161,049	147,213	9	9
Total Debt to Capitalization	25.3%	26.1%	24.2%		
Total Assets	\$1,208,409	\$1,060,880	\$1,020,356	14%	4%



Net income and net income per share for 1994 and prior years are pro forma results which reflect adjustments to eliminate unusual items associated with the company's December 1994 merger with Kay Chemical Company.

Dear Fellow Shareholders

In 1996, we once again demonstrated what it takes to be the industry's best.

We achieved record growth, increased market shares, and became even more efficient, focused and productive. We aggressively developed new products and systems. We successfully implemented cost-saving programs. And we vigorously pursued acquisitions, integrating key companies that helped

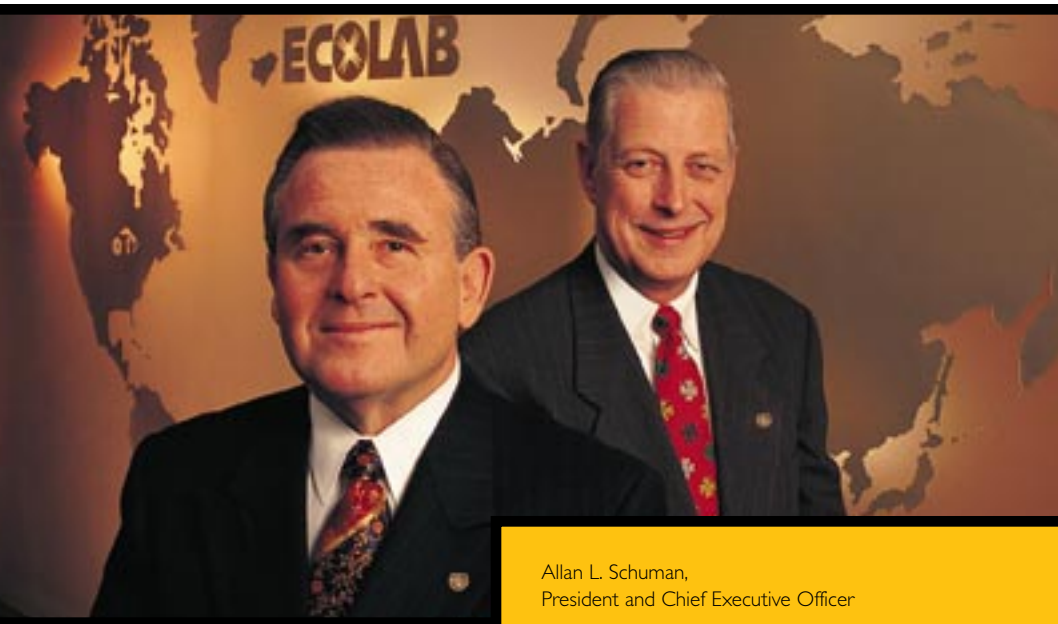
strengthen our businesses. In 1996, for the fifth consecutive year, we achieved record highs in sales, earnings, earnings per share and cash flow from continuing operations. These accomplishments, the result of efforts by our 13,500 associates worldwide, culminated in the value of Ecolab's shares rising 25 percent to close at a record stock price and market capitalization.

Specifically, here's what we accomplished in 1996:

- Sales from wholly-owned operations

increased 11 percent to a record \$1.5 billion, as aggressive sales efforts, new products and acquisitions contributed to the gain. Our global sales coverage, including our European joint venture, Henkel-Ecolab, reached \$2.4 billion.

- Our net income increased to \$113 million, up 14 percent over 1995's net income. Earnings per share grew 17 percent to \$1.75, benefitting from new products and another year of



Allan L. Schuman,
President and Chief Executive Officer

Michael E. Shannon,
Chairman of the Board and Chief Financial and Administrative Officer

aggressive cost management by Ecolab associates, which helped offset higher raw material costs. In addition, the joint venture showed a better profit performance. This was Ecolab's fourth consecutive year of double-digit earnings per share growth.

- Our return on beginning shareholders' equity was 25 percent, exceeding our corporate goal for the fifth consecutive year.

- Cash flow from continuing operations increased 56 percent to \$254 million, reflecting another record profit year, aggressive working capital management and favorable timing of payments.

- Once again, our stock price soared. We began the year at \$30 and ended at \$37.63, an increase of 25 percent – well in excess of the S&P 500's growth of 20 percent and a greater increase than two-thirds of the companies in that index. For the first time in history, Ecolab's stock market capitalization topped \$2 billion and put us among the top 10 percent of publicly held companies.

- In December, Moody's Investors Service upgraded our long-term debt rating to A3 from Baa1. As a result, Ecolab enjoys a rating in the "A" categories from the two most respected agencies – Standard & Poor's and Moody's. This upgrade recognizes the vitality of Ecolab's business, our strong balance sheet, our efforts to improve cash flow, the consistency of our financial performance and the improved performance of Henkel-Ecolab.

- In December, we increased our quarterly cash dividend 14 percent to \$0.16 per share from \$0.14. This resulted in an indicated annualized rate of \$0.64 per share and is in keeping with our policy of paying out between 30 and 40 percent of our earnings as dividends.

In addition to these financial accomplishments, we made significant progress with other key initiatives:

- We had another year of impressive new product activity, with 35 percent of Ecolab's total U.S. sales now coming from products and systems introduced or modified within the last five years. This achievement reflects our ongoing commitment to maintaining our technological leadership position.

- We continued to strengthen our overall field organization – one of our most important assets – with the addition of 325 sales-and-service associates, reinforcing our commitment to service excellence.

- In February, we formed a partnership with Oscar Robertson through our investment in Orchem Corporation, a minority-owned chemical company that serves the food processing and quickservice restaurant industries with specialty chemical products and systems.

- Also in February, we acquired Huntington Laboratories, Inc., of Huntington, Ind., and combined its resources with those of our Janitorial Division, including its Airkem Professional Products business. The newly created division, renamed Professional Products, offers infection-control, skin-care, floor-care, hard-surface sanitizing and odor-control products and systems to the healthcare, education, building service contractor and other markets. This acquisition catapulted Ecolab into the number-two position in the U.S. janitorial market.

- In August, we purchased the Monarch Division of H.B. Fuller Company based in St. Paul, Minn. Monarch is a provider of cleaning and sanitation products and services to the food and dairy processing and farm markets in the United States and Canada. We integrated this business with our Food and Beverage Division, strengthening its already solid position in these key markets.

- To provide customers with better and faster service, we opened, acquired and expanded manufacturing facilities throughout the world. To serve customer needs in the mideastern United States, we opened a plant in Hebron, Ohio, which is our first new domestic plant since 1988. We also purchased a plant in City of Industry, Calif.; opened new manufacturing facilities in Costa Rica and Mexico; and expanded our plants in Texas, Korea and South Africa. In addition, we continued to operate two new plants acquired through the Huntington and Monarch acquisitions, located in Huntington, Ind., and Charlotte, N.C.

■ As a result of our company's strong growth, we announced plans in December to expand our downtown St. Paul headquarters. After carefully evaluating our options, we decided to lease space in the Capital Centre building, which is adjacent to our current St. Paul office. This expansion is expected to add up to 600 new jobs to Ecolab's downtown employment and includes the establishment of a corporate employee training center.

Other highlights for the year included the following:

- In May, Joel Johnson, chairman of the board, president and chief executive officer of Hormel Foods Corporation, was elected to Ecolab's board of directors. We welcome Joel and look forward to his contributions.
- Market recognition of our commitment to service excellence was evident when Ecolab once again earned the Multi-Unit Food Service Operator's "Supplier of the Year" award for the eighth time in 12 years.
- Due to increased demand, we expanded our presence on the World Wide Web. Ecolab's new Web site, found at www.ecolab.com, now includes extensive information about our divisions, as well as employment opportunities and regularly updated shareholder information.
- Each of our divisions and international regions of operation made notable progress as well. These are outlined in the ensuing pages of this report.

Outlook In the face of stiff competition, pricing battles and difficult weather and market conditions, we continued our tradition of providing sales and earnings growth in 1996 – and we are confident we can do so again in 1997.

Over the past five years, we have clearly demonstrated the power of our Circle the Customer – Circle the Globe strategy. We have improved our service and value to customers, expanded our markets, improved our positions within global markets, and achieved record financial results. We will adhere to this successful strategy in 1997, using our strengths to better meet customer needs and enhance our global leadership posi-

tions. Our optimism is underscored by the favorable trends in the hospitality industry, though we will continue to be challenged by competitive activity, limited opportunities for price increases, unfavorable currency trends, and the need for continued discipline in controlling our costs.

As you can see, many of our obstacles remain unchanged. But equally enduring, and far more important, are the passion of our associates and clarity of our mission. Whether developing new technology, facilitating production, or serving global customers, Ecolab's employees relentlessly pursue their goals, demonstrating the kind of feeling and fortitude that make our company unique. Guided by our fundamental Circle the Customer – Circle the Globe strategy, they overcome barriers time and time again to raise industry standards and provide superior value to shareholders, customers and fellow associates alike.

In the cleaning and sanitation industry, innovative products, advanced technology and legendary service have become synonymous with Ecolab. But behind these attributes – the hallmarks of our company – is the power of our people. In 1996, we identified the common traits that drive our thinking, our actions, our values. The traits that define the heart and soul of our company. The traits that will determine how our future will unfold. These traits, outlined in Ecolab's "Culture Statement," are found on the following page.

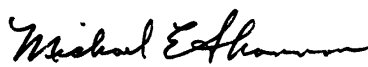
As you can see, we have the people, products and processes in place to strengthen our leadership position – and show world-class performance once again in 1997.

You can count on it.



Allan L. Schuman

President and Chief Executive Officer



Michael E. Shannon

Chairman of the Board and Chief Financial and Administrative Officer

The Ecolab Culture

In this year's annual report, you'll find out what it means to us. And, as a shareholder, what it means for you.

Al Schuman, President and CEO



Spirit. Ecolab associates are the company's heart and soul. Hungry to succeed and passionate to achieve, we embrace the unknown, fearlessly taking risks, confident in our ability to deliver results. We are eager and ambitious. We tenaciously persevere, surmounting obstacles with grit and determination. Above all, we find joy in our work, and in serving the company and our customers.

Pride. Exceptional service, exceptional products...We delight in presenting premium quality in all we offer. No matter how big the project, or how small the request, we strive for excellence in our response, for we relish perfection. We cherish our company, and represent it with honor.

Determination. Ambitious and aggressive, driven and determined, enthusiastic and energetic, we cultivate the opportunity to compete. We thrive on challenges, viewing them as an invitation to success. A true team, we work together to routinely please our customers, surpass our record achievements, and drive our organization to greater success.

Commitment. Like a family, we are united by an unspoken pledge, bound by our convictions. We prize dedication, and are moved to help each other and our customers. We accept nothing less than loyalty in our ranks. We are true to each other and to our cause.

Passion. We wholeheartedly believe in our company; its goals and objectives are our mission, and we enthusiastically embrace them and relentlessly pursue them. More importantly, we truly believe in each other, care, protect and support each other.

Integrity. Professional. Reliable. Trustworthy. Honest. Our corporate integrity is a critical asset and we are committed to upholding it worldwide. We set high standards, and we abide by them as we practice business fairly and behave ethically. We share our expectations with each other and strive to maintain a work place built on mutual values, trust and goodwill.

Institutional



TIME-SAVING APPLICATIONS

SIMPLEX, an innovative solution for food-service and housekeeping areas, takes time and money savings to a whole new level. *SIMPLEX* reduces labor, saves space and allows employees to mix and dilute products on-site – for proper product usage every time.



SUPERIOR PERFORMANCE

The *Stain Blaster* system provides effective removal of blood, grass, grease and other tough-to-clean laundry stains. It also helps eliminate complicated laundry procedures, unsafe conditions and expensive linen replacement costs.

Overview Institutional, the mainstay of Ecolab's business, serves the foodservice, hospitality and healthcare markets and forms the foundation for Ecolab's Circle the Customer strategy. With innovative products and systems for warewashing, on-premise laundry and housekeeping, a 2,315-member sales-and-service force, and exceptional customer service and technical support, Institutional has earned the market leadership position. Its customer base includes restaurants, hotels, hospitals, nursing homes and schools, as well as some of the world's most respected national and global chains. Service is Institutional's hallmark, and it sets the industry standard by providing unparalleled benefits in terms of environmental sanitation to the food-service, hospitality and healthcare markets.

Highlights Institutional experienced another outstanding year in 1996, achieving record sales and earnings. Highlights include:

- Increased market share, growing sales faster than its markets, despite a very competitive environment and severe weather, which hampered business during the first quarter of 1996.
- Delivered added value to customers with 28 new products launched in 1996, including *Stain Blaster*, a unique solution for on-premise laundries. *Stain Blaster* solves difficult laundry problems by removing up to four different types of stubborn, hard-to-remove stains. Institutional also expanded its highly successful *SIMPLEX* product line and on-site dilution system to include new hard-surface cleaning solutions. This helped Ecolab capture a greater share of the foodservice and hospitality markets. In addition, the division broadened its entire offering to include new safety-focused solutions such as the popular Raburn *First Aid & Burn Kit*.
- Continued to capitalize on key performers, including: the innovative FX-3 floor cleaning system, the highly successful *Vanguard* warewashing program,

Solid System III for on-premise laundries, and the *Oasis* product dispensing system. The *Eco-Clean* program, which was introduced in 1995 for distributors, also contributed to Institutional's growth in 1996.

- Introduced the *Ecotemp Performer*, which offers customers superior high-temperature warewashing technology. The entire *Performer* system, which includes specially formulated warewashing products, helped Institutional once again achieve double-digit growth in sales to the dishmachine lease market.
- Enhanced service coverage, productivity and profitability by increasing its sales-and-service force, redeploying and strengthening the specialization of certain sales-and-service positions, and implementing successful cost-control strategies throughout the year.
- Continued to implement Ecolab's Circle the Customer strategy, expanding alliances with Ecolab's other divisions to meet a broader range of customers' cleaning and sanitation needs and achieving significant market share gains.

Outlook Institutional is well-positioned to achieve another year of attractive growth. It will be an aggressive competitor in 1997, expanding its leadership position in all markets. Institutional will continue to retain, grow and gain foodservice, hospitality and healthcare business by building and expanding corporate and independent account relationships, introducing new products and systems to meet an increasing array of customers' needs,



PRECISE DISPENSING

Ecolab's new *Max System* for pot-and-pan areas offers powerful product performance and precise dispensing control of super-concentrated liquid detergents and sanitizers. Just a push of the button maximizes cleaning and sanitation, while minimizing food-safety worries.



Spirit



With a genuine eagerness to meet customers' needs and grow the company's business, Institutional Territory Manager **Jennifer Kuehlman** represents the spirit of Ecolab's 8,000 sales-and-service associates worldwide. Service is the bottom line, and Jennifer delivers it whenever, wherever it's needed. Knowing her role goes beyond products and equipment, she demonstrates Ecolab's value-added approach by offering personalized attention, training and support, and superior results, time after time.

capitalizing on recent product and sales force investments, and maintaining its focus on service excellence. Institutional will also build on 1996 successes with its distributor and street business programs. With these proven strategies, products, programs, systems and people, the division expects to outpace the market once again in 1997.

Pest Elimination

Overview Pest Elimination is a key player in Ecolab's strategy to circle its customers with complementary services that meet all of their cleaning and sanitation needs. Working with Ecolab's sister divisions, Pest Elimination's more than 1,000 associates serve customers in the United States. Ecolab's Pest Elimination differentiates itself from nearly 14,000 competitors by providing the most complete and effective solutions for pest problems. This includes a guarantee to *eliminate* unwanted pests – not simply control them. In doing so, Pest Elimination meets the high standards of its major market segments, including hotels, restaurants, healthcare facilities, educational institutions, business complexes, and food and beverage processing industries.



Pride

Leading by example, Area Manager

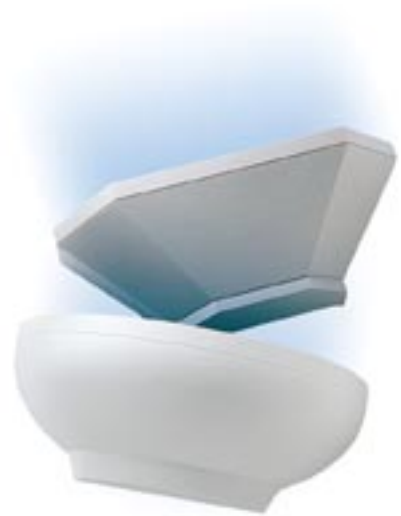
Rick Green goes the extra mile to assist his associates, satisfy his customers, and represent his company with confidence and pride. Like other Pest Elimination employees, he truly believes in his products, his services and, equally important, himself. This kind of confidence, an Ecolab hallmark, continues to drive Pest Elimination's high level of customer satisfaction and sales growth – as well as its solid reputation as the commercial market leader.



Highlights Pest Elimination reached record sales and earnings again in 1996. Highlights include:

- With nearly \$100 million in sales, Pest Elimination achieved its eighth consecutive year of double-digit sales growth and grew two to three times faster than its markets. Operating income outpaced sales growth, reflecting improved productivity through new technology.
- Expanded its "Flying Insect Defense" program to include the decorative *Stealth Decora* model for use in public areas of restaurants, hotels and healthcare facilities. The Decora model features a variety of colors and designs to complement customers' interiors and offer discreet fly control.
- Strengthened customer satisfaction by implementing the "Rapid Response Program" to provide the industry's quickest response to customer service needs.
- Delivered added value to customers by introducing the *Checkpoint* bait station as a core component of its complete "Rodent Protection Program." This innovative, tamper-resistant bait station improves sanitation and serviceability.
- Leveraged ongoing alliances with Institutional and Food and Beverage to further expand business across their market segments, and worked closely with Kay to expand its penetration of the quickservice market.

Outlook Pest Elimination expects to again achieve double-digit sales and earnings growth in 1997 by continuing to leverage Ecolab's Circle the Customer – Circle the Globe strategy. It will focus on improved penetration of the hospitality market and increased penetration of the quickservice, food and beverage, and healthcare markets. Pest Elimination will continue to offer customized programs that meet specific customers' needs. It will also maintain its strong focus on service excellence.



**WORKS
BEAUTIFULLY**

New from Ecolab, the *Stealth Decora* allows for discreet fly control in public, front-of-the-house areas. Perfect for busy restaurants, hotel lobbies and lounges, its small size and attractive design offer a stylish and unobtrusive solution.

**PROPRIETARY
DESIGNS**

Pest Elimination's *Checkpoint* bait station features a proprietary design that offers maximum protection against rodent invasion. It's the heart of the division's complete "Rodent Protection Program," which also includes regular service by an Ecolab specialist.



Kay

Overview As the leading supplier of cleaning and sanitizing products for the quickservice (fast-food) market, Kay serves the fastest growing foodservice segment in the world. This market accounts for 50 percent of the total restaurant industry, and represents \$1 billion in potential annual sales, worldwide, for Ecolab. Many small outlets and frequent employee turnover are just some of the challenges fast-food restaurants, grocery store delis and other quickservice outlets face. Kay meets their unique needs with highly effective employee training programs, experienced technical support, and products designed for safety and ease of use.

Highlights Kay enjoyed another successful year in 1996, its second full year of operation with Ecolab. Specific accomplishments include:

- Continued to achieve double-digit sales growth by working with existing and new global accounts as they expand their businesses domestically and worldwide, including new foreign-based chain business.
- Introduced new programs for the grocery and convenience store markets, which are increasingly offering prepared foods. The *Quality Through Sanitation* program for the grocery segment consists of products, dispensing systems, specialized field service, training and technical support.



Determination

A drive to bring our expertise to the customers we serve. A confidence in our ability to produce the results they demand. The “people” skills to continually accelerate our growth. These, the qualities of Account Executive **Cindy LaCasse**, and others in Ecolab’s Kay business, demonstrate the kind of power and ambition that has fueled Kay’s success in expanding its markets, retaining key accounts and upholding its quickservice leadership position.



■ Introduced new products to meet customers' specific needs, including a sanitizer/whitener for grocery meat-cutting blocks and improved pot-and-pan detergents and degreasers.

■ Continued to leverage Ecolab's economies of scale, including raw material purchasing synergies and more efficient product distribution through Ecolab's worldwide distribution network.

Outlook Kay expects to achieve another year of strong sales and income growth in 1997. It is well-positioned to capitalize on the growing quickservice market and support its customers as they expand overseas. Kay will continue to grow its core business domestically and internationally, while increasing sales to the U.S. grocery and convenience store segments and other new niches. It will also continue to implement Ecolab's Circle the Customer – Circle the Globe strategy by working with Ecolab's other divisions to better serve the entire spectrum of its customers' needs.



**MARKET
SPECIFIC**

Kay's highly effective line for the quickservice market offers the benefits of cost savings, safety and ease of use. Products are designed for use indoors and out, and clean everything from baseboards and fryers to walkways and parking stalls.

Textile Care

Overview Through its Textile Care Division, Ecolab serves customers that process anywhere from one million pounds of linen a year to two million pounds a week. These customers include freestanding laundry plants used by hotels, restaurants and healthcare institutions, as well as industrial, textile rental and shirt laundries. Textile Care, the industry leader, offers custom-designed laundry programs that enhance performance and cost effectiveness by incorporating premium products and dispensing equipment, superior service, training and technical support. Its offerings complement those of Ecolab's Institutional Division, which serves smaller, on-premise operations.

Highlights Textile Care enjoyed a very successful year in 1996, strengthening its position in key markets and achieving record sales and income. Highlights for the year include:

■ Leveraged successful programs introduced in 1995, including the *Turbo* product and dispensing system, which substantially exceeded forecasted sales



**SOLID BENEFITS
AND SAVINGS**

Safe, smart and compact, *Solid Source* offers hospitality and healthcare laundries solid benefits, solid savings and solid results. Patented dispensing equipment and a complete line of product concentrates reduce waste, maximize space and enhance employee safety.

for 1996. This reflects increasing acceptance of *Turbo* as the industry's premier laundry program.

- Achieved record sales in the commercial and hospitality markets through new product introductions and enhanced relationships with key national accounts.
- Began rolling out the *Solid Source* system, bringing the cost- and labor-saving benefits of Ecolab's solids technology to mid-sized laundries and establishing a unique offering to differentiate Textile Care from its competitors.

Outlook Textile Care expects to build on its 1996 successes in 1997. Fueling this growth will be continued expansion of the *Turbo* line for the commercial market, national expansion of *Solid Source* for the hospitality and healthcare industries, and the introduction of additional new products and systems. While consolidation in the healthcare and commercial laundry industries will continue to increase competition and pricing pressures, Textile Care is well-positioned to meet these challenges with technologically advanced offerings that enable customers to enhance overall efficiency and reduce costs.



SOPHISTICATED TECHNOLOGY

Textile Care's *Turbo* product line is specially formulated to maximize the speed, power and efficiency of a laundry operation. Ultra-concentrated formulas reduce volume usage, while enhancing efficiency, performance and results.

Professional Products

Overview In 1996, Ecolab's Janitorial Division acquired Huntington Laboratories, Inc., a leading supplier of sanitizing and infection-control products for the U.S. healthcare market, and a supplier of gym floor finishes. This merger catapulted Ecolab into the number-two position in the North American janitorial market, and the division was renamed Professional Products to better reflect its expanding operations. The Professional Products Division offers customers instrument sterilants and infection-control products, as well as skin-care, floorcare, hard-surface sanitation, and odor-control products and systems. In addition, the division's JaniSource sales organization markets brand name products.

Highlights With the Huntington acquisition and growth in its core businesses, Professional Products nearly doubled sales and income in 1996.

Highlights include:

- Completed the integration of Huntington into Ecolab's operations, strengthening Ecolab's overall expertise in infection control for the healthcare market and in gym floor care, and substantially expanding its product lines in these areas.
- Through the Huntington acquisition, more than tripled its sales force. This will allow the division to work more closely with corporate accounts, in a manner consistent with customer requirements and Ecolab's high-service culture. It will also allow the division to accelerate sales growth by playing a larger role in the company's Circle the Customer strategy.
- Achieved growth in its core business, focusing on corporate accounts and the building service contractor market, and capitalizing on its successful *Quik Fill* and floorcare product lines.
- Expanded its JaniSource business for the commercial mass distribution market, adding *Lava*, *Sparkle*, *Lift-Off* and other brand names to its product line and increasing its network of manufacturers' sales representatives to 100.

Outlook Professional Products will continue to refine its organization in 1997 by partnering with its value-added distributor network, focusing on corporate accounts and the healthcare and building service contractor markets, and expanding distribution of the gym floor line. An aggressive new product schedule and additions to the JaniSource branded product line will help fuel this growth.

Water Care Services

Overview Water Care Services expands Ecolab's Circle the Customer – Circle the Globe strategy by providing a critical service for institutional and industrial customers – water treatment programs. Water Care Services offers a full range of such programs, primarily used in boiler and cooling water and wastewater treatment, and competes in a market worth more



INFECTION CONTROL EXPERTS

Huntington handwash products care for the hands that care for others. Found everywhere from offices and schools to hospitals and universities, these products battle infection, promote frequent hand washing, and help customers control usage costs.



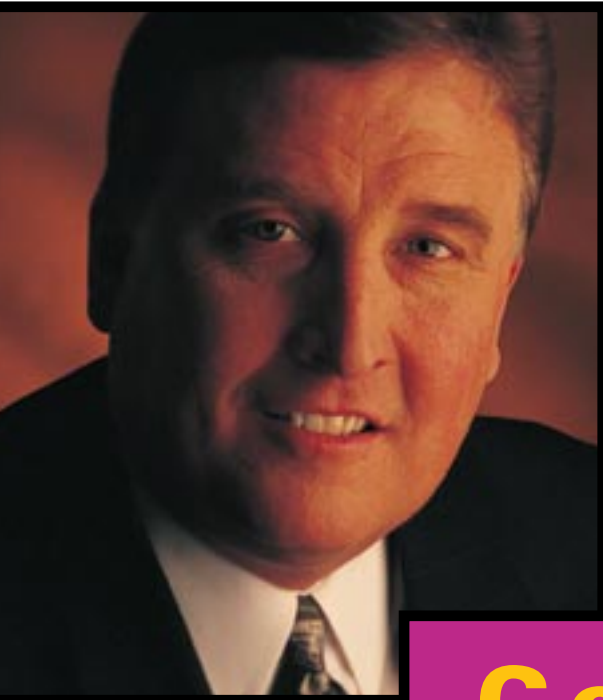
EASE, PERFORMANCE AND SAFETY

Ecolab's *Crystal/Mate* technology sets a revolutionary standard for superior performance, safety and ease of use. The lightweight crystal product formula eliminates the need for drum disposal and reduces shipping costs, while hands-off dispensing optimizes safety and efficiency.

than \$2.5 billion in North America alone. Leveraging Ecolab's strong existing account base, the division targets the hospitality, healthcare, commercial laundry, food and beverage, and light industry markets. Water Care Services also provides institutional pool and spa treatment programs in select areas of the country.

Highlights During its second full year as an Ecolab division, Water Care Services focused on sales growth and the integration of acquisitions made since late 1994. Highlights include:

- Consolidated and strengthened its product lines, systems and overall organization to offer customers the consistent, seamless service and superior results they have come to expect from Ecolab.
- Extended Ecolab's "value engineering" approach to Water Care Services customers. This approach encompasses pretreatment to waste treatment and helps customers reduce overall operating costs, while producing superior results and reducing environmental risks.
- Began marketing *CrystalMate*, a revolutionary product and dispensing system for the hospitality, healthcare, food and beverage and other light industrial markets. *CrystalMate* prevents scaling and corrosion in cooling towers and boilers, while offering unsurpassed safety, handling, storage and use-cost advantages.
- Continued to support and build relationships with other Ecolab divisions to fulfill its part of the Circle the Customer – Circle the Globe strategy,



Commitment

Food and Beverage

processors the world over know their businesses require the highest standards of cleanliness and sanitation. Ecolab associates like **Joe Tierney**, assistant vice president of Corporate Accounts, ensure their needs are met. Persistent and determined, Joe has consistently led the division in securing key corporate account business and furthering Ecolab's number-one commitment: to offer customers the highest quality and most effective programs in the world.



securing business with key Textile Care and Institutional corporate accounts and working with Food and Beverage to achieve strong growth in this market segment.

Outlook Water Care Services expects to accelerate sales in 1997 by continuing to leverage alliances with Ecolab's sister divisions. New offerings, including a program that combats the growth of *Legionella* bacteria in cooling towers, targeted wastewater programs for the food industry and commercial laundries, and innovative systems for pool and spa maintenance, will play a key role in fueling the division's growth.



SETTING STANDARDS

The appearance of returnable PET bottles is critical in protecting brand image and customer confidence. That's why leading bottlers around the world count on Ecolab for superior bottlewashing programs and consistent results.

Food and Beverage

Overview Few things are as fundamentally important to our lives as the production of safe food. That's why Ecolab's Food and Beverage Division offers cleaning and sanitizing products and systems to dairies, farmers, food plants, beverage processors and breweries, facilitating the safe preparation of meat, poultry, milk, soft drinks and other products for human consumption. Food and Beverage offers customers premium detergents, cleaners, sanitizers and conveyor lubricants, and also manufactures and supplies electronically controlled clean-in-place systems, which provide the utmost precision in a market where there is simply no room for error.

Highlights Ecolab's Food and Beverage Division continued to grow its market share and enhance profitability in 1996. Highlights include:

- Achieved solid sales and earnings growth with new account sales and new product activity, offsetting a sluggish dairy economy and reduced equipment spending by customers.
- Increased market share in all of its core markets, including the dairy industry, which faced nearly a three percent decline in milk supplies in 1996.
- Acquired and integrated the Monarch Division of H.B. Fuller Company, a provider of cleaning and sanitizing products and services to the food and dairy processing and farm markets in the United States and Canada.



PREVENTATIVE CARE

Ailments such as heel warts and foot rot can throw off a cow's metabolism, affecting her appetite and diminishing milk production. Food and Beverage's Oxy-Step foot bath additive offers a cost-effective solution for keeping hooves disease-free.

- Established a joint venture with a large dairy co-op customer in the southeastern United States, entering the distribution supply business for dairy farms in that region and opening up a substantial new distribution channel for the division.
- Made major technological advances in conveyor lubrication with products such as *Pet*Star* for the soft drink industry, which has gained wide acceptance by the major bottlers.

Outlook Food and Beverage expects to improve sales and income growth in 1997, focusing primarily on the food, brewery and soft drink markets. It will also maintain its strong position in the dairy market, bolstered by the acquired expertise of the Monarch Division's sales force, and it will expand business in the vegetable and fruit processing market with the introduction of new technology developed in 1996. In addition, the division will continue to focus on its "total systems" approach, which enables it to help customers reduce overall operating costs and maintain a competitive advantage.



**ENHANCING
SAFETY**

Ecolab's Food and Beverage Division offers a wide variety of products and services for the poultry industry. *ChilCARE 100*, introduced in 1996, provides an effective alternative to concentrated acids for aluminum chiller cleaning and brightening.

International

Ecolab reaches beyond its U.S. borders to provide superior service and innovative products through wholly-owned subsidiaries in 29 countries. Coverage ranges from Canada to Latin America to Asia and, most recently, Africa. In addition to its wholly-owned subsidiaries, Ecolab reaches customers in more than 100 countries through distributors, licensees and export operations.

Throughout the world, Ecolab's approach is customer-driven. Offerings are essentially the same as in the United States, but products and services are tailored where required to meet unique customer needs. Most importantly, the underlying premise remains unchanged: to provide quality products, backed by superior service. To a global customer, such consistency is essential in maintaining its most important asset – its reputation.

AFRICA

Overview Ecolab reentered South Africa in May 1995, after nearly a ten-year absence. As the market leader, Ecolab serves South Africa and neighboring countries through an 85-member direct sales force. It offers Institutional, Textile Care, Food and Beverage, Water Care Services and Professional Products programs.

Highlights 1996 was a challenging year for Ecolab as it focused on start-up and integration efforts. Significant events include:

- Rationalized and restructured manufacturing, distribution and administration, achieving progress in transforming the acquired businesses into an aggressive sales-and-service organization offering Ecolab's differentiated, value-added products.
- Successfully launched key products and systems, including Institutional's *Vanguard* warewashing system, *Solid System III* for on-premise laundries, and *Oasis* dispensing system for housekeeping markets; Professional Products' *Quik Fill* delivery system for the janitorial market; and Food and Beverage's *Solid Choice* conveyor lubricants.

Outlook With a strengthened organization and improved product line, Ecolab is positioned for accelerated sales growth and improved profitability in South Africa. Its strong base of global accounts, many also found in Europe and North America, will help further Ecolab's Circle the Globe strategy. Ecolab's expansion into Morocco, Kenya and Tanzania in February 1997 will create additional growth opportunities in Africa.

ASIA PACIFIC

Overview Asia Pacific is Ecolab's largest wholly-owned international operating area. Its subsidiaries are located in Australia, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan and Thailand. Ecolab also operates through a joint venture in the People's Republic of China. Institutional and Food and Beverage form the backbone of Ecolab's Asia Pacific business, while Textile Care, Pest Elimination and Kay operate in select markets.



INDUSTRY FIRSTS

Introduced in 1996, the patented *Solid Crystal* rinse additive offers improved sheeting action to reduce spotting, streaking and filming. It's part of the complete *Vanguard* warewashing system, the first all-solids program of its kind in Japan.



GLOBAL EXPANSION

Ecolab's *Vanguard* system sets an unrivaled standard for superior performance, safety and ease of use. *Super Solid NP*, a nonphosphate warewashing detergent, was introduced in Japan in 1996 as part of the country's complete *Vanguard* launch.

Highlights Ecolab's Asia Pacific operations achieved good sales growth and strong profit increases in 1996. Highlights include:

- Achieved strong profit growth from Ecolab's three largest countries – Japan, Australia and New Zealand – and continued rapid sales growth in newer countries, led by Indonesia, South Korea and Thailand.
- Completed the "Victory Launch," a key initiative that rounded out Ecolab's successful *Vanguard* offering in Japan. The launch included introduction of *Solid Crystal*, the country's first patented solid rinse additive, a new non-phosphate warewashing detergent, and the *V-2000* product dispenser.
- Further developed and expanded its Food and Beverage product lines in Asia, introducing three new offerings that were very well-received: *Paradigm 2000* for the dairy plant market; *Thin Film Cleaning*, a long-lasting foam cleaner for the food processing industry; and *P3-Tanclean*, a single-phase cleaner for breweries.
- Introduced the "Trilogy" concept in Australia, which exceeded sales expectations. This concept incorporates three of Ecolab's core Institutional offerings, *Vanguard*, *Solid System III* and *Oasis*, providing a comprehensive cleaning and sanitizing program for hospitality and nursing home accounts.
- Restructured the business in Japan, upgrading management, streamlining operations, and introducing aggressive new sales, marketing and training programs, which resulted in strong increases in local currency sales and profit despite the continuing soft economy.



Integrity

True to who we are and what we do, Institutional District Manager **Brent Simons**, Canada, exemplifies the kind of integrity that has allowed Ecolab to win respect and admiration around the world. A partner they can trust, Brent offers customers products and systems that enhance their efficiency; service that exceeds their expectations. It's what has earned Ecolab the trust of more than 350,000 customers worldwide. And what has earned Ecolab its reputation as industry leader.



Outlook With new product introductions, management development and organizational restructuring, and improved profitability in 1996, Asia Pacific is well-positioned for growth in 1997. Ecolab expects to achieve strong sales and income growth, benefitting from impressive programs launched in 1996 and the expansion of additional programs for the Institutional and Food and Beverage markets in 1997. It will also continue to focus on training and development at all levels of the organization.

CANADA

Overview Ecolab's Canadian business is managed as part of its North American operations. Ecolab Canada offers Institutional, Food and Beverage, Textile Care, Professional Products, Kay and Pest Elimination products and services. The U.S. and Canadian sales forces work closely together to launch new products and serve North American and global customers.

Highlights Canada's results reflect those of Ecolab's U.S. businesses. Highlights include:

- Achieved attractive sales growth and increased operating income.
- Enjoyed solid growth in the Institutional Division with recently introduced products and services, including: *SIMPLEX*, an on-site dilution system; *FX-3*, which delivers breakthrough floor-cleaning technology; and *Stain Blaster*, a four-product system that successfully removes the most difficult laundry stains.
- Achieved impressive growth with the Ecotemp dishmachine program, introducing the Ecotemp Sales Service Group in Toronto, which led to a significant increase in sales in that market in 1996.
- Introduced Textile Care's *Turbo* system in Canada, which met strong customer acceptance and positioned Ecolab for solid growth in 1997.
- Continued to expand its brewery program, making inroads with major national brewers. In addition, Food and Beverage's *Paradigm* system, launched in 1996, was very well-received by the Canadian dairy industry.

Outlook Ecolab expects to achieve another year of attractive sales and income growth in Canada in 1997. It will focus on its distributor, Ecotemp and corporate account programs, and will continue to introduce new



COMMITMENT TO SERVICE

As part of Ecolab Canada's Ecotemp program, customers are visited on a regular basis by an Ecolab service specialist, who not only ensures the dishmachines are working efficiently, but that customers' total cleaning and sanitation needs are being met.



MANAGEMENT EXPERTS

With the most advanced bottlewashing management systems on the market, Ecolab helps its international customers maintain optimum chemical concentrations and temperatures, quickly react to operational problems and easily retrieve performance documentation.

products and systems concurrently with the United States. In addition, Canadian counterparts will continue to participate in North America training programs to enhance service excellence.

LATIN AMERICA

Overview With a strong regional economy, a strengthened sales organization, and accelerated new product introductions, Latin America has offered Ecolab one of its strongest growth markets over the past several years.

Ecolab's 12 Latin America subsidiaries are located in Argentina, the Bahamas, Barbados, Brazil, Chile, Costa Rica, Guatemala, Honduras, Jamaica, Mexico, Puerto Rico and Venezuela.

Highlights Latin America achieved significant sales and earnings growth in 1996. Highlights include:

- Gained share in all of its markets. Institutional led the way, benefitting from Ecolab's differentiated sales-and-service approach and key products such as *Oasis*, *Vanguard* and its specialty kitchen line.
- Continued to achieve success with Food and Beverage, focusing on brewery and beverage accounts and gaining new business in the food processing and dairy industries.
- Strengthened its customer focus through additions to its Institutional and Food and Beverage sales forces and with advanced training programs.



Passion

Large in number and deep in passion, Ecolab associates provide the vision, drive and talent to propel our worldwide growth. Take, for instance, Food and Beverage Divisional Sales Manager **Arturo Valencia**, Mexico, who has helped the company develop innovative bottlewashing systems and solutions, and trains associates in their use. By solidly embracing and enthusiastically promoting Ecolab's goals, culture and mission, Arturo helps keep customers near and far on the cutting edge of clean.



■ Gained excellent market acceptance of the expanded Professional Products business, benefitting from the introduction of *Quik Fill* and continued success with hand-care and odor-counteractant systems.

Outlook Increasingly stable political and economic environments, continued market growth, and rising demands for improved sanitation, offer excellent growth opportunities for Ecolab in 1997. By leveraging global account relationships, introducing new products, and maintaining an aggressive sales focus, Ecolab will build on its strong foundation and investments made in Latin America over the past several years.



TOTAL SOLUTIONS

The *Eco-Star* laundry program rounds out the Institutional offering in Latin America, giving territory managers an important tool they need to surround customers with warewashing, housekeeping and laundry solutions.

Henkel-Ecolab

Overview In 1991, Ecolab formed a joint venture with Henkel KGaA of Düsseldorf, Germany, to better serve the European cleaning and sanitizing market. Today, Henkel-Ecolab does business in 23 countries and currencies and in 19 official languages. While the joint venture initially operated in 17 Western European countries, it has since expanded to serve customers in the Czech Republic, Hungary, Poland, Russia, Slovakia and Slovenia.

Like Ecolab, the joint venture's mission is to develop, manufacture and market premium products, systems and services for professional cleaning, sanitizing and maintenance. It serves a similar customer base, offering programs for the institutional, textile care, food and beverage, and janitorial markets. Henkel-Ecolab employs nearly 4,000 associates and offers exceptional service through a sales force of 2,400.

Highlights In 1996, Henkel-Ecolab entered the second stage of a two-year program designed to improve results and integrate the Henkel-Ecolab cultures throughout all operations. While sluggish economies continued to hamper financial results, the joint venture accomplished the following:

■ Continued to institute new leadership, bringing on board a new chief financial officer; new general manager for Germany, and new Professional Hygiene vice president.

SAVING TIME AND LABOR

The innovative *Quik Fill* product and dispensing system offers customers a time- and labor-saving solution that differentiates Henkel-Ecolab in the marketplace. Concentrated products include *Clin Plus*, a highly effective all-purpose cleaner:





**INNOVATIVE
SYSTEMS**

Henkel-Ecolab's *Manipress* handsoap system features a bottle and dispenser all in one. The system's unique design offers a simple, inexpensive and hygienic alternative to bar soaps and conventional handsoap dispensers.

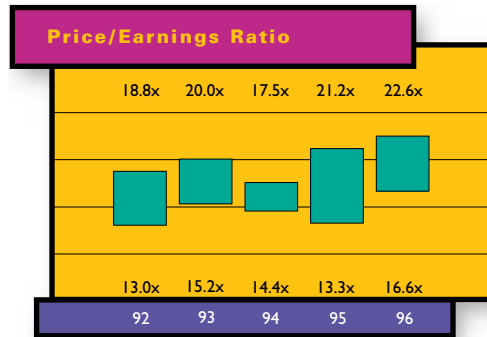
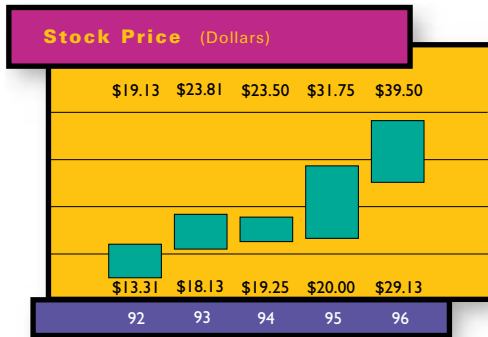


**COMPLETE
PROGRAMS**

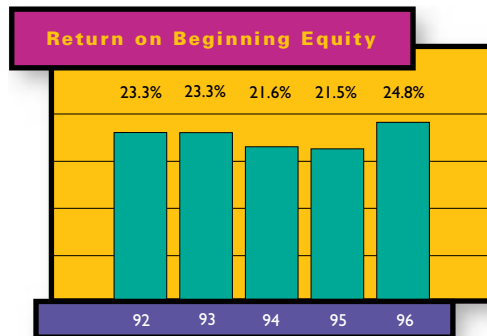
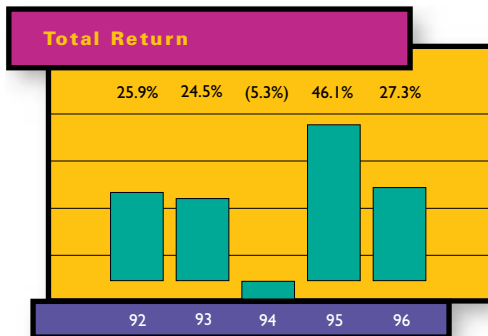
The *Ecoguard* program, a "total" solution for kitchen cleaning and sanitation, includes a complete line of products, advanced dispensing equipment, regular service by a Henkel-Ecolab specialist, and comprehensive training and support programs.

- Grew sales 4 percent to more than DM 1.3 billion. However, when converted to U.S. dollars, sales declined slightly to \$905 million, reflecting weaker European currencies.
- Sharply improved Ecolab's equity in the earnings of the joint venture, which increased to \$13 million from \$8 million in 1995. This strong profit increase was due to product mix improvements, restructuring and other cost reductions.
- Continued to focus on building a pan-European identity, an effort bolstered by assistance from Ecolab personnel who were assigned to help the joint venture implement Ecolab's proven products, systems, technology and processes. These efforts will help Henkel-Ecolab build a more consistent, seamless identity within Europe and with global customers.
- Successfully completed the merger of the former Henkel and Ecolab Institutional sales forces, an initiative that helped improve efficiency and secure business with key corporate accounts.
- Expanded the Professional Hygiene Division's popular *Quik Fill* line with the introduction of *Maxi Quik Fill* and *Quik Fill Plus*.
- Continued to introduce differentiated products for the Textile and Food Hygiene industries, expanding its concentrated paste laundry line and its *P3* line for the food and beverage industry. Henkel-Ecolab's Food Hygiene business also began serving the cosmetic and pharmaceutical markets.
- Continued to work closely with Ecolab, further developing partnerships with foodservice and hospitality corporate chain accounts based in both Europe and the United States, consistent with Ecolab's Circle the Customer – Circle the Globe strategy.

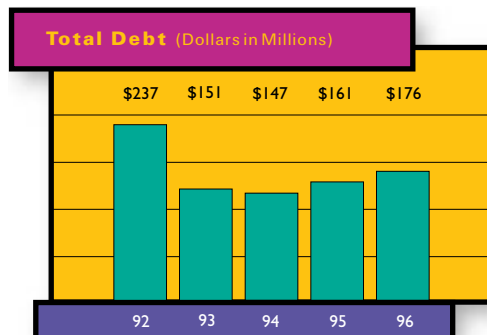
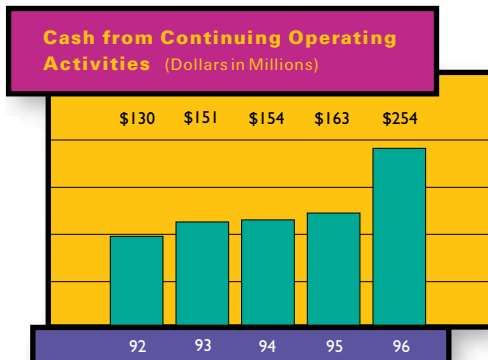
Outlook Through restructuring and cost-saving efforts in 1996, Henkel-Ecolab has strengthened its foundation for future growth. While major European economies are expected to show a slow recovery in 1997, Henkel-Ecolab plans to grow its markets and bolster gross margins through product differentiation and product mix improvements. Henkel-Ecolab will also focus on sales-related investments and personnel development. Through these actions and investments, Henkel-Ecolab will be well-positioned to capitalize on its superior products and technology and strong market positions to improve its growth in 1997.



Based on pro forma net income per common share. 1993 excludes extraordinary loss and change in accounting principle.



Share appreciation plus dividends.



Financial Discussion

The following discussion and analysis provides information which management believes is useful in understanding the company's operating results, cash flows and financial condition. The discussion should be read in conjunction with the consolidated financial statements and related notes.

1996 Overview 1996 marked the fifth consecutive year that Ecolab achieved record financial results. As a result of its strong performance, Ecolab's stock price rose 25 percent during 1996, following an increase of over 40 percent in 1995. The company's more significant accomplishments included:

- For the second time in the last three years, the company exceeded all three of its long-term financial objectives of 15 percent growth in net income per common share, 20 percent return on beginning shareholders' equity and an investment grade balance sheet.
- For the second year in a row, all of the company's established businesses achieved record sales and income results.
- Consolidated net sales increased 11 percent reaching a record of nearly \$1.5 billion.
- Net income reached a record \$113 million, or \$1.75 per share. Net income per common share increased 17 percent, exceeding the company's long-term objective of 15 percent.
- Consolidated cash flow from operating activities increased more than 50 percent and debt was maintained at a very low level. Ecolab maintained its long-term financial objective of an investment grade balance sheet and the company's debt was rated within the "A" categories by the major rating agencies.
- Return on beginning shareholders' equity reached an all time high of 24.8 percent. This was the fifth consecutive year that the company exceeded its long-term financial objective to achieve a 20 percent return on beginning shareholders' equity.
- The company's equity in earnings of the Henkel-Ecolab joint venture reached a record \$13 million for 1996. Also, one of Ecolab's financial executives became the new chief financial officer of Henkel-Ecolab in December 1996.
- The company increased its annual dividend rate for the fifth consecutive year. The annual dividend rate was increased 14 percent to an annual rate of \$0.64 per common share. The company has paid dividends on its common stock for 60 consecutive years.
- During 1996, the company made two significant business acquisitions. In February, the company acquired Huntington Laboratories, Inc., a supplier of sanitizing and infection-control

products for the U.S. healthcare market and a supplier of gym floor finishes. Huntington had annual sales of approximately \$50 million and has become a part of the company's Professional Products Division.

In August, the company acquired the Monarch Division of H.B. Fuller Company of Saint Paul, Minnesota. Monarch is a provider of cleaning and sanitizing products and services to the food processing and farm markets in the United States and Canada. Monarch had annual sales of approximately \$30 million and has become a part of the company's Food and Beverage Division.

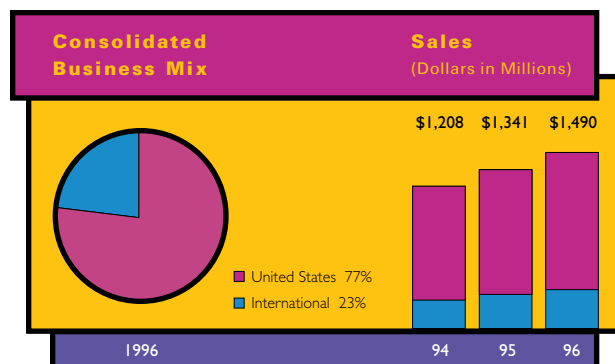
These acquisitions have been accounted for as purchases and, accordingly, the results of their operations have been included in the company's financial statements from the dates of acquisition.

Operating Results

Consolidated

(thousands, except per share)	1996	1995	1994
Net sales	\$1,490,009	\$1,340,881	\$1,207,614
Operating income	\$ 185,317	\$ 162,686	\$ 136,964
Net income			
As reported	\$ 113,185	\$ 99,189	\$ 84,562
Merger costs and expenses			6,900
Kay net deferred tax liability			1,300
Kay Subchapter S status			(2,298)
Pro forma	\$ 113,185	\$ 99,189	\$ 90,464
Net income per common share			
As reported	\$ 1.75	\$ 1.50	\$ 1.25
Pro forma	\$ 1.75	\$ 1.50	\$ 1.34

Consolidated net sales were nearly \$1.5 billion in 1996 and increased 11 percent over net sales of \$1.3 billion in 1995. Both the company's United States and International operations contributed to this sales improvement. Businesses acquired during 1996 and during late 1995 accounted for approximately



one-half of the growth in sales for 1996. New product introductions also continued to contribute significantly to sales growth, with additions to the sales-and-service force, competitive gains and generally good business conditions in the hospitality and lodging industries also adding to the sales improvement.

Consolidated operating income reached \$185 million in 1996, an increase of 14 percent over operating income of \$163 million in 1995. This improvement included good growth in the company's core U.S. Institutional operations and double-digit growth in all of the company's other U.S. businesses and in all major regions of International operations. The consolidated operating income margin was 12.4 percent in 1996, an improvement over the operating income margin of 12.1 percent in 1995. The increase in the operating income margin reflected an improvement in selling, general and administrative expenses as a percentage of net sales, partially offset by a decrease in the gross profit margin. The gross profit margin was 54.7 percent in 1996, a decrease compared to the gross profit margin of 55.0 percent in 1995. The decrease in gross profit margin reflected changes in the composition of sales between divisions and geographic areas, limited selling price increases due to continuing market pressures and increased raw material costs. Selling, general and administrative costs were 42.3 percent of net sales in 1996 compared to 42.9 percent of net sales in 1995. This improvement in selling, general and administrative costs was primarily due to improved sales productivity levels and the company's continuing cost control efforts. The company's emphasis on cost controls has resulted in significant cost savings over the last few years. Therefore, the company expects that it will be more difficult to achieve significant improvement in the comparison of these expenses as a percentage of net sales in the future.

Net income for 1996 was \$113 million, an increase of 14 percent over net income of \$99 million in 1995. The increase in net income reflected strong operating income performance and increased equity in earnings of the Henkel-Ecolab joint venture, partially offset by increases in net interest expense and income taxes. Net income per common share was \$1.75 for 1996 and increased 17 percent over 1995's net income per common share of \$1.50. The comparison of net income per common share benefitted from a smaller number of average shares outstanding in 1996, principally due to the purchase of approximately 3.5 million shares of the company's common stock in mid-1995 under the terms of a "Dutch auction" self-tender offer.

1995 compared with 1994

Consolidated net sales were \$1.3 billion in 1995, an 11 percent increase over net sales of \$1.2 billion in 1994. Both the company's United States and International operations contributed to this increase. New product introductions and a larger sales-and-service force made significant contributions to the sales improvement.

Consolidated operating income reached \$163 million in 1995 compared to operating income of \$137 million in 1994. Consolidated operating income for 1994 was negatively affected by \$8 million of one-time merger costs and expenses related to the company's December 1994 merger with Kay Chemical Company, of Greensboro, North Carolina. Consolidated operating income increased 12 percent over pro forma operating income for 1994, which excludes the negative effects of the merger costs and expenses. With the exception of the start-up Water Care Services and South African operations, all of the company's United States businesses and all regions of International operations contributed to the improvement in consolidated operating income. The operating income margin was 12.1 percent in 1995, compared to the pro forma operating income margin of 12.0 percent in 1994. The modest increase in the operating income margin reflected an improvement in selling, general and administrative expenses as a percentage of net sales, partially offset by a decrease in the gross profit margin.

Net income for 1995 totaled \$99 million, or \$1.50 per share, compared to reported net income of \$85 million, or \$1.25 per share for 1994. The table on page 24 also presents pro forma net income for 1994 on a basis consistent with the way it has been reported subsequent to the company's merger with Kay. The pro forma adjustments are discussed in detail in Note 5 of the notes to consolidated financial statements. Net income for 1995 increased 10 percent over 1994 pro forma net income of \$90 million. The improvement in net income reflected a strong operating income performance and a reduction in net interest expense, which was partially offset by lower equity in earnings of the Henkel-Ecolab joint venture. On a per share basis, 1995 net income per common share of \$1.50 increased 12 percent over pro forma net income per common share of \$1.34 in 1994. The comparison of net income per common share benefitted from a smaller number of average shares outstanding in 1995 due to shares purchased under the mid-1995 self-tender offer.

Financial Discussion

United States

(thousands)	1996	1995	1994
Net sales	\$1,148,778	\$1,030,126	\$942,070
Operating income	\$ 164,886	\$ 147,330	\$134,510
Percent of sales	14.4%	14.3%	14.3%

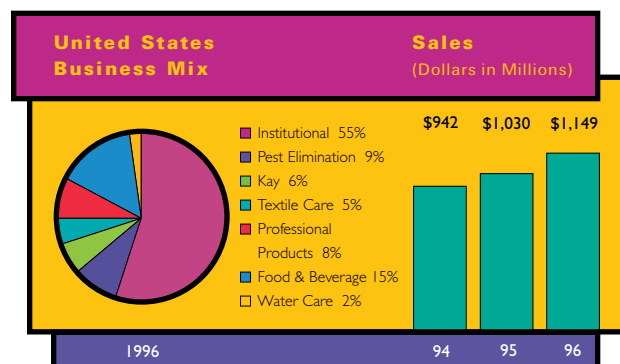
Sales of the company's United States operations exceeded \$1.1 billion in 1996, an increase of 12 percent over United States sales of \$1.0 billion in 1995. U.S. sales growth reflected business acquisitions and the benefits of significant new product introductions, as well as new customers, retention of key customers, investments in the sales-and-service force and continued good business trends in the hospitality and lodging industries. However, selling price increases were limited due to tight pricing conditions in several of the markets in which the company does business. Business acquisitions accounted for approximately one-half of the increase in United States sales. Sales of the U.S. Institutional Division increased 4 percent for 1996. Institutional sales growth reflected competitive gains and continued strong growth in its Ecotemp program and the specialty products group. Pest Elimination sales increased 12 percent over the prior year reflecting new business and a continued high retention of key customers. Kay's United States operations reported sales growth of 11 percent for 1996 due to new customer business and the growth of the large quick-service chains, which are the core of Kay's business. The Textile Care Division reported sales growth of 9 percent for 1996 with continued success in sales of new products and double-digit growth in sales to the commercial laundry market. Sales of the company's Professional Products Division (formerly the Janitorial Division) nearly doubled due to the February 1996 acquisition of Huntington Laboratories. Excluding sales of the Huntington operations, Professional Product's sales for 1996 increased 3 percent over 1995 principally due to sales growth of its Airkem products. Financial results of the Food and

Beverage Division increased 13 percent for 1996 and included the operations of Monarch since its acquisition from H.B. Fuller in August 1996. Excluding Monarch sales, Food and Beverage sales growth was 5 percent for 1996, and reflected new customer gains and good growth in sales to the beverage and food processing markets. Sales of the company's recently formed Water Care Services Division more than doubled during 1996 due to the annualization of sales from business acquisitions and sales gained by successfully leveraging its alliances with Ecolab's other divisions.

Operating income for the company's United States businesses totaled \$165 million for 1996 and increased 12 percent over operating income of \$147 million in 1995. The growth in operating income included good growth in the company's core U.S. Institutional business and double-digit increases in operating income of all of the company's other U.S. divisions. The U.S. operating income margin was 14.4 percent, up slightly compared to the operating income margin of 14.3 percent in 1995. The improvement in the operating income margin reflected higher sales levels, sales productivity gains and the benefits of companywide cost control programs. The company's United States business continued to invest in its sales-and-service force with the addition of more than 350 new U.S. sales-and-service personnel, including Huntington and Monarch associates, during 1996. Operating income of the Huntington and Monarch businesses acquired in 1996 was not significant.

1995 compared with 1994

United States sales for 1995 were slightly more than \$1.0 billion, an increase of 9 percent over net sales of \$942 million in 1994. All divisions contributed to this sales improvement. The growth in United States sales reflected the benefits of significant new product introductions. Sales of the U.S. Institutional Division increased 6 percent over 1994. Institutional sales growth included increased sales in all major product lines, with particularly strong growth in its Ecotemp program and the specialty products group. The Pest Elimination Division reported 12 percent sales growth for 1995 and continued to successfully leverage its alliances with the Institutional and Food and Beverage Divisions. Sales growth for Kay's United States operations was 13 percent for 1995 and included good growth in sales to new customers. The Textile Care Division reported a sales increase of 7 percent for 1995, which included double-digit growth in commercial laundry and hospitality market sales. Sales of the Professional Products Division increased 5 percent over the prior year. Professional Products sales growth was due to



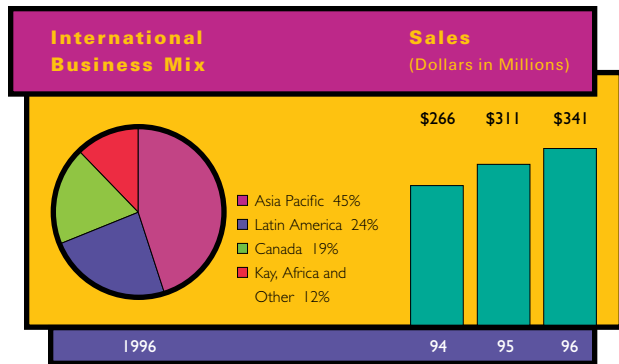
increased sales of its Airkem products, with sales of its Signature Label program flat versus the strong sales reported in 1994. The Food and Beverage Division reported sales growth of 12 percent, including double-digit growth in sales to the beverage, brewery, dairy plant and food processing markets. The company's recently acquired Water Care Services operations contributed \$11 million to United States sales during 1995.

Operating income for the company's United States operations totaled \$147 million in 1995, an increase of 10 percent over operating income of \$135 million in 1994. The operating income margin was 14.3 percent for 1995, unchanged from the prior year. Operating income growth included continued good growth in the U.S. Institutional Division and double-digit growth in all of the other United States businesses, with the exception of the start-up Water Care Services operations. Operating income for 1995 reflected strong sales and the benefits of companywide cost control programs, which were partially offset by the negative effects of higher raw material costs and competitive pricing pressures.

International

(thousands)	1996	1995	1994
Net sales	\$341,231	\$310,755	\$265,544
Operating income	\$ 23,871	\$ 19,580	\$ 14,838
Percent of sales	7.0%	6.3%	5.6%

The company's International business consists of Canadian, Asia Pacific, Latin American and South African operations and the international operations of Kay. Net sales of the company's wholly-owned International operations reached \$341 million in 1996, a 10 percent increase over sales of \$311 million in 1995. International's sales growth reflected the benefits of business acquisitions and sales of new products. Business acquisitions accounted for approximately 40 percent of International's sales growth over 1995. Changes in currency translation had a negative impact on sales, particularly in the Asia Pacific region. Excluding the effects of currency translation, International recorded sales growth of 14 percent for 1996. Asia Pacific, International's largest operation, reported sales growth of 4 percent for 1996. However, when measured in local currencies, the Asia Pacific region had sales growth of 9 percent, with double-digit growth in Japan and New Zealand and modest growth in Australia. Asia Pacific sales results included good performances in sales to the Institutional and Food and Beverage markets. Reported sales of the Latin American region



increased 13 percent over the prior year. Excluding the effects of currency translation, Latin America recorded sales growth of 16 percent for 1996, which included a continuation of significant double-digit growth in Brazil and good sales growth in Mexico and Puerto Rico. Sales in Canada increased 9 percent over sales in 1995 and reflected the benefits of the Huntington and Monarch acquisitions and good growth in sales to Institutional markets. Sales in South Africa more than doubled over the prior year, reflecting the annualization of sales from businesses acquired in late 1995. Sales of Kay's international operations increased 16 percent for 1996, as it continued to expand service to locations where its large corporate customers do business.

The company's International operations reported operating income of \$24 million in 1996, an increase of 22 percent over operating income of \$20 million in 1995. Excluding the effects of currency translation, International operating income growth was 29 percent for 1996. The reported operating income margin improved to 7.0 percent compared with the operating income margin of 6.3 percent in the prior year. Operating income results included double-digit growth and improved operating income margins in each of the major regions of Asia Pacific, Latin America and Canada, with a continuation of particularly strong growth in Brazil.

Operating income margins of the company's International operations are substantially less than the operating income margins realized for the company's United States operations. The lower International margins are due to the difference in scale of International operations, where operating locations are smaller in size, and to the additional costs of operating in numerous and diverse foreign jurisdictions. Proportionately larger investments in sales and administrative personnel are also necessary in order to facilitate growth of International operations.

Financial Discussion

1995 compared with 1994

International revenues for 1995 of \$311 million increased 17 percent over revenues of \$266 million in 1994. The effects of currency translation did not have a significant impact on overall International sales growth. Asia Pacific reported sales growth of 14 percent for 1995, which included double-digit growth in the East Asia region and New Zealand, modest growth in Japan and flat results in Australia. Sales in the Latin American region increased 22 percent for 1995 with good growth in all markets. This increase included the continuing improvement of performance in Brazil due to a more stable economic environment and the benefit of management changes the company made in the region during 1993 and 1994. The company's Canadian operations reported sales growth of 5 percent for 1995. Canada's sales growth included double-digit gains in sales to the Food and Beverage and the Professional Products markets and a modest increase in sales to the Institutional and Textile Care markets. International sales in 1995 also included approximately \$6 million of sales from two businesses in South Africa which were acquired during 1995. Sales of Kay's International operations increased 18 percent for 1995.

Operating income for International operations totaled \$20 million in 1995, a 32 percent increase over 1994's operating income of \$15 million. The operating income margin improved to 6.3 percent in 1995 from 5.6 percent the prior year. Operating income improved very significantly in Latin America and Kay, and grew at nearly double-digit rates in Asia Pacific and Canada. International's operating income for 1995 included favorable benefits from currency translation in the Asia Pacific region; however, it was negatively affected by a \$1 million pre-tax charge in the first quarter related to the devaluation of the Mexican peso. Operating income in 1994 also included an unusual charge of \$1 million which was incurred in the second quarter of 1994 due to the government's economic program and monetary plan in Brazil.

Henkel-Ecolab Joint Venture

The company operates institutional and industrial cleaning and sanitizing businesses in Europe through its 50 percent economic interest in the Henkel-Ecolab joint venture. The company includes the operations of the Henkel-Ecolab joint venture in its financial statements using the equity method of accounting. The company's equity in earnings of the joint venture, including royalty income and after deduction of intangible amortization, was \$13 million in 1996, a 69 percent

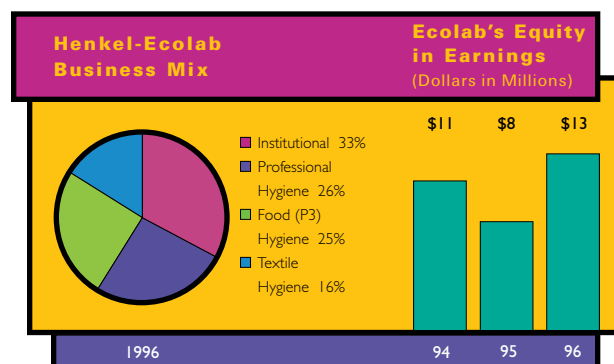
increase over weak results of \$8 million in 1995. The improvement reflected the benefits from a number of cost control programs which were put into effect in 1996. Operating results at the joint venture also reflected lower interest expense and lower overall income tax rates. Joint venture sales, although not consolidated in Ecolab's financial statements, increased 4 percent for 1996 when measured in Deutsche marks. When measured in U.S. dollars, joint venture sales were negatively affected by the strengthening U.S. dollar, and totaled \$905 million, just below the \$909 million of sales recorded for 1995. Sales benefitted from new product introductions, but continued to reflect challenging conditions in Europe's food service and hospitality markets, particularly in the major markets in Germany, France and Italy.

1995 compared with 1994

The company's equity in earnings of the Henkel-Ecolab joint venture was \$8 million, a substantial decrease from the equity in earnings of \$11 million in 1994. These disappointing results reflected higher raw material costs, higher overall tax rates and investments made by new management in personnel, organizational development and financial and operating systems. Financial results were also unfavorably affected by weak conditions in the hospitality industry in the joint venture's key market of Germany. Joint venture revenues increased 3 percent for 1995 when measured in Deutsche marks. When translated into U.S. dollars, joint venture sales benefitted from a weaker U.S. dollar and increased 17 percent to \$909 million from revenues of \$777 million in 1994.

Corporate

Corporate operating expense was \$3 million in 1996, \$4 million in 1995 and \$12 million in 1994. Corporate operating expense includes overhead costs directly related to the joint venture. In addition, expense in 1994 included \$8 million of merger costs and expenses that were incurred as a result of the merger with Kay.



Interest and Income Taxes

Net interest expense for 1996 was \$14 million and increased 25 percent over net interest expense of \$12 in 1995. This increase was due to higher debt levels during 1996, particularly during the first half of the year, reflecting cash used during 1995 for the stock purchase self-tender offer and for business acquisitions during late 1995 and during 1996.

Net interest expense for 1995 decreased 11 percent from net interest expense of \$13 million in 1994. The decrease in net interest expense was due to increased interest income earned on higher average levels of cash and cash equivalents held during 1995 and to the effect of lower interest rates on the company's short-term borrowings.

The company's annual effective income tax rate for 1996 was 41.4 percent, compared to 1995's effective income tax rate of 39.5 percent. This increase in the effective income tax rate was primarily due to a higher overall effective rate on earnings of International operations and to the effects of business acquisitions. International's effective income tax rate varies from year-to-year with the pre-tax income mix of the various countries in which the company operates and savings related to the availability of one-time tax strategies.

The annual effective income tax rate of 39.5 percent in 1995 decreased from 40.7 percent in 1994. The decrease in the effective income tax rate in 1995 was principally due to the effects of the Kay merger. The effective income tax rate was higher in 1994 due to the nondeductibility of a major portion of the one-time merger costs and expenses and to income tax expense incurred to record a net deferred tax liability to reflect Kay's future net taxable temporary differences upon its merger with Ecolab. The decrease in the 1995 effective income tax rate also reflected a lower overall effective rate on earnings of International operations. These benefits were partially offset by the loss of Kay's Subchapter S income tax status for 1995 and the elimination of income tax benefits from the discontinuation of most of the company's manufacturing operations in Puerto Rico.

The effective income tax rate for all periods prior to 1995 reflects Kay's favorable income tax status as a Subchapter S corporation for income tax purposes prior to the December 1994 merger with Ecolab. Effective with the merger, Kay has been included in Ecolab's U.S. federal income tax return and, therefore, income tax expense no longer reflects the Subchapter S related tax benefit. The pro forma effects of this change in income tax status are included in the discussion of consolidated operating results above, and in Note 5 of the notes to consolidated financial statements.

As a result of tax losses on the disposition of a discontinued business in 1992, U.S. federal income tax payments have been reduced by approximately \$58 million, including \$3 million in 1995 and \$15 million in 1994. However, pending final acceptance of the company's treatment of the losses, no income tax benefit has been recognized for financial reporting purposes. Additional reductions in U.S. federal income tax payments are not anticipated.

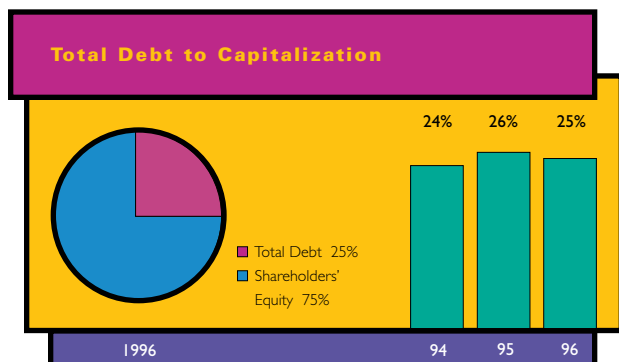
Financial Position, Cash Flows and Liquidity

Financial Position

The company maintained its long-term financial objective of an investment grade balance sheet throughout 1996. The company's debt was rated within the "A" categories by the major rating agencies during 1996. Significant changes to the company's balance sheet included the following:

- The company's balance sheet at December 31, 1996, reflected the acquisitions of Huntington Laboratories and the Monarch operations of H.B. Fuller. The increase in other noncurrent assets from year-end 1995 was principally due to these acquisitions.
- During 1996, total debt increased to \$176 million from \$161 million at year-end 1995 and \$147 million at year-end 1994. In January 1996, the company issued \$75 million of 7.19 percent, 10-year term senior notes to a group of insurance companies. Proceeds from the debt were used to reduce short-term borrowings and for general corporate purposes, including the Huntington and Monarch acquisitions.

At December 31, 1996, the ratio of total debt to capitalization was 25 percent, compared with 26 percent at year-end 1995 and 24 percent at year-end 1994. In addition to the level of debt, the total debt to capitalization ratio at year-end 1995 reflected a decrease in shareholders' equity due to the purchase of common stock under the self-tender offer.



Financial Discussion

During 1996, the company entered into arrangements to enhance its future financial flexibility in funding general business needs. In September 1996, the company amended and restated its Multicurrency Credit Agreement, increasing the credit available from \$150 million to \$225 million and extending the term three years to September 2001. Also, in October 1996, the company filed a shelf registration with the Securities and Exchange Commission for the issuance of up to \$200 million of debt securities. The company has no immediate plans to issue debt under the registration.

- Working capital was \$108 million at December 31, 1996, compared with \$48 million at year-end 1995 and \$148 million at year-end 1994. The increase in working capital during 1996 included an increase in cash and cash equivalents and a decrease in short-term debt. The levels of cash and cash equivalents and short-term debt at year-end 1995 were affected by the company's stock purchase self-tender offer in mid-1995. Working capital levels at year-end 1994 included unusually high levels of cash and cash equivalents.

- Changes in the company's investment in the Henkel-Ecolab joint venture are principally due to currency rate changes.

Cash Flows

Cash provided by continuing operating activities was \$254 million for 1996 and increased significantly from cash provided by continuing operating activities of \$163 million in 1995 and \$154 million in 1994. Strong earnings, additional operating cash flows from businesses acquired and favorable timing of payments were significant factors in this cash flow improvement. Cash provided by continuing operating activities for 1994 also included a one-time benefit from the receipt of an \$18 million income tax refund related to prior years.

Cash provided by discontinued operations in 1995 and 1994 reflects a reduction in income tax payments as a result of the loss on the disposition of a discontinued business.

Cash flows used for capital expenditures were \$112 million in 1996, \$110 million in 1995 and \$88 million in 1994. Worldwide additions of merchandising equipment, primarily cleaning and sanitizing product dispensers, accounted for approximately 70 percent of each year's capital expenditures. The company has expanded its manufacturing facilities throughout the world in order to meet sales requirements more efficiently. During 1996, new manufacturing facilities were opened in Hebron, Ohio, and in Costa Rica and Mexico. The company also purchased a new manufacturing facility in California, expanded its facilities in Texas,

Korea and South Africa and added plants in Indiana and North Carolina through the Huntington and Monarch acquisitions.

Cash used for financing activities reflected the issuance of \$75 million of 7.19 percent senior notes. Proceeds from the debt and strong operating cash flows were used to reduce short-term debt and fund the scheduled repayment related to the company's 9.68 percent senior notes and repayment of indebtedness assumed with the Huntington acquisition.

In 1996, the company increased its annual dividend rate for the fifth consecutive year. The company has paid dividends on its common stock for 60 consecutive years. Cash dividends declared per share of common stock, by quarter, for each of the last three years were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1996	\$0.14	\$0.14	\$0.14	\$0.16	\$0.58
1995	0.125	0.125	0.125	0.14	0.515
1994	0.11	0.11	0.11	0.125	0.455

Liquidity

The company maintains a \$225 million committed line of credit for general corporate financing needs. The credit facility includes a competitive bid feature to minimize the cost of the company's short-term borrowings. The company also has an established commercial paper program, supported by the committed line of credit and a \$200 million shelf registration as alternative sources of liquidity. The company believes its existing cash balances, cash generated by operating activities, including cash flows from the joint venture, and available credit are adequate to fund all of its 1997 requirements for growth, possible acquisitions, new program investments, scheduled debt repayments and dividend payments.

Consolidated Statement of Income

Year ended December 31 (thousands, except per share)	1996	1995	1994
Net Sales	\$1,490,009	\$1,340,881	\$1,207,614
Cost of Sales	674,953	603,167	533,143
Selling, General and Administrative Expenses	629,739	575,028	529,507
Merger Costs and Expenses			8,000
Operating Income	185,317	162,686	136,964
Interest Expense, Net	14,372	11,505	12,909
Income Before Income Taxes and Equity in Earnings of Joint Venture	170,945	151,181	124,055
Provision for Income Taxes	70,771	59,694	50,444
Equity in Earnings of Henkel-Ecolab Joint Venture	13,011	7,702	10,951
Net Income	\$ 113,185	\$ 99,189	\$ 84,562
Net Income Per Share			
Net Income Per Common Share	\$ 1.75	\$ 1.50	\$ 1.25
Fully Diluted	\$ 1.69	\$ 1.46	\$ 1.23
Average Common Shares Outstanding	64,496	66,097	67,550

See notes to consolidated financial statements.

Consolidated Balance Sheet

December 31 (thousands, except per share)	1996	1995	1994
Assets			
Cash and cash equivalents	\$ 69,275	\$ 24,718	\$ 98,255
Accounts receivable, net	205,026	198,432	168,807
Inventories	122,248	106,117	100,015
Deferred income taxes	29,344	21,617	22,349
Other current assets	9,614	7,188	11,753
Current Assets	435,507	358,072	401,179
Property, Plant and Equipment, Net	332,314	292,937	246,191
Investment in Henkel-Ecolab Joint Venture	285,237	302,298	284,570
Other Assets	155,351	107,573	88,416
Total Assets	\$1,208,409	\$1,060,880	\$1,020,356
Liabilities and Shareholders' Equity			
Short-term debt	\$ 27,609	\$ 71,647	\$ 41,820
Accounts payable	103,803	81,931	76,905
Compensation and benefits	71,533	59,766	56,445
Income taxes	26,977	18,248	13,113
Other current liabilities	97,849	78,946	65,382
Current Liabilities	327,771	310,538	253,665
Long-Term Debt	148,683	89,402	105,393
Postretirement Health Care and Pension Benefits	73,577	70,666	70,882
Other Liabilities	138,415	133,616	128,608
Shareholders' Equity (common stock, par value \$1.00 per share; shares outstanding: 1996 - 64,800; 1995 - 64,701; 1994 - 67,671)	519,963	456,658	461,808
Total Liabilities and Shareholders' Equity	\$1,208,409	\$1,060,880	\$1,020,356

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31 (thousands)	1996	1995	1994
Operating Activities			
Net income	\$ 113,185	\$ 99,189	\$ 84,562
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	75,185	64,651	56,867
Amortization	14,338	11,628	10,002
Deferred income taxes	(6,878)	(759)	2,352
Equity in earnings of joint venture	(13,011)	(7,702)	(10,951)
Joint venture royalties and dividends	15,769	5,610	5,678
Other, net	1,023	801	415
Changes in operating assets and liabilities:			
Accounts receivable	2,809	(26,843)	(18,952)
Inventories	(6,852)	(4,136)	(14,285)
Other assets	(5,255)	(11,371)	(7,222)
Accounts payable	16,397	4,561	1,587
Other liabilities	47,559	27,834	44,293
Cash provided by continuing operations	254,269	163,463	154,346
Cash provided by discontinued operations		3,000	15,000
Cash provided by operating activities	254,269	166,463	169,346
Investing Activities			
Capital expenditures	(111,518)	(109,894)	(88,457)
Property disposals	3,284	1,806	4,836
Sale of investments in securities		4,007	5,022
Businesses acquired	(54,911)	(26,437)	(4,686)
Other, net	(1,449)	6,991	5,145
Cash used for investing activities	(164,594)	(123,527)	(78,140)
Financing Activities			
Notes payable	(42,045)	29,355	8,512
Long-term debt borrowings	75,000	2,141	
Long-term debt repayments	(35,690)	(20,060)	(14,621)
Reacquired shares	(22,790)	(90,391)	(7,889)
Dividends on common stock	(36,096)	(33,114)	(27,851)
Other, net	17,088	(4,561)	1,013
Cash used for financing activities	(44,533)	(116,630)	(40,836)
Effect of exchange rate changes on cash	(585)	157	(757)
Increase (Decrease) in Cash and Cash Equivalents	44,557	(73,537)	49,613
Cash and Cash Equivalents, beginning of year	24,718	98,255	48,642
Cash and Cash Equivalents, end of year	\$ 69,275	\$ 24,718	\$ 98,255

Bracketed amounts indicate a use of cash.

See notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

(thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Deferred Compensation	Cumulative Translation	Treasury Stock	Total
Balance December 31, 1993	\$69,362	\$160,033	\$203,054	\$(2,289)	\$(11,317)	\$ (27,036)	\$ 391,807
Net income			84,562				84,562
Cash dividends on common stock			(29,363)				(29,363)
Kay shareholder distributions			(2,288)				(2,288)
Stock options	297	4,209					4,506
Stock awards		616	1,497	(3,307)		2,190	996
Reacquired shares						(7,889)	(7,889)
Amortization				1,404			1,404
Translation					18,073		18,073
Balance December 31, 1994	69,659	164,858	257,462	(4,192)	6,756	(32,735)	461,808
Net income			99,189				99,189
Cash dividends on common stock			(33,715)				(33,715)
Stock options	419	6,422					6,841
Stock awards		485	2,738	(4,745)		2,479	957
Reacquired shares						(90,391)	(90,391)
Amortization				2,453			2,453
Translation					9,516		9,516
Balance December 31, 1995	70,078	171,765	325,674	(6,484)	16,272	(120,647)	456,658
Net income			113,185				113,185
Cash dividends on common stock			(37,409)				(37,409)
Stock options	673	14,824					15,497
Stock awards		522	2,912	(3,638)		1,779	1,575
Reacquired shares						(22,790)	(22,790)
Amortization				2,732			2,732
Translation					(9,485)		(9,485)
Balance December 31, 1996	\$70,751	\$187,111	\$404,362	\$(7,390)	\$ 6,787	\$(141,658)	\$519,963

Common Stock Activity

Year ended December 31 (shares)	1996		1995		1994	
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Common Stock	Treasury Stock
Shares, beginning of year	70,078,398	(5,376,917)	69,659,101	(1,988,427)	69,362,191	(1,792,112)
Stock options	672,343		419,297		296,910	
Stock awards		150,010		198,314		167,226
Reacquired shares		(723,611)		(3,586,804)		(363,541)
Shares, end of year	70,750,741	(5,950,518)	70,078,398	(5,376,917)	69,659,101	(1,988,427)

See notes to consolidated financial statements.

1. Nature of Business

The company is the leading global developer and marketer of premium cleaning, sanitizing and maintenance products and services for the hospitality, institutional and industrial markets. Customers include hotels and restaurants; foodservice, health-care and educational facilities; quickservice (fast-food) units; commercial laundries; light industry; dairy plants and farms; and food and beverage processors around the world.

2. Summary of Significant Accounting Policies**Principles of Consolidation**

The consolidated financial statements include the accounts of the company and all majority-owned subsidiaries. The company accounts for its investment in the Henkel-Ecolab joint venture under the equity method of accounting. International subsidiaries and the Henkel-Ecolab joint venture are included in the financial statements on the basis of their November 30 fiscal year ends.

Foreign Currency Translation

Financial position and results of operations of the company's international subsidiaries and the Henkel-Ecolab joint venture generally are measured using local currencies as the functional currency. Assets and liabilities of these operations are translated at the exchange rates in effect at each fiscal year end. Income statement accounts are translated at the average rates of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation account in shareholders' equity. Translation adjustments for operations in highly inflationary economies are included in net income and were not significant.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with a maturity of three months or less when purchased.

Inventory Valuations

Inventories are valued at the lower of cost or market. Domestic chemical inventory costs are determined on a last-in, first-out (LIFO) basis. LIFO inventories represented 44 percent, 38 percent and 38 percent of consolidated inventories at year-end 1996, 1995 and 1994, respectively. All other inventory costs are determined on a first-in, first-out (FIFO) basis.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Merchandising equipment consists principally of various systems that dispense cleaning and sanitizing products and low-temperature dish-washing machines. The dispensing systems are accounted for on a mass asset basis, whereby equipment is capitalized and depreciated as a group and written off when fully depreciated. Depreciation and amortization are charged to operations using the straight-line method over the assets' estimated useful lives.

Intangible Assets

Intangible assets arise principally from business acquisitions and are stated at cost. The assets are amortized on a straight-line basis over their estimated economic lives, generally not exceeding 30 years.

Long-Lived Assets

The company periodically assesses the recoverability of long-lived and intangible assets based on anticipated future earnings and operating cash flows.

Net Income Per Share

Net income per common share amounts are computed by dividing net income by the weighted average number of common shares outstanding.

Fully diluted per share amounts are computed as above and assume exercise of dilutive stock options.

Use of Estimates

The preparation of the company's financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Notes to Consolidated Financial Statements

3. Balance Sheet Information

December 31 (thousands)	1996	1995	1994
Accounts Receivable, Net			
Accounts receivable	\$ 214,369	\$ 206,763	\$ 177,510
Allowance for doubtful accounts	(9,343)	(8,331)	(8,703)
Total	\$ 205,026	\$ 198,432	\$ 168,807
Inventories			
Finished goods	\$ 52,232	\$ 47,035	\$ 42,955
Raw materials and parts	73,060	62,132	60,251
Excess of fifo cost over lifo cost	(3,044)	(3,050)	(3,191)
Total	\$ 122,248	\$ 106,117	\$ 100,015
Property, Plant and Equipment, Net			
Land	\$ 7,969	\$ 6,941	\$ 6,348
Buildings and leaseholds	129,781	117,042	107,259
Machinery and equipment	208,704	188,453	174,203
Merchandising equipment	330,277	292,962	257,766
Construction in progress	11,745	14,571	6,236
	688,476	619,969	551,812
Accumulated depreciation and amortization	(356,162)	(327,032)	(305,621)
Total	\$ 332,314	\$ 292,937	\$ 246,191
Other Assets			
Intangible assets, net	\$ 96,865	\$ 50,773	\$ 37,549
Investments in securities	5,000	5,000	5,000
Deferred income taxes	26,582	27,383	26,212
Other	26,904	24,417	19,655
Total	\$ 155,351	\$ 107,573	\$ 88,416
Short-Term Debt			
Notes payable	\$ 12,333	\$ 54,950	\$ 25,302
Long-term debt, current maturities	15,276	16,697	16,518
Total	\$ 27,609	\$ 71,647	\$ 41,820
Long-Term Debt			
7.19% senior notes, due 2006	\$ 75,000	\$	\$
9.68% senior notes, due 1995-2001	71,429	85,714	100,000
Other	17,530	20,385	21,911
	163,959	106,099	121,911
Long-term debt, current maturities	(15,276)	(16,697)	(16,518)
Total	\$ 148,683	\$ 89,402	\$ 105,393

In January 1996, the company issued \$75 million of 7.19 percent senior notes to a group of insurance companies. Proceeds from the debt were used to reduce short-term debt and for business acquisitions and other general corporate purposes.

The 9.68 percent senior notes were issued by the company to a group of insurance companies. The notes include covenants regarding consolidated shareholders' equity and amounts of certain long-term debt.

In September 1996, the company amended and restated its Multicurrency Credit Agreement, increasing the credit available to \$225 million and extending the term three years to September 2001. The terms of the new agreement are generally similar to the previous \$150 million credit facility. The company may borrow varying amounts from time to time on a revolving credit basis, with loans denominated in G-7 currencies or certain other currencies, if available. The company has the option of borrowing based on various short-term interest rates. No amounts were outstanding under the agreement at year-end 1996. The agreement includes a covenant regarding the ratio of total debt to capitalization.

In October 1996, the company filed a shelf registration with the Securities and Exchange Commission for the issuance of up to \$200 million of debt securities. The filing is intended to enhance the company's future financial flexibility in funding general business needs. The company has no immediate plans to issue debt under the registration.

As of December 31, the weighted average interest rate on notes payable was 5.1 percent for 1996, 6.3 percent for 1995 and 5.3 percent for 1994.

As of December 31, 1996, the aggregate annual maturities of long-term debt for the next five years were: 1997 – \$15,276,000; 1998 – \$15,222,000; 1999 – \$15,222,000; 2000 – \$15,182,000 and 2001 – \$14,988,000.

Interest expense was \$19,084,000 in 1996, \$15,857,000 in 1995 and \$16,213,000 in 1994. Total interest paid was \$16,897,000 in 1996, \$16,170,000 in 1995 and \$16,402,000 in 1994.

Other noncurrent liabilities included income taxes payable of \$100 million at December 31, 1996, \$96 million at December 31, 1995 and \$94 million at December 31, 1994. Income taxes payable reflected a reduction in U.S. federal income tax payments during 1995 and prior years, as a result of tax losses on the disposition of a discontinued business in 1992.

4. Financial Instruments

Foreign Currency Instruments

The company uses hedging and derivative financial instruments to limit financial risk related to foreign currency exchange rates, interest rates and other market risks. The company does not hold hedging or derivative financial instruments of a speculative nature.

The company enters into foreign currency forward exchange and option contracts to hedge specific foreign currency exposures, principally related to intercompany debt and joint venture royalty transactions. These contracts generally expire within one year. Gains and losses on these contracts are deferred and recognized as part of the specific transactions hedged. The cash flows from these contracts are classified in the same category as the transaction hedged in the Consolidated Statement of Cash Flows.

The company had foreign currency forward exchange contracts with a face amount denominated primarily in Deutsche marks and totaling approximately \$115 million at December 31, 1996, \$125 million at December 31, 1995, and \$110 million at December 31, 1994. The unrealized gains on these contracts were not significant.

Fair Value of Other Financial Instruments

The carrying amount and the estimated fair value of other financial instruments held by the company as of year-end 1996, 1995 and 1994 were:

December 31 (thousands)	1996	1995	1994
Carrying amount			
Cash and cash equivalents	\$ 69,275	\$24,718	\$ 98,255
Long-term investments in securities	5,000	5,000	5,000
Short-term debt	27,609	71,647	41,820
Long-term debt	148,683	89,402	105,393
Fair value			
Long-term debt	\$155,558	\$98,513	\$109,792

The carrying amounts of cash equivalents and short-term debt approximate fair value because of their short maturity.

Long-term investments in securities are carried at cost. The carrying amount of these securities approximates fair value based on quoted market prices. These securities mature in periods of less than 10 years.

The fair value of long-term debt is based on quoted market prices for the same or similar issues.

5. Business Acquisitions

Businesses Acquired

In February 1996, the company acquired Huntington Laboratories, Inc. of Huntington, Indiana. Huntington is a supplier of sanitizing and infection-control products for the U.S. healthcare market and a supplier of gym floor finishes. Huntington has become part of the company's Professional Products Division (formerly the Janitorial Division), complementing the division's existing product lines. Included in the purchase was Huntington's QUATS-Surfactants disinfectant business which did not fit Ecolab's business strategies and, therefore, was sold in July 1996. Huntington's Gam-Med business was also sold in early 1997. Annual sales of the core Huntington operations, which the company retained, were approximately \$50 million. Ecolab's purchase price for Huntington included cash consideration and the assumption of existing indebtedness which the company repaid concurrent with the consummation of the stock purchase transaction.

In August 1996, the company acquired the Monarch division of H.B. Fuller Company of Saint Paul, Minnesota. Monarch is a provider of cleaning and sanitizing products and services to the food processing and farm markets in the United States and Canada. Monarch had annual sales of approximately \$30 million and has become part of the company's Food and Beverage Division.

These acquisitions have been accounted for as purchases and, accordingly, the results of their operations have been included in the financial statements of the company from the dates of acquisition.

Kay Merger

In December 1994, the company issued approximately 4.5 million shares of its common stock in exchange for all of the outstanding common stock of Kay Chemical Company and affiliates ("Kay"). The merger was accounted for as a pooling-of-interests and, accordingly, the company's consolidated financial statements were restated to include the accounts and operations of Kay for all periods prior to the merger.

Notes to Consolidated Financial Statements

5. Business Acquisitions (continued)

In connection with the merger, \$8.0 million of merger costs and expenses (\$6.9 million after-tax, or \$0.10 per common share) were incurred and charged to expense in the fourth quarter of 1994. The merger costs and expenses consisted of merger-related bonus payments made to Kay non-shareholder employees and legal, accounting and investment banking fees.

Kay was a Subchapter S Corporation for income tax purposes and, therefore, did not pay U.S. federal income taxes. Kay has been included in Ecolab's U.S. federal income tax return effective December 7, 1994, and, therefore, a net deferred tax liability and corresponding charge to income tax expense of \$1.3 million or \$0.02 per common share was recorded upon closing to reflect Kay's net taxable temporary differences.

The table below includes unaudited pro forma net income and net income per common share amounts for 1994, which reflect the elimination of the nonrecurring merger costs and expenses and pro forma adjustments to present income taxes on the basis on which they are being reported subsequent to the merger.

(thousands, except per share)	1994
Net income, as reported	\$84,562
Merger costs and expenses	6,900
Kay net deferred tax liability	1,300
Kay Subchapter S status	(2,298)
Pro forma net income	\$90,464
Net income per common share	
As reported	\$ 1.25
Pro forma	\$ 1.34

6. Henkel-Ecolab Joint Venture

The company and Henkel KGaA, Düsseldorf, Germany, each own 50 percent of Henkel-Ecolab, a joint venture of their respective European institutional and industrial cleaning and sanitizing businesses. The joint venture's operations and the company's equity in earnings of the joint venture included:

(thousands)	1996	1995	1994
Joint venture			
Net sales	\$905,402	\$909,196	\$776,647
Gross profit	497,909	502,849	440,993
Income before income taxes	65,091	44,392	48,389
Net income	\$ 34,808	\$ 22,406	\$ 26,109
Ecolab equity in earnings			
Ecolab equity in net income	\$ 17,404	\$ 11,203	\$ 13,605
Ecolab royalty income from joint venture, net of income taxes	4,730	5,814	5,745
Amortization expense for the excess of cost over the underlying net assets of the joint venture	(9,123)	(9,315)	(8,399)
Equity in earnings of Henkel-Ecolab joint venture	\$ 13,011	\$ 7,702	\$ 10,951

The company's investment in the Henkel-Ecolab joint venture includes the unamortized excess of the company's investment over its equity in the joint venture's net assets. This excess was \$174 million at December 31, 1996, and is being amortized on a straight-line basis over estimated economic useful lives of up to 30 years.

Condensed balance sheet information for the Henkel-Ecolab joint venture was:

December 31 (thousands)	1996	1995	1994
Current assets	\$425,225	\$393,391	\$360,648
Noncurrent assets	142,227	145,722	127,244
Current liabilities	309,599	247,980	233,876
Noncurrent liabilities	\$ 75,360	\$ 71,119	\$ 59,710

7. Income Taxes

Income before income taxes and equity in earnings of joint venture consisted of:

(thousands)	1996	1995	1994
Domestic	\$144,888	\$123,628	\$108,656
Foreign	26,057	27,553	15,399
Total	\$170,945	\$151,181	\$124,055

The provision for income taxes consisted of:

(thousands)	1996	1995	1994
Federal, state and Puerto Rico	\$66,868	\$52,473	\$44,619
Foreign	10,781	7,980	3,473
Currently payable	77,649	60,453	48,092
Federal, state and Puerto Rico	(6,748)	74	300
Foreign	(130)	(833)	2,052
Deferred	(6,878)	(759)	2,352
Provision for income taxes	\$70,771	\$59,694	\$50,444

The company's overall net deferred tax assets (current and noncurrent) were comprised of the following:

December 31 (thousands)	1996	1995	1994
Deferred tax assets			
Postretirement health care and pension benefits	\$29,596	\$28,689	\$28,084
Other accrued liabilities	39,151	28,339	26,616
Loss carryforwards	4,780	5,482	5,109
Other, net	8,814	9,209	9,405
Valuation allowance	(1,462)	(1,462)	(1,462)
Total	80,879	70,257	67,752
Deferred tax liabilities			
Property, plant and equipment bases differences	23,496	19,524	17,579
Other, net	1,457	1,733	1,612
Total	24,953	21,257	19,191
Net deferred tax assets	\$55,926	\$49,000	\$48,561

A reconciliation of the statutory U.S. federal income tax rate to the company's effective income tax rate was:

	1996	1995	1994
Statutory U.S. rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.2	4.2	3.8
Puerto Rico operations			(1.3)
Foreign operations	.5	(1.2)	.4
Kay Subchapter S status			(.1)
Kay deferred tax liability			1.0
Other, net	1.7	1.5	1.9
Effective income tax rate	41.4%	39.5%	40.7%

Cash paid for income taxes was \$71,963,000 in 1996, \$55,214,000 in 1995 and \$34,686,000 in 1994. As a result of tax losses on the disposition of a discontinued business in 1992, the company's U.S. federal income tax payments have been reduced by approximately \$58 million, including \$3 million in 1995 and \$15 million in 1994. However, pending final acceptance of the company's treatment of the losses, no income tax benefit has been recognized for financial reporting purposes. These income tax benefits will be recognized as income attributable to discontinued operations to the extent the company's treatment of the losses is accepted.

As of December 31, 1996, undistributed earnings of international subsidiaries and the Henkel-Ecolab joint venture of approximately \$60 million and \$45 million, respectively, were considered to have been reinvested indefinitely and, accordingly, the company has not provided U.S. income taxes on such earnings. If those earnings were remitted to the company, applicable income taxes would be offset substantially by available foreign tax credits.

8. Retirement Plans

Pension Plans

The company has a noncontributory defined benefit pension plan covering substantially all of its U.S. employees. Plan benefits are based on years of service and highest average compensation for five consecutive years of employment. Various international subsidiaries also have defined benefit pension plans. Pension expense included the following components:

(thousands)	1996	1995	1994
Service cost – employee benefits earned during the year	\$ 12,615	\$ 9,878	\$ 10,627
Interest cost on projected benefit obligation	16,084	14,481	13,348
Actual return on plan assets	(20,389)	(27,356)	1,952
Net amortization and deferral	7,542	15,430	(11,260)
U.S. pension expense	15,852	12,433	14,667
International pension expense	1,261	1,040	1,005
Total pension expense	\$ 17,113	\$ 13,473	\$ 15,672

Notes to Consolidated Financial Statements

8. Retirement Plans (continued)

The funded status of the U.S. pension plan was:

December 31 (thousands)	1996	1995	1994
Actuarial present value of:			
Vested benefit obligation	\$167,652	\$150,521	\$121,251
Non-vested benefit obligation	10,701	12,089	9,755
Accumulated benefit obligation	178,353	162,610	131,006
Effect of projected future			
salary increases	61,763	54,398	46,801
Projected benefit obligation	240,116	217,008	177,807
Plan assets at fair value	196,839	167,231	130,262
Plan assets less than the projected			
benefit obligation	(43,277)	(49,777)	(47,545)
Unrecognized prior service cost	20,325	22,230	24,135
Unrecognized net loss	37,763	44,258	39,238
Unrecognized net transition asset	(11,926)	(13,329)	(14,732)
Adjustment required to recognize			
minimum liability			(1,840)
Prepaid (accrued) pension expense	\$ 2,885	\$ 3,382	\$ (744)

The company's policy is to fund pension costs currently to the extent deductible for income tax purposes. U.S. pension plan assets consist primarily of equity and fixed income securities. International pension benefit obligations and plan assets were not significant.

U.S. pension plan assumptions, in addition to projections for employee turnover and retirement ages, were:

	1996	1995	1994
Discount rate for service and interest cost, at beginning of year	7.50%	8.25%	7.50%
Projected salary increases, weighted average	5.1	5.1	5.6
Expected return on plan assets	9.0	9.0	9.0
Discount rate for year-end benefit obligations	7.75%	7.50%	8.25%

At December 31, 1996, the company updated the mortality assumptions used in its actuarial pension plan calculations. The effect of this change and the change in 1995 for projected salary increases, as well as the effect of changes in the discount rate used for determining the year-end pension benefit obligations and future service and interest cost was:

(millions, increase (decrease))	1996	1995	1994
Pension expense	\$ 2.1	\$ (3.4)	\$ 2.1
Projected benefit obligation	\$ 1.2	\$ 17.6	\$ (22.0)

The adjustment required to recognize a minimum liability as of year-end 1994 has been included in the company's noncurrent liability for postretirement healthcare and pension benefits with an equal amount included in the Consolidated Balance Sheet as an intangible asset.

The company also has noncontributory defined benefit plans which provide for benefits to employees in excess of limits permitted under its U.S. pension plan. The recorded obligation for these plans was approximately \$10 million at December 31, 1996, and the annual expense for these plans was approximately \$2 million in each of the years 1996, 1995 and 1994.

Postretirement Health Care Benefits

The company provides postretirement health care benefits to substantially all U.S. employees. The plan is contributory based on years of service and family status, with retiree contributions adjusted annually.

Employees outside the U.S. are generally covered under government-sponsored programs and the cost for providing benefits under company plans was not significant.

Postretirement health care benefit expense was:

(thousands)	1996	1995	1994
Service cost – benefits attributed to service during the period	\$3,298	\$2,473	\$2,672
Interest cost on accumulated post-retirement benefit obligation	4,398	3,972	3,740
Actual return on plan assets	(863)	(703)	(66)
Net amortization and deferral	(213)	(271)	(719)
Total expense	\$6,620	\$5,471	\$5,627

The funded status of the postretirement health care plan was:

December 31 (thousands)	1996	1995	1994
Actuarial present value of accumulated postretirement benefit obligation for:			
Retirees	\$ 22,932	\$ 18,112	\$ 16,453
Fully eligible active participants	6,533	5,450	4,044
Other active participants	42,084	35,885	29,389
Total	71,549	59,447	49,886
Plan assets at fair value	11,885	9,269	6,298
Plan assets less than accumulated postretirement benefit obligation	(59,664)	(50,178)	(43,588)
Unrecognized gain for prior service	(9,648)	(10,199)	(10,750)
Unrecognized net loss (gain)	5,984	(968)	(5,544)
Unfunded accrued postretirement health care benefits	\$(63,328)	\$(61,345)	\$(59,882)

As of December 31, the discount rate for the postretirement health care benefits plan was 7.75 percent for 1996, 7.50 percent for 1995 and 8.25 percent for 1994. The expected long-term rate of return on plan assets was changed to 9.0 percent at year-end 1996 from 6.0 percent in 1995 and 1994. The changes in the discount rate and the expected rate of return on plan assets did not have a significant effect on the expense or obligation of the plan. Plan assets consist primarily of equity and fixed income securities.

For measurement purposes, 10.5 percent (for pre-age 65 retirees) and 8.3 percent (for post-age 65 retirees) annual rates of increase in the per capita cost of covered health care were assumed for 1997. The rates were assumed to decrease gradually to 6.5 percent and 5.5 percent, respectively, at 2001 and remain at that level thereafter. Health care costs which are eligible for subsidy by the company are limited to a 4 percent annual increase beginning in 1996 for most employees. An increase in the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of year-end 1996 by approximately \$5 million and 1996 expense by approximately \$0.4 million.

Savings Plan

The company provides a 401(k) savings plan for substantially all U.S. employees. Employee contributions of up to 6 percent of eligible compensation are matched 50 percent by the company. The company's contribution is invested in Ecolab common stock and amounted to \$6,622,000 in 1996, \$5,919,000 in 1995 and \$5,156,000 in 1994.

9. Stock Incentive and Option Plans

The company's stock incentive and option plans provide for grants of stock options and stock awards. Common shares available for grant as of December 31 were 420,048 for 1996, 1,124,768 for 1995 and 2,042,606 for 1994.

Options may be granted to purchase shares of the company's stock at not less than fair market value at the date of grant. Options generally become exercisable over periods of up to four years from date of grant and expire within 10 years from date of grant. Stock option transactions were:

Shares	1996	1995	1994
Granted	633,340	930,673	806,550
Exercised	(672,343)	(419,297)	(296,910)
Canceled	(51,333)	(36,700)	(26,900)
December 31:			
Outstanding	4,603,624	4,693,960	4,219,284
Exercisable	2,929,984	2,856,638	2,321,164

Average exercise price per share	1996	1995	1994
Granted	\$30.51	\$25.35	\$21.93
Exercised	15.30	11.42	10.60
Canceled	24.31	20.65	16.84
December 31:			
Outstanding	20.70	18.64	16.49
Exercisable	\$17.50	\$16.09	\$13.99

Stock options outstanding at December 31, 1996, had a range in exercise prices of \$11.38 to \$37.44 and an average remaining contractual life of 6.5 years. Approximately one-third of the options outstanding had an exercise price of less than \$20.00 and were generally exercisable. Approximately one-half of the options outstanding had an exercise price of \$20.00 to \$30.00. The weighted-average remaining contractual life for each of these groups of options was four years and eight years, respectively.

Stock awards are generally subject to restrictions including forfeiture in the event of termination of employment. Restrictions generally lapse over periods up to four years. The value of a stock award at date of grant is charged to income over the periods during which the restrictions lapse.

9. Stock Incentive and Option Plans (continued)

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, a new standard of accounting and reporting for stock-based compensation plans. The company adopted this new standard in 1996. The company has continued to measure compensation cost for its stock incentive and option plans using the intrinsic value-based method of accounting it has historically used and, therefore, the new standard has no effect on the company's operating results.

Had the company used the fair value-based method of accounting for its stock option and incentive plans beginning in 1995 and charged compensation cost against income, over the vesting period, based on the fair value of options at the date of grant, net income and net income per common share for 1996 and 1995 would have been reduced to the following pro forma amounts:

(thousands, except per share)	1996	1995
Net income		
As reported	\$113,185	\$99,189
Pro forma	111,761	98,622
Net income per common share		
As reported	1.75	1.50
Pro forma	\$ 1.73	\$ 1.49

The pro forma information above only includes stock options granted in 1995 and 1996. Compensation expense under the fair value-based method of accounting will increase over the next few years as additional stock option grants are considered.

The weighted-average grant-date fair value of options granted was \$8.30 per option for 1996 and \$7.83 per option for 1995. The weighted-average grant-date fair value of options was determined by using the fair value of each option grant on the date of grant, utilizing the Black-Scholes option-pricing model and the following key assumptions:

	1996	1995
Risk-free interest rate	6.2%	6.7%
Expected life	6 years	6 years
Expected volatility	20.9%	24.8%
Expected dividend yield	1.9%	1.9%

10. Shareholders' Equity

Authorized common stock, par value \$1.00 per share, was 100 million shares in 1996, 1995 and 1994. Treasury stock is stated at cost. Dividends declared per share of common stock were \$0.58 for 1996, \$0.515 for 1995 and \$0.455 for 1994.

The company has 15 million shares, without par value, of authorized but unissued preferred stock.

Each share of outstanding common stock entitles the holder to one preferred stock purchase right. A right entitles the holder, upon occurrence of certain events, to buy one one-hundredth of a share of Series A Junior Participating Preferred Stock at a purchase price of \$115, subject to adjustment. The rights, however, will not become exercisable unless and until, among other things, any person or group acquires 15 percent or more of the outstanding common stock of the company, or the company's board of directors declares a holder of 10 percent or more of the outstanding common stock to be an "adverse person" as defined in the rights plan. Upon the occurrence of either of these events, the rights will become exercisable for common stock of the company (or in certain cases common stock of an acquiring company) having a market value of twice the exercise price of a right. The rights provide that the holdings by Henkel KGaA or its affiliates, subject to compliance by Henkel with certain conditions, will not cause the rights to become exercisable nor cause Henkel to be an "adverse person." The rights are redeemable under certain circumstances at one cent per right and, unless redeemed earlier, will expire on March 11, 2006.

The company maintains a systematic share repurchase program, which is intended to offset the dilutive effect of shares issued for employee benefit plans. The company reacquired 577,300 shares of its common stock in 1996 and 364,000 shares in 1994 for this program through open and private market purchases. The company anticipates that it will continue to periodically reacquire shares under its systematic share repurchase program.

In June 1995, the company purchased approximately 3.5 million shares (approximately 5 percent of total shares then outstanding) of its common stock at a price of \$25.00 per share pursuant to the terms of a "Dutch auction" self-tender offer.

The total purchase price for these shares was approximately \$90 million and was funded by excess cash and cash equivalents and by approximately \$30 million of short-term borrowings. During 1996, the company purchased 52,900 shares under this program and the company may purchase approximately 2.4 million additional shares from time to time through open market and privately negotiated transactions to complete the remaining portion of a six million share repurchase program.

11. Rentals and Leases

The company leases sales and administrative office facilities, distribution center facilities, automobiles and computers and other equipment under operating leases. Rental expense under all operating leases was \$35,071,000 in 1996, \$32,292,000 in 1995 and \$29,129,000 in 1994. As of December 31, 1996, future minimum payments under operating leases with noncancelable terms in excess of one year were:

(thousands)	
1997	\$ 8,995
1998	5,674
1999	3,194
2000	2,058
2001	1,687
Thereafter	11,183
Total	\$32,791

12. Research Expenditures

Research expenditures which related to the development of new products and processes, including significant improvements and refinements to existing products, were \$28,676,000 in 1996, \$28,031,000 in 1995 and \$27,615,000 in 1994.

13. Environmental Compliance Costs

The company and certain subsidiaries are party to various environmental actions which have arisen in the ordinary course of business. These include possible obligations to investigate and mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other operating or closed facilities. The effect of these actions on the company's financial position and results of operations to date has not been significant. The com-

pany is currently participating in environmental assessments and remediation at a number of locations and environmental liabilities have been accrued reflecting management's best estimate of future costs. Potential insurance reimbursements are not included. While the final resolution of these contingencies could result in expenses in excess of current accruals, and therefore have an impact on the company's consolidated financial results in a future reporting period, management believes the ultimate outcome will not have a significant effect on the company's results of operations, consolidated financial position or liquidity.

14. Geographic Segments

Summary information regarding the company's operations in United States and International markets is presented below. International consists of Canadian, Asia Pacific, Latin American, South African and Kay's international operations.

(thousands)	1996	1995	1994
Net Sales			
United States	\$1,148,778	\$1,030,126	\$ 942,070
International	341,231	310,755	265,544
Total	\$1,490,009	\$1,340,881	\$1,207,614
Operating Income			
United States	\$ 164,886	\$ 147,330	\$ 134,510
International	23,871	19,580	14,838
Corporate	(3,440)	(4,224)	(12,384)
Total	\$ 185,317	\$ 162,686	\$ 136,964
Identifiable Assets			
United States	\$ 641,831	\$ 535,107	\$ 453,121
International	190,595	183,088	158,064
Joint venture	285,237	302,298	284,570
Corporate	90,746	40,387	124,601
Total	\$1,208,409	\$1,060,880	\$1,020,356

Corporate operating income included \$8 million of merger costs and expenses in 1994.

In accordance with company policy, operating expenses incurred at the corporate level totaling \$23,766,000 in 1996, \$22,688,000 in 1995 and \$21,702,000 in 1994 have been allocated to the geographic segments in determining operating income.

Notes to Consolidated Financial Statements

15. Quarterly Financial Data (Unaudited)

(thousands, except per share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1996					
Net sales					
United States	\$255,695	\$287,278	\$305,147	\$300,658	\$1,148,778
International	78,025	85,918	86,918	90,370	341,231
Total	333,720	373,196	392,065	391,028	1,490,009
Cost of sales	152,589	170,856	175,232	176,276	674,953
Selling, general and administrative expenses	147,333	156,991	160,534	164,881	629,739
Operating income					
United States	30,154	39,919	49,889	44,924	164,886
International	4,378	6,271	7,242	5,980	23,871
Corporate	(734)	(841)	(832)	(1,033)	(3,440)
Total	33,798	45,349	56,299	49,871	185,317
Interest expense, net	3,440	4,584	3,592	2,756	14,372
Income before income taxes and equity in earnings of joint venture	30,358	40,765	52,707	47,115	170,945
Provision for income taxes	12,171	16,346	22,263	19,991	70,771
Equity in earnings of joint venture	1,458	3,179	5,084	3,290	13,011
Net income	\$ 19,645	\$ 27,598	\$ 35,528	\$ 30,414	\$ 113,185
Net income per share					
Net income per common share	\$ 0.30	\$ 0.43	\$ 0.55	\$ 0.47	\$ 1.75
Fully diluted	\$ 0.30	\$ 0.42	\$ 0.54	\$ 0.45	\$ 1.69
Average common shares outstanding	64,590	64,307	64,366	64,720	64,496
1995					
Net sales					
United States	\$ 242,226	\$ 255,030	\$ 267,219	\$ 265,651	\$ 1,030,126
International	67,334	78,384	81,300	83,737	310,755
Total	309,560	333,414	348,519	349,388	1,340,881
Cost of sales	138,619	149,324	156,594	158,630	603,167
Selling, general and administrative expenses	139,870	143,748	142,643	148,767	575,028
Operating income					
United States	29,525	35,937	44,416	37,452	147,330
International	2,695	5,619	5,613	5,653	19,580
Corporate	(1,149)	(1,214)	(747)	(1,114)	(4,224)
Total	31,071	40,342	49,282	41,991	162,686
Interest expense, net	2,573	2,444	3,436	3,052	11,505
Income before income taxes and equity in earnings of joint venture	28,498	37,898	45,846	38,939	151,181
Provision for income taxes	11,458	15,235	17,979	15,022	59,694
Equity in earnings of joint venture	1,355	3,175	2,010	1,162	7,702
Net income	\$ 18,395	\$ 25,838	\$ 29,877	\$ 25,079	\$ 99,189
Net income per share					
Net income per common share	\$ 0.27	\$ 0.38	\$ 0.46	\$ 0.39	\$ 1.50
Fully diluted	\$ 0.27	\$ 0.38	\$ 0.44	\$ 0.37	\$ 1.46
Average common shares outstanding	67,742	67,444	64,537	64,664	66,097

Management and Accountants' Reports

Report of Management

Management is responsible for the integrity and objectivity of the consolidated financial statements. The statements have been prepared in accordance with generally accepted accounting principles and, accordingly, include certain amounts based on management's best estimates and judgments.

To meet its responsibility, management has established and maintains a system of internal controls that provides reasonable assurance regarding the integrity and reliability of the financial statements and the protection of assets from unauthorized use or disposition. These systems are supported by qualified personnel, by an appropriate division of responsibilities and by an internal audit function. There are limits inherent in any system of internal controls since the cost of monitoring such systems should not exceed the desired benefit. Management believes that the company's system of internal controls is effective and provides an appropriate cost/benefit balance.

The Board of Directors, acting through its Audit Committee composed solely of outside directors, is responsible for determining that management fulfills its responsibilities in the preparation of financial statements and maintains financial control of operations. The Audit Committee recommends to the Board of Directors the appointment of the company's independent accountants, subject to ratification by the shareholders. It meets regularly with management, the internal auditors and the independent accountants.

The independent accountants provide an objective, independent review as to management's discharge of its responsibilities insofar as they relate to the fair presentation of the consolidated financial statements. Their report is presented separately.



Allan L. Schuman
President and Chief Executive Officer



Michael E. Shannon
Chairman of the Board and
Chief Financial and Administrative Officer

Report of Independent Accountants

To the Shareholders and Directors
Ecolab Inc.

We have audited the accompanying consolidated balance sheet of Ecolab Inc. as of December 31, 1996, 1995 and 1994, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ecolab Inc. as of December 31, 1996, 1995 and 1994, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.



February 24, 1997
Saint Paul, Minnesota

Summary Operating and Financial Data

December 31 (thousands, except per share)	1996	1995	1994	1993
Operations				
Net sales				
United States	\$ 1,148,778	\$ 1,030,126	\$ 942,070	\$ 867,415
International	341,231	310,755	265,544	234,981
Europe/Magnus/Pulp & Paper				
Total	1,490,009	1,340,881	1,207,614	1,102,396
Cost of sales	674,953	603,167	533,143	491,306
Selling, general and administrative expenses	629,739	575,028	529,507	481,639
Merger costs and nonrecurring expenses			8,000	
Operating income	185,317	162,686	136,964	129,451
Interest expense, net	14,372	11,505	12,909	21,384
Income from continuing operations before income taxes and equity in earnings of joint venture	170,945	151,181	124,055	108,067
Provision for income taxes	70,771	59,694	50,444	33,422
Equity in earnings of joint venture	13,011	7,702	10,951	8,127
Income from continuing operations	113,185	99,189	84,562	82,772
Income (loss) from discontinued operations				715
Extraordinary loss and changes in accounting principles				
Net income (loss)	113,185	99,189	84,562	83,487
Preferred stock dividends				
Net income (loss) to common shareholders, as reported	113,185	99,189	84,562	83,487
Pro forma adjustments			5,902	(2,667)
Pro forma net income (loss) to common shareholders	\$ 113,185	\$ 99,189	\$ 90,464	\$ 80,820
Income (loss) per common share, as reported				
Continuing operations	\$ 1.75	\$ 1.50	\$ 1.25	\$ 1.23
Discontinued operations				
Extraordinary loss and changes in accounting principles				0.01
Net income (loss)	1.75	1.50	1.25	1.24
Pro forma income (loss) per common share				
Continuing operations	1.75	1.50	1.34	1.19
Net income (loss)	\$ 1.75	\$ 1.50	\$ 1.34	\$ 1.20
Average common shares outstanding	64,496	66,097	67,550	67,528
Selected Income Statement Ratios				
Gross profit	54.7%	55.0%	55.9%	55.4%
Selling, general and administrative expenses	42.3	42.9	44.6	43.7
Operating income	12.4	12.1	11.3	11.7
Income from continuing operations before income taxes	11.5	11.3	10.3	9.8
Income from continuing operations	7.6	7.4	7.0	7.5
Effective income tax rate	41.4%	39.5%	40.7%	30.9%
Financial Position				
Current assets	\$ 435,507	\$ 358,072	\$ 401,179	\$ 311,051
Property, plant and equipment, net	332,314	292,937	246,191	219,268
Investment in Henkel-Ecolab joint venture	285,237	302,298	284,570	255,804
Net assets of Ecolab Europe and discontinued operations				
Other assets	155,351	107,573	88,416	105,607
Total assets	\$ 1,208,409	\$ 1,060,880	\$ 1,020,356	\$ 891,730
Current liabilities	\$ 327,771	\$ 310,538	\$ 253,665	\$ 201,498
Long-term debt	148,683	89,402	105,393	131,861
Postretirement health care and pension benefits	73,577	70,666	70,882	72,647
Other liabilities	138,415	133,616	128,608	93,917
Convertible preferred stock				
Shareholders' equity	519,963	456,658	461,808	391,807
Total liabilities and shareholders' equity	\$ 1,208,409	\$ 1,060,880	\$ 1,020,356	\$ 891,730
Selected Cash Flow Information				
Cash provided by operating activities	\$ 254,269	\$ 166,463	\$ 169,346	\$ 175,674
Capital expenditures	111,518	109,894	88,457	68,321
Long-term debt borrowings (repayments), net	39,310	(17,919)	(14,621)	(81,813)
Cash dividends on common stock	36,096	33,114	27,851	24,037
Cash dividends declared per common share	\$ 0.58	\$ 0.515	\$ 0.455	\$ 0.395
Selected Financial Measures/Other				
Total debt and preferred stock	\$ 176,292	\$ 161,049	\$ 147,213	\$ 151,281
Total debt and preferred stock to capitalization	25.3%	26.1%	24.2%	27.9%
Book value per common share	\$ 8.02	\$ 7.06	\$ 6.82	\$ 5.80
Return on beginning equity	24.8%	21.5%	21.6%	23.3%
Dividends/net income per common share	33.1%	34.3%	36.4%	31.9%
Annual common stock price range	\$39.50-29.13	\$31.75-20.00	\$23.50-19.25	\$23.81-18.13
Number of employees	9,573	9,026	8,206	7,822

Pro forma results reflect adjustments to eliminate unusual items associated with Ecolab's merger with Kay Chemical Company in December 1994. All per share, shares outstanding and market price data reflect the 1993 and 1986 two-for-one stock splits. The ratios of return on beginning equity and dividends/net income per common share exclude the change in accounting principle and the loss on the ChemLawn divestiture in 1991, and the Consumer gain in 1987. Number of employees excludes ChemLawn operations.

	1992	1991	1990	1989	1988	1987	1986
	\$ 816,405 241,229	\$ 757,564 201,738	\$ 712,579 184,220 150,809	\$ 646,895 179,705 122,871	\$ 589,715 159,374 122,250	\$ 544,310 103,168 104,174	\$ 485,638 64,973 93,502
	1,057,634 485,206 446,814	959,302 447,356 393,700	1,047,608 495,086 425,983	949,471 461,256 383,512 12,978	871,339 433,734 337,707	751,652 361,545 307,851 18,441	644,113 304,942 262,823
	125,614 35,334	118,246 30,489	126,539 28,321	91,725 31,628	99,898 31,097	63,815 21,440	76,348 2,975
	90,280 27,392 8,600	87,757 29,091 4,573	98,218 32,494	60,097 19,411	68,801 21,285	42,375 20,724	73,373 29,326
	71,488	63,239 (274,693) (24,560)	65,724 (4,408)	40,686 (29,379)	47,516 4,238	21,651 126,551	44,047 7,357
	71,488	(236,014) (4,064)	61,316 (7,700)	11,307 (429)	51,754	148,202	51,404
	71,488 (2,797)	(240,078) (2,933)	53,616 (2,956)	10,878 (3,196)	51,754 (2,622)	148,202 (2,606)	51,404 (2,924)
	\$ 68,691	\$ (243,011)	\$ 50,660	\$ 7,682	\$ 49,132	\$ 145,596	\$ 48,480
	\$ 1.06	\$ 1.01 (4.69) (0.42) (4.10)	\$ 1.12 (0.09)	\$ 0.68 (0.50)	\$ 0.81 0.07	\$ 0.37 2.18	\$ 0.75 0.13
	1.06	1.04	1.04	0.18	0.88	2.56	0.88
	1.02	0.96	1.07	0.63	0.77	0.33	0.70
	\$ 1.02 67,204	\$ (4.15) 58,525	\$ 0.98 51,649	\$ 0.13 59,258	\$ 0.84 58,594	\$ 2.51 57,990	\$ 0.83 58,474
	54.1% 42.2 11.9 8.5 6.8 30.3%	53.4% 41.1 12.3 9.1 6.6 33.1%	52.7% 40.6 12.1 9.4 6.3 33.1%	51.4% 41.7 9.7 6.3 4.3 32.3%	50.2% 38.7 11.5 7.9 5.5 30.9%	51.9% 43.4 8.5 5.6 2.9 48.9%	52.7% 40.8 11.9 11.4 6.8 40.0%
	\$ 264,512 207,183 289,034 98,135	\$ 293,053 198,086 296,292 70,000 82,857	\$ 216,612 187,735 404,007 76,904	\$ 370,875 203,056 354,179 65,936	\$ 265,291 194,509 370,994 73,833	\$ 283,700 176,856 394,289 74,304	\$ 275,782 154,277 56,318
	\$ 858,864	\$ 940,288	\$ 885,258	\$ 994,046	\$ 904,627	\$ 929,149	\$ 486,377
	\$ 192,023 215,963 63,393 29,179 358,306	\$ 240,219 325,492 56,427 11,002 307,148	\$ 177,643 208,147 8,742 28,792 110,000 351,934	\$ 201,585 228,632 12,859 25,343 110,000 415,627	\$ 181,758 257,500 12,768 11,590 441,011	\$ 247,825 258,273 12,150 9,863 401,038	\$ 158,533 39,565 9,371 16,706 262,202
	\$ 858,864	\$ 940,288	\$ 885,258	\$ 994,046	\$ 904,627	\$ 929,149	\$ 486,377
	\$ 120,217 59,904 (164,541) 21,983	\$ 128,999 53,752 154,090 22,027	\$ 154,208 58,069 (15,842) 24,387	\$ 123,215 54,430 (34,215) 18,008	\$ 113,514 62,125 4,916 17,398	\$ 146,310 57,549 162,631 16,184	\$ 89,490 37,469 (9,916) 15,329
	\$ 0.3575	\$ 0.35	\$ 0.335	\$ 0.33	\$ 0.32	\$ 0.30	\$ 0.2825
	\$ 236,695 39.8%	\$ 407,221 57.0%	\$ 353,886 50.1%	\$ 382,764 47.9%	\$ 300,448 40.5%	\$ 320,080 44.4%	\$ 83,645 24.2%
	\$ 5.31 23.3%	\$ 4.59 13.6%	\$ 6.81 12.9%	\$ 7.09 2.5%	\$ 7.45 12.9%	\$ 6.92 19.5%	\$ 4.59 21.0%
	33.7%	42.7%	32.2%	183.3%	36.4%	34.1%	32.1%
	\$19.13-13.31 7.601	\$16.75-9.75 7.428	\$15.56-8.31 8.106	\$17.88-12.44 7.845	\$13.88-10.63 7.684	\$16.88-9.25 7.479	\$14.66-10.28 7.455

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Senior Vice President and Chief Technical and Environmental Officer

For recorded news and to obtain financial information, call 1-800-FACT-ECL (1-800-322-8325)

Alaska, Hawaii and international callers may dial (402) 573-9859

On the Internet's World Wide Web, contact Ecolab at www.ecolab.com

Annual Meeting

The annual meeting of stockholders will be held on Friday, May 9, 1997, at 10 a.m. in the McKnight Theatre at the Ordway Music Theatre, 345 Washington Street, St. Paul, MN 55102.

Common Stock

Ecolab common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol ECL. Ecolab is also traded on an unlisted basis on certain other exchanges. Options are traded on the New York Stock Exchange. The company is included in the Chemicals (Specialty) Group of the Standard & Poor's 500 Stock Index. As of March 7, 1997 the Company had 4,968 shareholders of record.

Dividends

Ecolab has paid common stock dividends for 60 consecutive years. Quarterly cash dividends customarily are paid on the 15th of January, April, July and October. Dividends of \$0.125 per share were declared in February, May and August 1995, and \$0.14 per share in December 1995, and February, May and August 1996. A dividend of \$0.16 per share was declared in December 1996.

Dividend Reinvestment/Stock Purchase

Shareholders of record may reinvest their dividends automatically in additional shares of Ecolab common stock at the market price. Participants may also invest up to an additional \$60,000 per year in Ecolab common stock through this service. To enroll in the plan or to obtain additional information, contact First Chicago Trust Company of New York at P.O. Box 2500, Jersey City, NJ 07303-2500. Telephone: (201) 324-0313 or 1-800-322-8325.

Financial Information/Form 10-K

Investors may call 1-800-322-8325 or access Ecolab's Internet Web site at www.ecolab.com for quarterly earnings, announcements, press releases and other Ecolab information, and to obtain copies of Ecolab's financial reports filed with the Securities and Exchange Commission. A copy of the Form 10-K Annual Report for the year ended December 31, 1996, may also be obtained without charge by written request to: Corporate Secretary, Ecolab Inc., 370 N. Wabasha Street, St. Paul, MN 55102.

Independent Accountants

Coopers & Lybrand L.L.P., 650 Third Avenue South, Minneapolis, MN 55402.

Investor Relations

Securities analysts, portfolio managers and representatives of financial institutions seeking information about the company should direct their inquiries to: Michael J. Monahan, External Relations, vice president, Ecolab Inc., 370 N. Wabasha Street, St. Paul, MN 55102. Telephone: (612) 293-2809.

Research Reports

The following firms are among those which have recently provided research coverage on Ecolab: Dain Bosworth; Donaldson, Lufkin & Jenrette; Credit Suisse First Boston; Ingalls & Snyder; Merrill Lynch; Morgan Stanley, Dean Witter; Discover; Piper Jaffray; Salomon Bros.; Prudential Securities; Standard & Poor's; and Value Line.

Transfer Agent, Registrar and Paying Agent

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, NJ 07303-2500
Telephone: (201) 324-0313; or 1-800-322-8325

E-mail messages and information requests may be sent to: "fctc@em.fcncbd.com" Messages may also be sent by accessing the transfer agent's internet address at "<http://www.fctc.com>"

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Shareholders may contact the transfer agent at the above numbers for information or assistance concerning share transfers, dividend payments, account history, lost stock certificates, taxable income or to report address changes. The transfer agent provides telephone customer assistance Monday-Friday 8:30 a.m. to 7 p.m. (Eastern Time). Extended service is offered to callers via the Automated Voice Response System Monday-Friday 8 a.m. to 10 p.m. and Saturday 8 a.m. to 3 p.m. (Eastern Time).

Ecolab Inc. is an equal opportunity employer.

♻️ This annual report is printed on recycled paper containing 10% post-consumer waste.



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