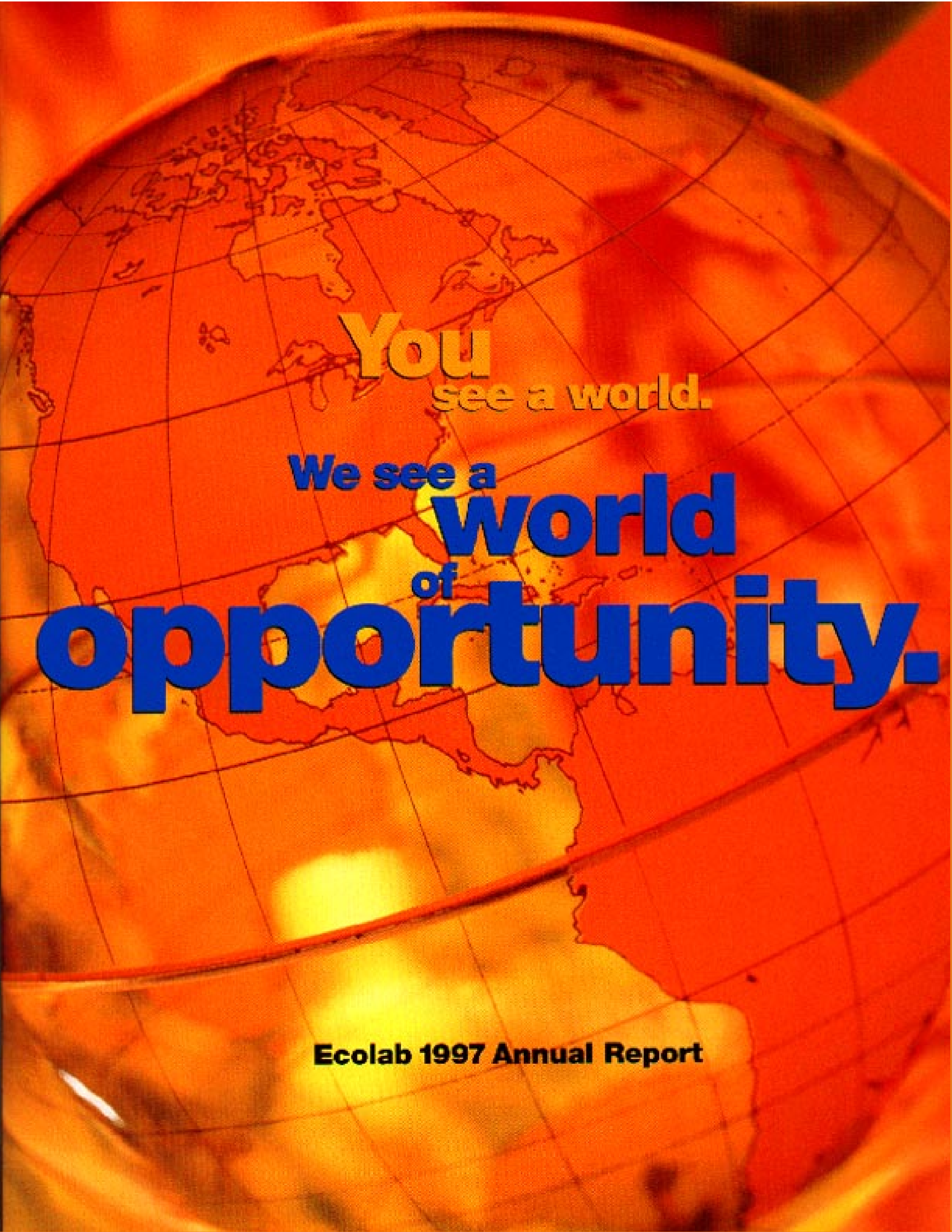

You see a world.

We see a world of opportunity.

Ecolab 1997 Annual Report

About the cover

Let's face it. There are germs, dirt and pests in every corner of the globe. Which is why the opportunities for Ecolab are just as plentiful. From farm to brewery to grocery store, from stadium to hospital to world-class hotel, businesses worldwide count on Ecolab to keep their operations sanitary and clean. That's because when you see streaks, bugs and grime, we see opportunities. Opportunities to use our cutting-edge technology, world-renowned service and global expertise to grow our business — and make this a safer, more attractive and healthier world.

Description of business

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. Ecolab provides customized products, equipment and programs, backed by the industry's largest and best-trained sales-and-service force — 6,000-members strong.

Ecolab operates directly in 34 countries in North America, Asia Pacific, Latin America and Africa, employing more than 10,200 associates. In Europe, it reaches customers through a joint venture, Henkel-Ecolab, headquartered in Düsseldorf, Germany. Henkel-Ecolab does business in 24 countries, including Eastern European markets, and employs 4,475 associates, including a direct sales-and-service force of over 2,600. Ecolab serves customers in more than 100 other countries through distributors, licensees and export operations.

Ecolab common stock is traded on the New York Stock Exchange and the Pacific 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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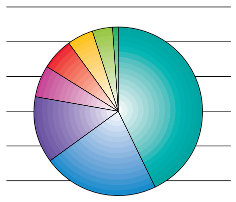
1997

Business Overview

Business Overview	Business Mix	Customers/Markets

Ecolab

Reaching customers in more than 150 countries around the world to provide products, systems and services to meet all of 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 & 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.



97

- Institutional 43%
- International 22%
- Food & Beverage 13%
- Pest Elimination 6%
- Professional Products 6%
- Kay 5%
- Textile Care 4%
- Water Care Services 1%

Customers:

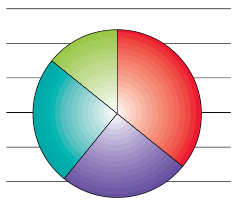
- Restaurants
- Hotels
- Quickservice operations
- Schools
- Laundries
- Healthcare facilities
- Dairy farms and plants
- Food, beverage and brewery processing plants
- Office buildings
- Shopping malls
- Light industry
- Fleet and vehicle wash

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, as well as individual customers that prize value-added quality.



97

- Institutional 36%
- Professional Hygiene 25%
- Food (P3) Hygiene 25%
- Textile Hygiene 14%

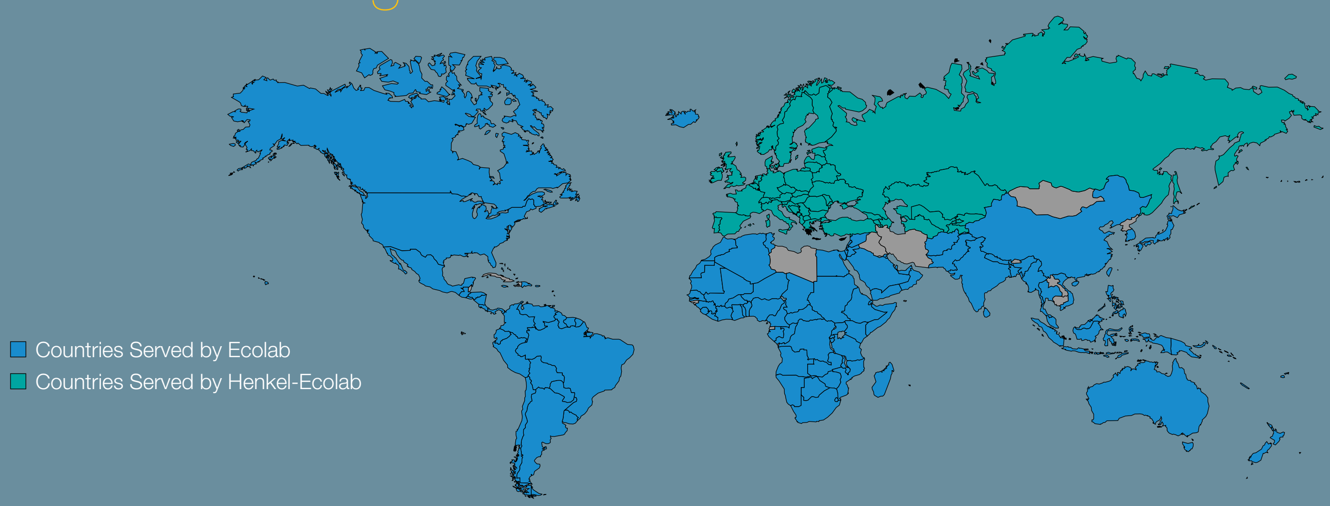
Customers:

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

Market:

- Europe

Global Coverage



Services/Products | **Sales** | **Sales-and-Service Associates**

Institutional: Innovative 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 services.

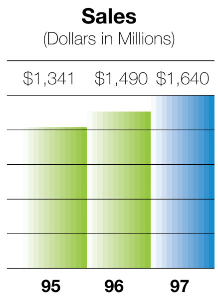
Kay: Cleaning and sanitation products and training programs for the quickservice restaurant and grocery markets.

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

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

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

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



December 31	1995	1996	1997
Institutional	2,235	2,315	**2,445**
Pest Elimination	985	1,035	**1,125**
Kay	100	115	**125**
Textile Care	135	145	**140**
Professional Products	65	200	**215**
Water Care	100	100	**90**
Food & Beverage	285	350	**405**
Canada	240	265	**300**
Asia Pacific*	635	595	**665**
Latin America	375	400	**370**
Africa	125	85	**110**
Total	5,280	5,605	**5,990**

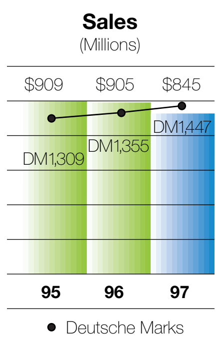
*excludes Gibson

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.

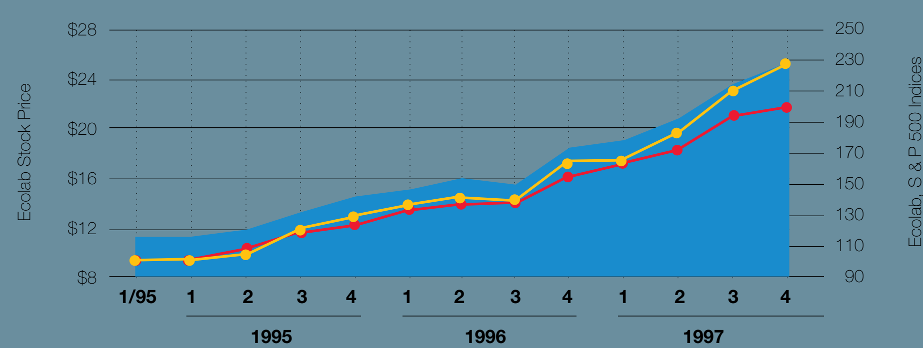
Textile Hygiene: Cleaning and sanitizing products and services for large and on-premise laundry market sectors.



December 31	1995	1996	1997
Joint Venture	2,470	2,370	**2,635**

Ecolab Stock Performance

	1997		1996	
Quarter	**High**	**Low**	High	Low
First	**$19.56**	**$18.13**	$16.31	$14.56
Second	**$24.03**	**$19.06**	$16.94	$14.75
Third	**$24.94**	**$21.28**	$16.88	$14.75
Fourth	**$28.00**	**$23.06**	$19.75	$16.75



Ecolab Stock Price

Ecolab Stock Price Index. Jan. 1, 1995 = 100

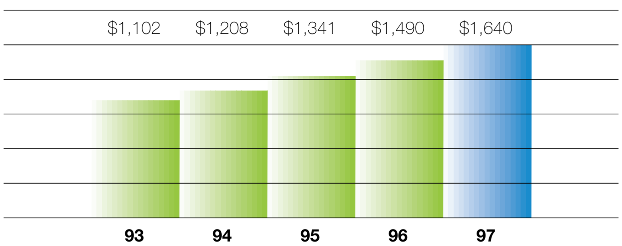
S&P 500 Index. Jan 1, 1995 = 100

Highlights

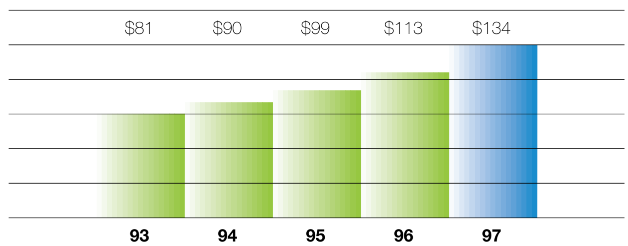
Financial Highlights

December 31 (dollars in thousands, except per share)	**1997**	1996	1995	Percent Change **1997**	Percent Change 1996
Net Sales	**$1,640,352**	$1,490,009	$1,340,881	**10%**	11%
Net Income	**133,955**	113,185	99,189	**18**	14
Percent of Sales	**8.2%**	7.6%	7.4%		
Diluted Net Income per Common Share	**1.00**	0.85	0.73	**18**	16
Diluted Weighted Average Common Shares Outstanding	**133,822**	132,817	134,956	**1**	(2)
Cash Dividends Declared per Common Share	**0.335**	0.290	0.258	**16**	13
Cash Provided by Continuing Operating Activities	**235,098**	254,269	163,463	**(8)**	56
Capital Expenditures	**121,667**	111,518	109,894	**9**	1
Shareholders' Equity	**551,701**	519,963	456,658	**6**	14
Return on Beginning Equity	**25.8%**	24.8%	21.5%		
Total Debt	**308,268**	176,292	161,049	**75**	9
Total Debt to Capitalization	**35.8%**	25.3%	26.1%		
Total Assets	**$1,416,299**	$1,208,409	$1,060,880	**17%**	14%

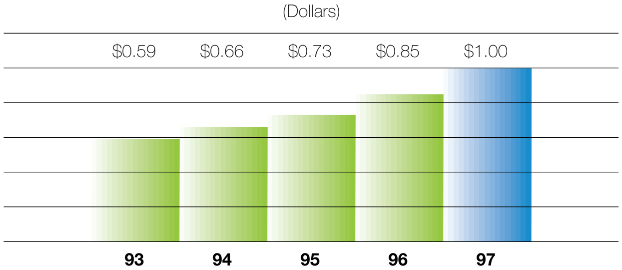
Net Sales
(Dollars in Millions)



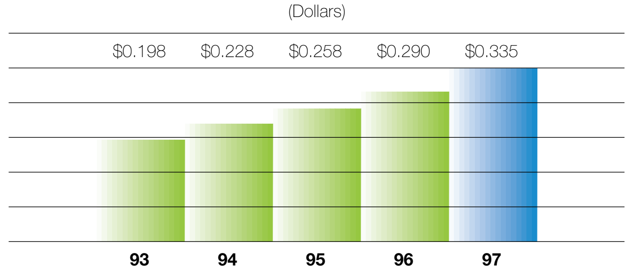
Net Income
(Dollars in Millions)



Diluted Net Income per Share
(Dollars)



Dividends Declared per Share
(Dollars)



Net income and diluted net income per share for 1993 and 1994 are pro forma results that reflect adjustments to eliminate unusual items associated with the company's December 1994 merger with Kay Chemical Company.

This Annual Report to Stockholders contains various "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which represent Ecolab's expectations or beliefs concerning various future events, are based on current expectations. Therefore, they involve a number of risks and uncertainties that could cause actual results to differ from those of such Forward-Looking Statements. We refer readers to the Company's statement entitled "Forward-Looking Statements and Risk Factors," which is contained under Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997, for further discussion of these matters. Additional risk factors may be described from time to time in Ecolab's filings with the Securities and Exchange Commission.

To Our share-holders

Allan L. Schuman, President and Chief Executive Officer (left)
Michael E. Shannon, Chairman of the Board,
Chief Financial and Administrative Officer (right)

In 1997, Ecolab proved the old adage true — opportunity has its rewards.

We achieved record sales, record earnings, record gross profit and record return on beginning equity in 1997, capping the year with the value of our shares rising 47 percent for a record stock price and market capitalization. We launched more than 135 differentiated products, systems and services, many to address escalating food safety concerns. We made seven strategic acquisitions, strengthening our global presence across key markets. And we expanded our growing portfolio of services, entering into the $700 million U.S. vehicle wash market. Once again, we aggressively put our Circle the Customer – Circle the Globe strategy to work — and reaped the rewards.

Specifically, here's what we accomplished:

Financial highlights

- Sales from wholly-owned operations increased 10 percent to a record $1.6 billion, as aggressive sales efforts, an expanded sales-and-service force, new product introductions, and strategic acquisitions once again contributed to the gain. Our global sales coverage, including our European joint venture, Henkel-Ecolab, reached $2.5 billion.
- Our net income increased to $134 million, up 18 percent over 1996's net income. Diluted earnings per share grew 18 percent to $1.00, benefiting from new products, productivity gains and cost controls. This was Ecolab's fifth consecutive year of double-digit earnings per share growth.
- Our return on beginning shareholders' equity was 25.8 percent, exceeding our corporate goal for the sixth consecutive year.

■ Our stock price soared. We began the year at $18.81 and ended at $27.72, an increase of 47 percent — well in excess of the 31 percent growth of the Standard & Poor's 500. This represents the third consecutive year in which we surpassed the S&P 500, and the sixth year of the last seven. Since 1990, Ecolab shares have risen 422 percent, compared to the S&P 500's 194 percent increase.

■ Our Board of Directors approved a two-for-one stock split in the form of a 100 percent stock dividend, paid on January 15, 1998. This was our second such stock split in four years.

■ We maintained our "A" category balance sheet rating from the major credit rating agencies, despite our aggressive acquisition activity.

■ In December, we increased our quarterly cash dividend 19 percent to $0.095 per share from $0.08. This resulted in an indicated annual rate of $0.38 per share and is in keeping with our policy of paying out between 30 and 40 percent of our earnings as dividends.

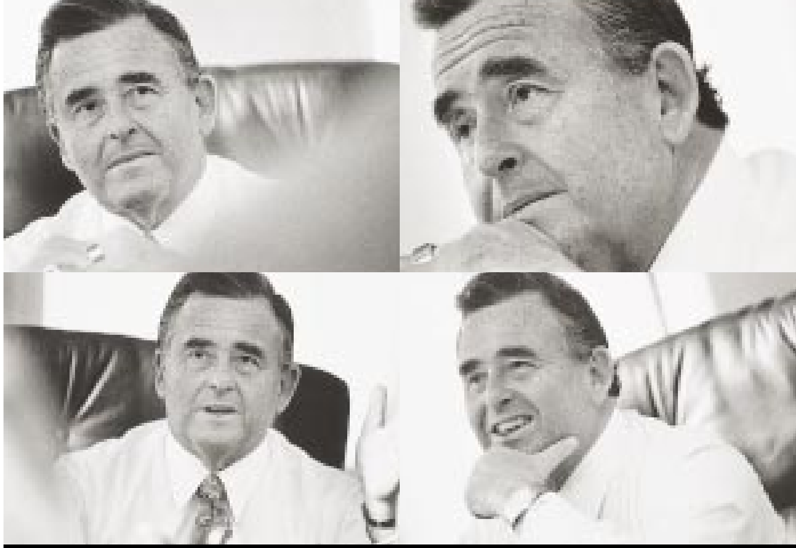
Opportunities for growth

■ We continued to differentiate ourselves from competitors with aggressive new product platforms, many which offer opportunities across markets. They include *GeoSystem*, a new solids innovation that offers improved performance, increases user safety and reduces plastic packaging by 90 percent, and *Tsunami*, a flume water treatment that more effectively controls bacterial contamination in fruit and vegetable plants. Thirty-five percent of Ecolab's total U.S. sales come from products and systems introduced or modified within the last five years.

■ To enhance service coverage, we added 385 associates to our sales-and-service force, which is now nearly 6,000 members strong. It maintains its reputation as the largest and best-trained organization in the industry. When including our Henkel-Ecolab joint venture, our sales-and-service force totals 8,625 associates worldwide, which represents an 8 percent increase over last year.

■ In 1997, we acquired Henkel KGaA's African businesses in Kenya, Tanzania and Morocco. These wholly-owned subsidiaries, coupled with our existing South Africa operations, provide a strong launching pad for further expansion within the continent.

■ In March, we acquired the institutional, food and beverage and commercial laundry businesses of the Savolite Group of Vancouver, British Columbia, Canada, enhancing Ecolab's presence in both Canada and the U.S. Pacific Northwest.



Food safety is our business

Allan L. Schuman
President and Chief Executive Officer

The food safety issue is heating up. Last year it was almost impossible to turn on the TV or open up the newspaper without hearing about foodborne illness, a public threat that will undoubtedly receive even more attention in 1998. The bad news is that bacteria and diseases are making more frequent appearances in our food, and they are becoming even tougher to control and eliminate. The good news is that Ecolab has the people, products and processes in place to play a vital role in keeping our food safe.

Sanitation makes the difference. While it may seem like an elementary solution to an increasingly dangerous problem — one that puts lives at risk — the safe production, delivery, storage and preparation of food is paramount. And whether it be by sanitizing systems in food processing plants, providing handwash products to grocery store delis, or sanitizing the plates upon which meals are placed, Ecolab offers the products, equipment, training and support to help our customers keep their operations safe.

It is said the best defense against the threat of foodborne illness is eternal vigilance — and lots of soap. And Ecolab, with its total systems approach to cleaning and sanitation, is in the perfect position to continue to grow its business by providing both.

■ In August, we acquired the Chemidyne Marketing Division of Chemidyne Corp., Macedonia, Ohio, a provider of cleaning and sanitizing products and equipment to the U.S. meat, poultry and processed food markets. We successfully integrated the business into our Food & Beverage Division, strengthening its ability to meet the market's rapidly growing needs.

■ In December, we acquired certain assets of Grace-Lee Products Inc., a Minneapolis, Minn.-based manufacturer and marketer of cleaning products for the U.S. vehicle wash market. This acquisition will serve our existing customers' fleet wash operations, as well as independent car washes.

■ At the end of 1997, we completed our acquisition of Gibson Chemical Industries Limited of Melbourne, Australia, a leader in the institutional, food and beverage, and water care markets in Australia and New Zealand. This will allow us to leverage our presence in the region.

Demonstrated leadership

■ For the ninth time in 13 years, Ecolab earned the Multi-Unit Food Service Operators "Supplier of the Year" award, demonstrating our commitment to service excellence.

■ Associates showed incredible support for Ecolab's Grand Forks, N.D., employees during devastating springtime floods. Donations included $241,000 from employees, retirees, customers, suppliers and matching corporate contributions, and truckloads of clothing and supplies. This was supplemented by $800,000 in grants and loans from the Ida C. Koran Trust for Ecolab associates.

■ Rick Marcantonio joined Ecolab as senior vice president, Industrial, responsible for the Food & Beverage, Water Care Services and Pest Elimination divisions. He came to Ecolab from the Keebler Company.

■ In August, Les Biller, president and chief operating officer of Norwest Corporation, was elected to Ecolab's Board of Directors. We welcome Les and look forward to his contributions.

■ Bill Rosengren, senior vice president, Law and General Counsel, retired from Ecolab in December after 18 years of service. Bill is a good friend; we will miss his contributions and wish him well in the future.

■ We suffered a tragic loss in 1997 when Russ Cleary, a member of our Board of Directors since 1981, passed away unexpectedly. He was a trusted advisor and leader who helped us grow.

Outlook for the future

The accomplishments listed above represent some of the strongest enhancements to Ecolab's enterprise and most promising growth prospects in our history. And we've only just begun.

In 1998, we expect the sales environment to remain competitive as industry consolidations, pricing pressures and economic struggles abroad present their challenges. However, we have successfully overcome these obstacles in the past. With our associates' exceptional efforts, and our time-proven strategies, we are confident we can do so again.

Ecolab will maintain its leadership position by continuing to develop differentiated products and services that offer increased value to our customers. We will expand our sales-and-service force — the largest and best-trained in the industry. And we will stay far ahead of industry issues and trends, as we have with the growing concerns over food and employee safety. Ecolab will also continue to follow its global customers into emerging markets, providing them with the same level of service they enjoy at home — and strengthening our presence, expertise and competitive advantage around the world.

Opportunities remain in all of our markets, and as we forge our 21st century enterprise, we will seize these opportunities at an accelerated pace, aggressively implementing our Circle the Customer – Circle the Globe strategy to better serve our customers, grow our sales, gain market share and ultimately increase shareholder value.

When you see a world, Ecolab sees a world of opportunity. That's why we will continue to grow our business by expanding our products, coverage and customer base. In doing so, we will provide businesses, employees and shareholders alike with opportunities — and rewards — that are endless.

Allan L. Schuman

Allan L. Schuman
President and Chief Executive Officer

Michael E. Shannon

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

We are everywhere.


WHAT YOU SEE.

defense!

defense!

WHAT WE SEE. A full season of mud and dirt. Sticky counters. The toughest of grease and grime. While you're watching the clock, we're keeping it clean. And long before you've bitten into that hot dog, we've helped ensure that it's safer to eat. Much more than a supplier of soaps and detergents, Ecolab is a business partner, working behind the scenes all season long to keep concession stands and uniforms, rest rooms and corridors, safe, sanitary and spotlessly clean. In fact, helping our customers succeed — by running more healthy, attractive and profitable operations — is our No. 1 goal. Not just in football stadiums. But any arena.

Half-time snacks

590,000 hot dogs

The best offense is a good defense, especially when waging the war against foodborne illness. Ecolab helps customers every step of the way, from meat or condiment plant to stadium kiosk, with products and systems that help keep hands, surfaces and food bacteria-free.

Complete support

1,100,000 stadium seats

By the time the fans have filled the stadium, our team has gone to work. Around the world, our more than 8,600 sales-and-service specialists, 600 scientists, chemists and engineers, and 400 customer service representatives have their own proven strategies in place to offer prestigious sports facilities — and other loyal fans — consistently superior results.

No sweat

2,720 football jerseys

In laundries, efficiency is the name of the game. That's why Ecolab goes beyond superior products to offer its customers employee training, technical support and dispensing equipment that tackles productivity, safety and cost-control issues, as well as clean a football player's grass and dirt stains.

Sanitary surfaces

600 rest rooms

From the mirrors and the faucets to the cement floors and toilet bowls, Ecolab gives arena rest rooms the special attention they need. Complete programs of fast, effective products and systems keep these demanding environments sanitary. Competitively advanced systems don't just mask odors, but destroy them.

Shining floors

8,500,000 square feet

Even clean floors help our customers make a winning first impression. While heavy traffic can give stadium surfaces a beating, Ecolab's professional-strength formulas provide maximum protection and keep maintenance requirements to a minimum. They're the best in their field.


WHAT YOU SEE.

Feeling *lucky?*

WHAT WE SEE. No streaks at all. No spots or pests either. No dirt. No odors. No stains. Year after year, casinos are open to public inspection every minute of every day. And whether you’re dining in the restaurant or relaxing in your room, visiting the blackjack table or swimming in the pool, one game rule holds true. If it isn’t spotless, people take notice. And take their business somewhere else. That’s why Ecolab offers these customers products, systems and services to meet all of their cleaning and sanitation needs all year long. With sparkling dishware and crisp, clean linen, impeccable showers and bright lobby floors, we help casinos — and other facilities — look like a million bucks.

Dinnerware

16,425,000 place settings

Gleaming china. Sparkling crystal. Results you can see with your eyes. Our warewashing programs, the heart of our institutional business, include detergents for cleaning, rinse additives for drying, and presoaks that reduce washing time. Dispensers control product usage. And contribute to dazzling results.

It’s clear

243,455,000 gallons of water

Ecolab’s pool and spa program is a winner in every sense of the word. Administered via modem from miles away, it makes maintenance easier than ever before. Facilities reduce labor costs and water-quality worries. Patrons enjoy pools that are sanitary and sparkling clean. Ecolab expands its portfolio of services with cutting-edge technology and water treatment expertise.

Shining reputation

54,750,000 square feet

Exceptional results are in the cards with Ecolab's housekeeping programs. Super-concentrated formulas save time, labor and money, while sophisticated dispensing systems maximize control. From tables to the kitchen tile, floors to the shower door, they keep surfaces clean and pay big rewards. Right down to the bottom line.

Clean towels and linen

15,045,000 pounds

When you've got a full house, your towels and linens must keep up their appearance, wash after wash. That's why Ecolab offers casino hotel laundries automatic injection systems that provide accurate dispensing and a wide array of products that offer brilliant results. Backed by extensive testing and research, they'll ace the largest laundry challenge right on the spot.

A great hand

20,600,000 washes

Ecolab's complete line of handcare systems does much more than just clean hands. Our products moisturize, sanitize, soothe and offer effective antibacterial control. High-lather formulas and fresh, pleasant scents invite frequent usage, keeping germs and infection at bay. Unique and attractive dispenser designs eliminate mess, misuse and waste.

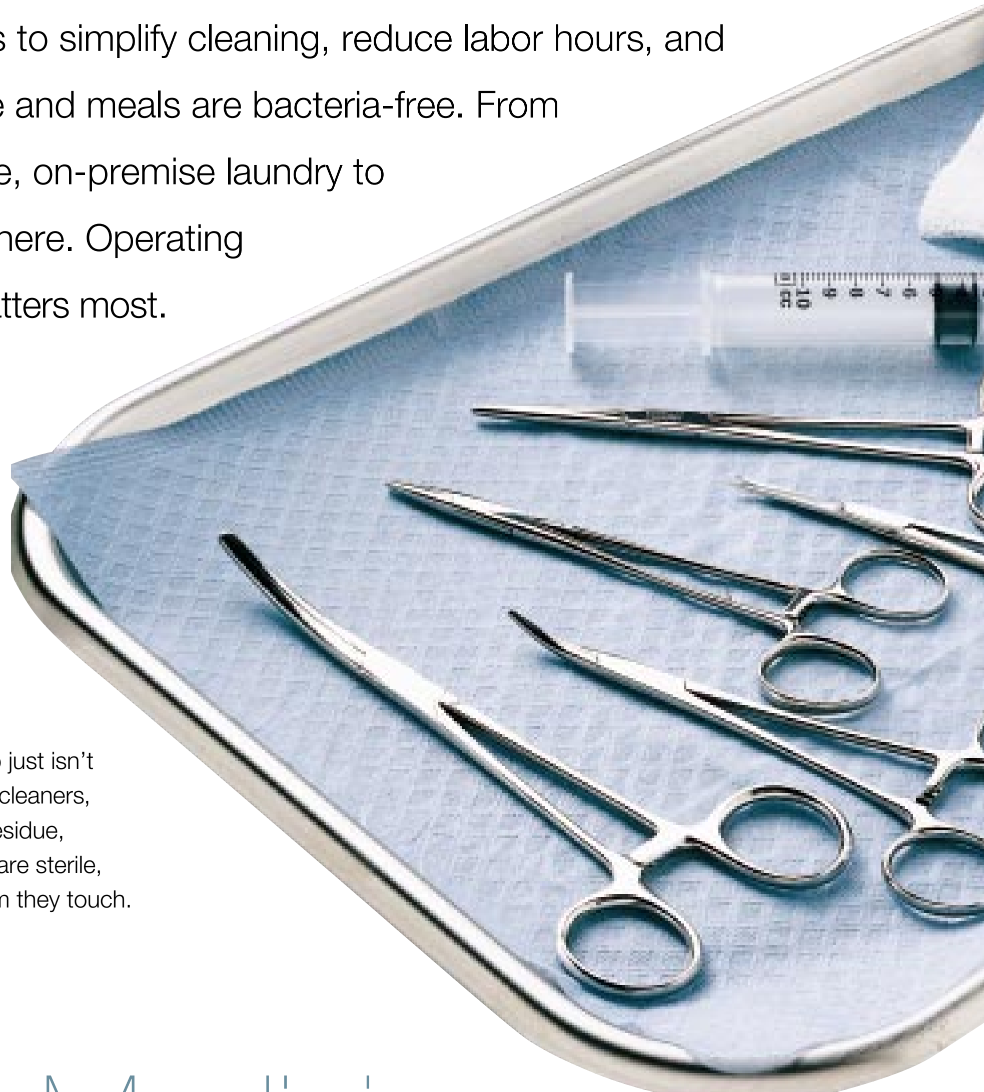

WHAT YOU SEE.

Scalpel.

Sponge.

Suture.

WHAT WE SEE. A year's worth of surgical instruments. Blankets and washcloths. Carts and cafeteria trays. In a hospital setting, hundreds of thousands of surfaces must be kept sanitary, fresh and scrupulously clean. So while doctors and nurses take care of the patients, we're taking care of sheets, showers and scrubs. And while the intern is making final rounds for the day, we're prescribing ways to simplify cleaning, reduce labor hours, and ensure medicine and meals are bacteria-free. From delivery room to surgical suite, on-premise laundry to hospital cafeteria, Ecolab is there. Operating around the clock. Where it matters most.



Perfectly sterile

58,000 surgical instruments

When it comes to surgical instruments, looking sharp just isn't enough. With a professional line of disinfectants and cleaners, we remove every trace of bacteria, hint of tissue or residue, and droplet of dried-on blood. We help ensure tools are sterile, impeccably clean, and nonthreatening to those whom they touch.

Medicine and meals

197,000 ounces of formula

For pharmaceutical and baby formula plants, sanitation is critical. With exceptional products, systems and service, Ecolab delivers results. Our computerized clean-in-place systems, specialized cleaners and sanitizers, and sanitary conveyor lubricants all ensure cleanliness and precise dispensing control — when there simply is no room for error.

Tough stains

54,750 surgical scrubs

Life expectancy is as critical in a hospital laundry as it is in a hospital. Here we're not referring to humans, however, but bed linen, bath towels and surgical scrubs. With enzyme-based detergents that power out stains, and advanced dispensing systems that offer quality results, Ecolab extends linen life. Which means a healthier bottom line, as well.

Bacteria-free

1,416,000 hands

In hospitals, dirty hands can cause problems of epidemic proportions. That's why Ecolab takes care of the hands that care for others. From locker room to rest room, nurse station to lounge, our washes battle infection, promote frequent usage, and help control overall costs. With 75 years of experience, they're the best. Hands down.

Room temperature

526,000,000,000 cubic feet of air

When lives are at risk, the last thing you want to worry about is heating, ventilation or air conditioning. With water treatment programs for boilers and cooling systems, Ecolab helps ensure you don't have to. With advanced technology and regular service, we improve efficiency and minimize downtime. So staff, patients and guests can all breathe a little easier.


WHAT YOU SEE.

Paper

or

plastic

?

WHAT WE SEE. Three hundred sixty-five days of washing eggs. Cleaning hands. Sanitizing dairy milking machines. Long before foods reach your dining room table, or even your supermarket freezer or shelf, we've helped ensure that they're perfectly clean. From dairy farms to food processing plants, soft drink producers to grocery store delis, Ecolab meets the highest cleanliness standards with superior chemistry, cutting-edge systems and service that can't be beat.

We help customers extend product shelf life, improve food appearance, and keep the goods that they sell bacteria-free. Which means in terms of food safety, we bring a lot to your table as well.

Farm fresh

6,300,000 eggs

It doesn't matter which came first. Ecolab helps poultry producers and egg product plants keep their facilities sanitary and impeccably clean. Our egg-washing products offer consistently white, bright results, enhancing product quality at low use-cost concentrations. And our sanitation systems help these customers comply with increasingly complex regulations.

Safer Produce

7,300,000 pounds

As in other markets, Ecolab helps fruit and vegetable processors produce safer end products for human consumption. *Tsunami*, for instance, cleans fruit and vegetable surfaces, as well as the flume water used to transport them. It controls the growth of harmful microbes and offers superior sanitation results.

Pest-free

0 flies

No sanitation program is complete without pest elimination. And because flies can carry illnesses, bacteria and germs, their removal from supermarket settings is especially crucial. With regular service and proprietary equipment, Ecolab eliminates these unwanted guests — discreetly and completely.

Drink up

79,000,000 ounces of soda

Soft drink, fruit juice and other beverage producers turn to Ecolab for enhanced safety and increased efficiency. Our programs inhibit the growth of bacteria, yeast and molds in mixing vats, pipelines and other integral systems. And our specialists help these customers manage energy, water and effluent issues — to keep a lid on overall costs.

Top choice

730,000 pounds of beef

Recent outbreaks of foodborne illness have customers beefing up their employee training programs. That's why Ecolab goes beyond products to offer instruction in handwashing, food preparation, surface and equipment sanitation, and other key topics that help keep grocery store personnel on the cutting-edge of clean.

Institutional

Highlights Capitalizing on proven strategies, products, programs and people, Institutional enjoyed its strongest growth in more than 15 years. Highlights include:

- Achieved double-digit sales and earnings growth and increased market share in all core categories, benefiting from a robust hospitality market, aggressive sales and marketing efforts, and the continued addition of new corporate and independent accounts in the hospitality, foodservice and healthcare segments.
- Enhanced its service coverage, productivity and profitability by adding 140 associates to its sales-and-service force, increasing field sales specialization and implementing other successful cost-control initiatives throughout the year.
- Leveraged its "Think Food Safety" campaign, which promotes a comprehensive and carefully coordinated step-by-step approach to delivering, storing, preparing and serving safe food. This took on increased importance as foodborne illness outbreaks heightened consumers' food safety concerns.
- Continued to build its differentiated position through the roll out of more than 30 new products and systems, including the *Max System*, which offers products and controlled dispensing for exceptional pot-and-pan cleaning and sanitation. Additions to existing lines included *Stain Blaster Power Paks*, pre-packaged stain removers that reclaim the most heavily stained linen, and *Solid System II* and *IV*, which are specially designed to meet the on-premise laundry needs of specific market segments.

Sanitation control Ecolab's *Max System* for pot-and-pan areas offers powerful product performance and precise dispensing control of super-concentrated liquid detergents and sanitizers.

Expanding lines Institutional's growing *Solid System* line combines Ecolab's solid product technology and advanced dispensing systems that are specially designed to meet the on-premise laundry needs of different market segments.

- Once again achieved impressive double-digit sales growth with its *Ecotemp* dishmachine program, which includes high- and low-temperature dishmachines manufactured by Ecolab's Jackson unit. The *Ecotemp* programs promote convenience, value and energy efficiency.
- Continued to set new competitive standards by promoting its *Edge* program, which refers to Institutional's value-added, problem-solving approach to meeting its customers' needs. The division goes beyond cleaning and sanitation, providing foodservice and hospitality operators with solutions that help them run more successful businesses.

Outlook Institutional is well-positioned for another year of industry leadership and exceptional sales growth. With a focus on Ecolab's Circle the Customer strategy, it will leverage alliances with sister divisions to meet customers' total cleaning and sanitation needs. In addition, Institutional will continue to differentiate itself from competitors by promoting its highly innovative, value-added products, systems and services, including the new high-performance *GeoSystem 9000* warewashing program and initiatives that address the critical issues of food and employee safety. By expanding its sales-and-service force and increasing field sales segmentation, Institutional expects to make improvements in sales effectiveness, customer service and overall efficiency, and increase market share once again in 1998.

Pest Elimination

Highlights Pest Elimination achieved another year of double-digit sales and earnings growth in 1997, overcoming the six-week closure of its headquarters due to devastating floods in Grand Forks, N.D. Highlights include:

- Introduced *EcoPro*, a cross-divisional program between Pest Elimination and Food & Beverage that proved significant in gaining new sales. To better leverage its alliances with other divisions, Pest Elimination is also developing market-specific programs for the quickservice restaurants and other industries.
- Offset increased competitive activity by continuing to capitalize on its innovative *Checkpoint* rodent technology and *Stealth Fly System*, and by successfully rolling out *ECO2000*, a new cockroach bait system that eliminates extensive preparation and clean-up and reduces insecticide usage, offering major advantages in terms of safety and time savings.

Service excellence Like Pest Elimination's other programs, the *ECO2000 Bait System* includes proprietary technology plus skilled application, careful inspection and regular service by a trained Ecolab Service Specialist.

- Demonstrated Ecolab's strong service culture during April floods, relocating key Grand Forks administrative associates to a recovery site in Minnesota within hours to successfully maintain operations and continue serving customers.

Outlook The pest elimination market will remain competitive in 1998. However, Pest Elimination expects another year of record performance, benefiting from strong alliances with Ecolab's other divisions, resources added in 1997, innovative technology, market share expansion, and a continued focus on market-specific programs that best meet customers' needs.

Kay

Highlights Despite the quickservice market's slowdown, Kay achieved good sales and earnings growth in 1997. Specific accomplishments for the year include:

- Nearly doubled its grocery market business, a niche entered last year, benefiting from increased national attention on food safety and continued acceptance of its *Quality Through Sanitation* program for the grocery segment, which has been very well-received.
- Secured a contract with yet another major national quickservice restaurant chain, which was successfully rolled out throughout the year.
- Introduced new products to meet quickservice customers' unique needs and differentiate itself from competitors, including the *Exacta* product and dispensing system for restaurant operations, super-concentrated multi-purpose cleaners, and a laundry product and dispensing program.
- Continued to leverage Ecolab's Circle the Customer strategy, working closely with the Pest Elimination and Institutional divisions to meet customers' entire spectrum of cleaning and sanitation needs.

Outlook Bolstered by increased grocery business, market share gains and a continued national focus on the importance of food safety, Kay expects to build momentum in 1998. By capitalizing on Ecolab's Circle the Customer strategy and promoting its own expanding line of differentiated products, systems and services, Kay is projected to continue to achieve sales and earnings gains in 1998.

Space-saving solutions Kay's *Exacta* product and dispensing system, developed specifically for the quickservice restaurant industry, features a modular, wall-mountable design that offers precise portion control and saves valuable space.

Textile Care

Highlights Continued market consolidation and increased pricing pressures made 1997 a very challenging year for Textile Care. To respond to an aggressive and competitive business environment, differentiate itself and address changing market needs, Textile Care focused on expanding its offering of innovative and highly efficient products and systems. Highlights include:

- Introduced proprietary products for the industrial market, including *TurboSpeed*, a unique low-alkaline builder that helps extend garment life, and *TurboRev*, an EPA-endorsed low-temperature detergent that offers significant water and energy savings.
- Launched the *EcoHeat* Hot Water Reclamation Service, which reduces wastewater discharge levels and allows customers to save money by reusing hot water.
- Continued to capitalize on its successful *Turbo* product line, which once again exceeded forecasted sales, and developed the *T-Jet 2000* dispensing system, which offers real-time diagnostic and management data, and exceptional benefits in terms of washaisle efficiency.

Outlook While market conditions are expected to remain difficult in 1998, Textile Care will continue to use its innovative technology to improve its market position and differentiate itself from competitors. The *T-Jet 2000* dispensing system and low-temperature product technology will drive sales growth, as will other solutions that meet customers' growing demands for efficiency and cost effectiveness. As on-premise healthcare laundries continue to close and commercial laundries take their place, Textile Care is well-positioned to capitalize on the innovative solutions it offers this changing market environment.

Advanced capabilities
Textile Care's new *T-Jet 2000* dispensing system comes with advanced information management capabilities. Wash formulas can be programmed quickly and easily, and real-time graphics display all washaisle activity at any given time.

Infection control
Frequent handwashing is the best way to prevent the spread of infection from hands. That's why Ecolab's Huntington brand skin-care products are formulated to be effective against bacterial pathogens such as staphylococci and E. coli.

Professional Products

Highlights Professional Products achieved sales and earnings growth in 1997. Specific accomplishments include:

- Capitalized on its successful *Quik Fill*, floorcare, hand-soap and instrument-care product lines to grow sales in its core businesses despite the elimination of certain low-margin Huntington products.
- Grew its corporate account business in the healthcare and building service contractor markets, benefiting from an expanded sales force, a strong corporate account focus, and key sales management additions.
- Expanded its markets, adding Huntington's wood floorcare product line to Professional Products' distribution system, adding significant national contract business in the nonfood retail segment, and establishing a network of manufacturers' representatives for alternate healthcare distribution.
- Continued to broaden its *JaniSource* business through key national brand alliances, adding *Fantastik*, *Janitor in a Drum*, *Simoniz* and other name brands to its product line, and expanding its national network of manufacturing representatives.

Outlook With its Huntington integration complete, the Professional Products Division will continue to focus on healthcare and building service contractor corporate accounts, and nonfood retail business. In addition, it will continue to expand into the industrial maintenance market and broaden its JaniSource offering. Finally, its new alternate care organization, solidly established in 1997, is expected to offer an attractive new area of growth for 1998.

Water Care Services

Highlights In 1997, Water Care completed the integration of recent acquisitions and positioned itself for growth. Highlights include:

- Substantially reduced expenses through key cost-savings and operating rationalization programs.
- Transferred Ecolab's solids technology to the water treatment industry, rolling out *CrystalMate*, a revolutionary cooling tower program that offers significant advantages in terms of handling, storage and cost savings.
- Introduced *Balancer.com*, a breakthrough concept for the commercial pool and spa market that has been very well-received. This unique "real-time" chemical management program is administered remotely using state-of-the-art modem technology for reduced labor and improved efficiency.
- Continued to partner with Institutional, Textile Care and Food & Beverage to gain business in the hospitality, commercial laundry and food processing industries and strengthen Ecolab's influent-to-effluent water management expertise.

Outlook With its integration efforts complete, Water Care Services is positioned for growth in 1998. Leveraging Ecolab's extensive customer base, exceptional service culture and innovative water treatment technology, it promises new standards of performance and value to customers nationwide.

Food & Beverage

Highlights Benefiting from recent acquisitions and an increased national focus on the importance of food safety, Food & Beverage achieved record results in 1997. Highlights include:

- Achieved double-digit growth in its nondairy markets, led by significant new food processing business and new account gains in the beverage industry.
- Despite continued consolidation, the division increased market share in its core markets through aggressive sales efforts, segmentation of its sales-and-service force, and increased promotion of a "total systems" approach to service, which focuses on helping customers reduce overall operating costs.
- Finalized the integration of the Monarch business, which strengthened the division's dairy market geographic coverage and provided valuable manufacturing and sales synergies that contributed to an exceptional increase in earnings.
- Significantly expanded its presence in the meat and poultry processing market through the acquisition of the Chemidyne Marketing Division of Chemidyne Corp.
- Strengthened its presence in the fruit and vegetable processing market with the successful introduction of *Tsunami*, a new flume treatment that offers exceptional benefits in terms of efficacy and safety, which has been very well-received.
- Increased its beverage business, growing its dairy, brewery and soft drink market shares.

Enhanced food safety
By cleansing the surfaces of whole or cut vegetables and fruit, as well as the flume water used to wash and transport them, *Tsunami* helps control the growth of harmful microbes in fruit and vegetable processing facilities.

Outlook Food & Beverage expects to continue to achieve good growth in 1998. It will aggressively pursue food processing business, benefiting from the introduction of *Tsunami* and new market applications for the product, and the Chemidyne acquisition, which has significantly increased Ecolab's presence in the meat and poultry processing industries. Food & Beverage will also expand and leverage its full brewery program. By continuing to focus on product differentiation and its "total systems" approach to solving customers' cleaning and sanitation needs, the division expects to increase market share in all segments in 1998.

International

Africa

Highlights Though challenged in 1997, Africa made progress with a number of initiatives, setting the stage for future growth. Highlights include:

- Reorganized management, developed a more aggressive sales-and-service force, and increased profitability through cost-control measures.
- Continued to strengthen its offering by introducing proven, differentiated products and systems, including Institutional's *Vanguard* warewashing system, *Oasis* housekeeping system, and *Ecotemp* dishmachine program; Professional Products' *Quik Fill* delivery system; and Food & Beverage's *Solid Choice* conveyor lubricants.

Outlook With its strengthened organization and broadened operations, Africa is in an improved position for growth. New product penetration and corporate account gains, aided by the launch of *EcoStar*, *Vortexx* and *Tsunami*, are expected to drive sales growth in 1998.

Asia Pacific

Highlights Ecolab's Asia Pacific operations overcame a developing economic crisis in the region to report excellent sales and earnings growth. Highlights include:

- In local currencies, achieved record performances in total sales and operating income in nearly all of the 14 countries in which it does business. Japan and Southeast Asia led the way, reporting double-digit sales increases in Institutional and Food & Beverage.
- At year end, completed the acquisition of Gibson Chemical Industries Limited of Melbourne, Australia, a leader in the institutional, food and beverage, and water care markets in Australia and New Zealand.
- Continued to roll out differentiated products and systems, including the successful *Oasis Compac*, *EcoStar* and *Vortexx* programs.

Outlook While ongoing economic turmoil will continue to impact Ecolab's Asia Pacific business, the countries most affected represent only a small portion of sales in that region. Through the addition of Gibson, new product introductions, aggressive sales efforts, and market share gains, Asia Pacific expects to outperform its markets again in 1998.

Customized programs
Ecolab meets international customers' needs with products and systems specially adapted for different markets. *Oasis Compac*, a smaller version of Ecolab's popular *Oasis* system, was created for the Asian marketplace, where space is often at a premium.

Canada

Highlights Building on strong internal growth and the acquisition of the institutional, food and beverage, and commercial laundry businesses of the Savolite Group early in 1997, Canada recorded excellent sales and earnings growth. Highlights include:

- Achieved double-digit growth in Institutional, largely due to an expanded sales-and-service group, focused field training programs, continued expansion of its *Ecotemp* business, and success with the recently introduced *Keystone* distributor program.
- Increased Food & Beverage sales, capitalizing on synergies from the recent Monarch and Savolite acquisitions.
- Integrated the Huntington acquisition into its Professional Products organization and increased sales in Pest Elimination.

Outlook With an aggressive program targeting independent operators, recent field sales investments, and new product introductions, Canada expects to achieve strong growth again in 1998.

Latin America

Highlights Latin America realized solid sales growth in 1997. Highlights include:

- Achieved a strong second-half rebound after a challenging first half due to consolidation in the beverage industry in Brazil and hurricane damage in the Caribbean.

Value-added systems Recent product introductions, such as the *Eco-Star* on-premise laundry program, contributed to Latin America's 1997 growth. *Eco-Star*'s advanced dispensing technology and exceptional products offer superior results, as well as cost savings.

■ Turned around its business in Mexico, benefiting from aggressive sales efforts, new products, an improved sales organization, and better account penetration, as well as improved economic conditions. Institutional and Food & Beverage improved sales and margins.

■ Substantially grew its Professional Products business in Brazil, fueled by new product introductions.

Outlook With an aggressive plan in place and improved market conditions, Latin America expects continued sales growth and profit improvements in 1998. Institutional and Food & Beverage will again lead Latin American growth.

Henkel-Ecolab

Highlights Despite difficult conditions in Europe's central countries and extreme pricing pressures within the janitorial and textile hygiene markets, Henkel-Ecolab achieved good sales gains in 1997. Specific accomplishments include:

■ Overall, grew sales 7 percent to more than DM 1.4 billion. When converted to U.S. dollars, sales were $845 million. Ecolab's equity in the earnings of the joint venture increased to $13.4 million from $13.0 million in 1996.

■ Increased Institutional sales by more than 8 percent and Food & Beverage sales by 6 percent in local currencies, benefiting from more aggressive sales efforts, new products and accelerated product transfers from Ecolab to the joint venture.

■ Acquired Ecosan, a German direct sales business formerly owned by Ecolab, which the German government forced Ecolab to divest as part of its approval of the 1991 joint venture agreement. This acquisition strengthened Henkel-Ecolab's direct sales business in Germany, which complements its existing distributor operations there.

■ Introduced the *Paradigm CIP* (clean-in-place) dairy system and the *3 ACES* udder hygiene care program, which further promote Henkel-Ecolab's differentiated "systems-based" approach to addressing customers' cleaning and sanitation needs.

■ Continued to differentiate itself within the institutional market with the new *EcoCare* housekeeping and *EcoGuard* kitchen specialties programs, which complement the existing *EcoPlus 2000* warewashing program.

Outlook Aggressive sales and marketing programs, along with ongoing product technology transfers, will continue to strengthen Henkel-Ecolab's sales, particularly within the Institutional and Food & Beverage markets. Government and private sector spending cutbacks will continue to present challenges in 1998. However, they will also increase the demand for Henkel-Ecolab's differentiated, cost-saving products, systems and services. Sales force investments, new product introductions, and the company's solid corporate accounts position are expected to accelerate Henkel-Ecolab's growth.

Differentiated programs Henkel-Ecolab's differentiated programs for the European marketplace include *Quik Fill Compac*, an economical and easy-to-use system that allows for easy mixing and dispensing of super-concentrated products.

Henkel-Ecolab

Financial Discussion

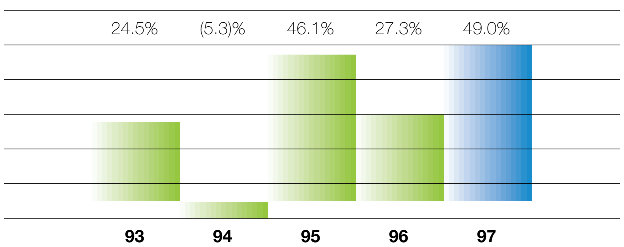
The following discussion and analysis provides information that management believes is useful in understanding the company's operating results, cash flows and financial condition. The discussion should be read in conjunction with the consolidated financial statements and related notes.

This financial discussion and other portions of this Annual Report to Shareholders contain various "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which represent Ecolab's expectations or beliefs concerning various future events, are based on current expectations that involve a number of risks and uncertainties which could cause actual results to differ materially from those of such Forward-Looking Statements. We refer readers to the company's statement entitled "Forward-Looking Statements and Risk Factors" which is contained under Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997. Additional risk factors may be described from time to time in Ecolab's filings with the Securities and Exchange Commission.

1997 Overview

Ecolab achieved another year of exceptionally strong financial results in 1997. It was the sixth consecutive year of record financial results for the company. These financial accomplishments were recognized in the marketplace as Ecolab's stock price increased 47 percent during 1997 and, including cash dividends, yielded a 49 percent total return to shareholders.

Total Return to Shareholders
(Percent)

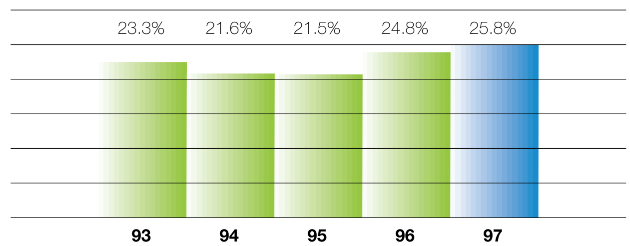


Share appreciation plus dividends.

The more significant accomplishments included:

- For the second year in a row, 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.
- Consolidated net sales reached a record $1.6 billion, an increase of 10 percent over the prior year.
- The core Institutional and Food & Beverage operations had strong performances. As a result, the company's gross profit margin reached 56.0 percent of net sales and the 1997 operating income margin increased to 13.3 percent of net sales; both representing record levels.
- Net income for 1997 increased to a record level of $134 million, or basic net income per common share of $1.03. During 1997, the company also reported diluted net income per common share, as required under new accounting standards. For 1997, diluted net income per common share was $1.00, a record high and an 18 percent increase over the prior year.
- The company continued to realize strong operating cash flows and maintained moderate debt levels. As a result, 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 a record 25.8 percent. 1997 was the sixth consecutive year that the company exceeded its long-term financial objective to achieve a 20 percent return on beginning shareholders' equity.

Return on Beginning Equity
(Percent)



- The company increased its annual dividend rate for the sixth consecutive year. The annual dividend rate was increased 19 percent to an annual rate of $0.38 per common share. The company has paid dividends on its common stock for 61 consecutive years.
- The company's common stock was split two-for-one in the form of a 100 percent stock dividend paid January 15, 1998 to shareholders of record on December 26, 1997. This was the third such stock split in the last 11 years. All per share and number of share data included in the 1997 financial report have been retroactively restated to reflect the stock split, except for the Consolidated Statement of Shareholders' Equity.
- The company made several business acquisitions during 1997. At year-end 1997, the company acquired Gibson Chemical Industries Limited (Gibson) located in Melbourne, Australia. Gibson is a manufacturer and marketer of cleaning

and sanitizing products, primarily for the Australian and New Zealand institutional, healthcare and industrial markets. Gibson has been included in the company's consolidated balance sheet at year-end 1997 and will be included in the company's consolidated results of operations beginning in 1998. Gibson had annual sales of approximately $130 million in 1997.

During 1997, the company also added to its Institutional and Food & Beverage operations in the United States and to its operations in Canada and in the Central Africa region through business acquisitions.

All of 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. Additional information related to these acquisitions is included in Note 5 of the notes to consolidated financial statements.

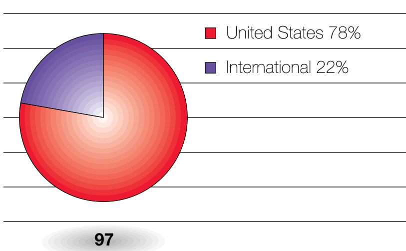
Operating Results

Consolidated

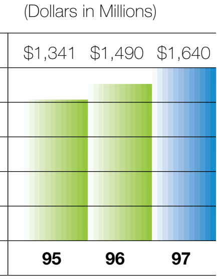
(thousands, except per share)	1997	1996	1995
Net sales	$1,640,352	$1,490,009	$1,340,881
Operating income	218,504	185,317	162,686
Net income	$ 133,955	$ 113,185	$ 99,189
Net income per common share			
Basic	$ 1.03	$ 0.88	$ 0.75
Diluted	$ 1.00	$ 0.85	$ 0.73

Consolidated net sales for 1997 were over $1.6 billion, an increase of 10 percent compared to net sales of nearly $1.5 billion in 1996. Both the company's U.S. and International operations contributed to this sales growth. Business acquisitions in 1997 and the annualized effect of businesses acquired in 1996 accounted for approximately one-fourth of the growth in sales for 1997. The growth in sales also reflected the benefits of new product introductions, an increased sales-and-service force, new customers and competitive gains. A continuation of generally good conditions in the hospitality and lodging industries, particularly in the United States, also had a favorable effect on sales for 1997.

Consolidated Business Mix



Sales
(Dollars in Millions)



Consolidated operating income increased 18 percent for 1997 and reached $219 million compared to consolidated operating income of $185 million in 1996. This growth included the benefits of business acquisitions, which accounted for approximately 20 percent of the increase. The consolidated operating income margin was 13.3 percent in 1997, a substantial improvement over the 1996 consolidated operating income margin of 12.4 percent. Most of the company's businesses contributed to these income improvements; however, strong performances by the core U.S. Institutional and Food & Beverage businesses during 1997 were the major contributors to the company's overall profit improvement. The increase in the operating income margin for 1997 reflected a substantial increase in the gross profit margin, which was partially offset by a modest increase in selling, general and administrative expenses as a percentage of net sales. The gross profit margin improved to 56.0 percent in 1997 from a gross profit margin of 54.7 percent in 1996. The increase in gross profit margin reflected higher sales levels of the company's more profitable core U.S. operations, a more stable raw material cost environment and good sales volume growth, particularly in the sales of new products. The benefits of selling price increases continued to be limited due to market pressures. Selling, general and administrative expenses were 42.7 percent of net sales in 1997, compared to 42.3 percent of net sales in 1996. This increase reflected investments in the sales-and-service force and the higher sales levels of the core U.S. operations, which have relatively higher selling expenses. These increases were partially offset by continued tight cost controls, improved sales productivity levels and strong sales growth during 1997. The company anticipates that the monetary problems which began in East Asia in late 1997 will slow the growth of consolidated operating income results in 1998, particularly early in the year. However, the impact is expected to be limited unless substantially broader areas of the Asia Pacific region are affected.

Net income for 1997 reached $134 million, or $1.00 per share on a diluted basis, and increased 18 percent over last year's net income of $113 million, or $0.85 per share. Net income improved to 8.2 percent of net sales, compared to

Financial Discussion

7.6 percent in 1996. The increase in net income reflected the benefits of strong operating income performance, lower net interest expense and modestly higher equity in earnings of the Henkel-Ecolab joint venture, which were partially offset by increased income taxes.

1996 compared with 1995

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 U.S. 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 continued to contribute significantly to sales growth, with additions to the sales force and competitive gains 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 benefits of the company's continuing cost-control efforts more than offset increased raw material costs and limited selling price increases.

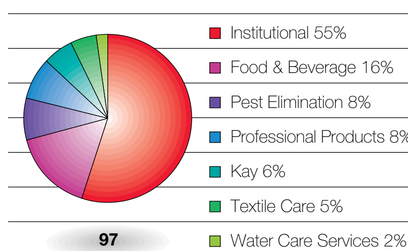
Net income for 1996 was $113 million, an increase of 14 percent over net income of $99 million in 1995. The increase in net income reflected strong operating income performance and increased equity in earnings of the Henkel-Ecolab joint venture, partially offset by increases in net interest expense and income taxes. Diluted net income per common share was $0.85 for 1996 and increased 16 percent over 1995's diluted net income per common share of $0.73. The comparison of net income per common share benefited from a smaller number of average shares outstanding in 1996, principally due to the purchase of approximately 7 million shares of the company's common stock in mid-1995 under the terms of a "Dutch auction" self-tender offer.

United States

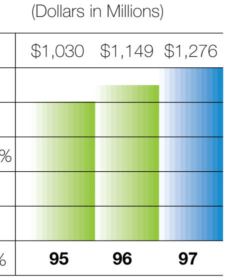
(thousands)	1997	1996	1995
Net sales	$1,275,828	$1,148,778	$1,030,126
Operating income	$ 195,630	$ 164,886	$ 147,330
Percent of sales	15.3%	14.4%	14.3%

Sales of the company's U.S. operations were nearly $1.3 billion in 1997 and increased 11 percent over sales of $1.1 billion in 1996. U.S. sales reflected strong growth in the core Institutional and Food & Beverage operations and in Pest Elimination sales and included benefits from business acquisitions, significant new product introductions, new customers and competitive gains, investments in the sales-and-service force and a continuation of good business trends in the hospitality and lodging industries. The benefits of selling price increases continued to be limited due to tight pricing conditions in several of the markets in which the company does business. Business acquisitions accounted for approximately 25 percent of U.S. sales growth for 1997. Sales of the U.S. Institutional Division increased 10 percent for 1997. Institutional's growth reflected strong sales in all of its business units, significant new customer business and competitive gains, continued strong growth in its *Ecotemp* program and the successful rollout of its new *Keystone* product line sold through partnership with a distributor. The Pest Elimination Division also reported a 10 percent sales growth for 1997, despite increased competitive activity. Pest Elimination continues to develop new programs to leverage its alliances with Ecolab's other divisions. Sales of Kay's U.S. operations increased 6 percent for 1997. Kay was unfavorably affected by a more competitive quickservice market; however, Kay added another major quickservice chain customer in 1997 and had good growth in sales to the grocery market, which it entered last year. Sales of the Textile Care Division decreased 3 percent for 1997. Continued plant consolidations, particularly in laundries serving the healthcare market, increased competitive activity and comparison against periods that benefited significantly from new product introductions unfavorably affected Textile Care's sales growth. The company expects the U.S. Textile Care

United States Business Mix



Sales
(Dollars in Millions)



business to continue to experience challenging market conditions over the near term. The Professional Products Division reported sales growth of 12 percent for 1997. This sales improvement reflected last year's acquisition of Huntington Laboratories, good growth in sales to corporate accounts, and the addition of new products to its commercial mass distribution line. Sales of the company's Water Care Services Division were down 2 percent for 1997 and reflected the elimination of low margin business, consolidation of business acquisitions made over the past three years, integration of disparate product lines, and the refining of sales efforts. The Food & Beverage Division reported a sales increase of 24 percent for 1997. Food & Beverage sales growth included the benefits of Chemidyne, a provider of cleaning and sanitizing products and equipment to the meat, poultry and processed food markets, which was acquired in August 1997, and the annualized effect of the acquisition of Monarch in August of 1996. Excluding these business acquisitions, Food & Beverage sales growth was 9 percent for 1997 and included growth in sales to all of its markets with double-digit growth in sales to the food processing and beverage markets.

Operating income for the company's U.S. operations reached $196 million, an increase of 19 percent over operating income of $165 million in 1996. Business acquisitions accounted for approximately 20 percent of U.S. operating income growth for 1997. With the exception of the Textile Care Division, all of the company's U.S. businesses reported increased operating income, with particularly strong growth in the core Institutional and Food & Beverage operations. The U.S. operating income margin improved to 15.3 percent of net sales from 14.4 percent in 1996. The improved operating income margin reflected the benefits of strong core business sales, sales of new products, stable raw material costs, sales productivity improvements and tight cost controls, which were partially offset by investments in the sales-and-service force. During 1997, the company added approximately 285 sales-and-service personnel, including Chemidyne associates.

1996 compared with 1995

Sales of the company's U.S. operations exceeded $1.1 billion in 1996, an increase of 12 percent over U.S. sales of $1.0 billion in 1995. U.S. sales growth reflected business acquisitions and the benefits of significant new product introductions. Business acquisitions accounted for approximately one-half of the increase in U.S. 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 U.S. operations reported sales growth of 11 percent for 1996 due to new customer business and the growth of the large quickservice 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 nearly doubled due to the February 1996 acquisition of Huntington Laboratories. Excluding sales of the Huntington operations, Professional Products sales for 1996 increased 3 percent over 1995, principally due to sales growth of its Airkem products. Sales of the Food & 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 & 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 U.S. 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 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 operating income margin reflected higher sales levels, sales productivity gains and the benefits of company-wide cost-control programs.

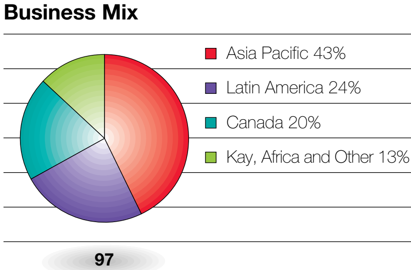
Financial Discussion

International

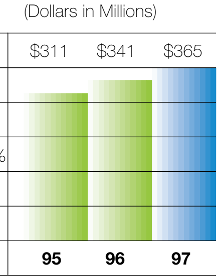
(thousands)	1997	1996	1995
Net sales	$364,524	$341,231	$310,755
Operating income	$ 26,962	$ 23,871	$ 19,580
Percent of sales	7.4%	7.0%	6.3%

The company's International business consists of established major operations in Asia Pacific, Latin America and Canada. In addition, on a smaller scale, Kay serves various international markets and the company has start-up operations in Africa and serves various international locations through its export business. Net sales of the company's International operations totaled $365 million for 1997, which represented growth of 7 percent over sales of $341 million in 1996. International sales growth included benefits of business acquisitions and significant new product introductions. Businesses acquired in Canada and Africa in 1997 and the annualization of 1996 Canadian business acquisitions accounted for approximately 50 percent of International's sales growth for 1997. Changes in currency translation had a negative impact on reported sales, particularly in the Asia Pacific region. Excluding the effects of currency translation, sales of International operations increased 11 percent for 1997. The Asia Pacific region, International's largest operation, reported sales growth of 2 percent for 1997. However, when measured in local currencies, Asia Pacific had sales growth of 9 percent with double-digit growth in Japan, modest growth in New Zealand and flat results in Australia. Asia Pacific sales to institutional markets increased at double-digit rates and the region recorded good growth in sales to the food and beverage markets. The acquisition of Gibson, primarily serving the Australian and New Zealand institutional, healthcare and industrial markets, was effective at year-end 1997 and will add significantly to the company's operations in the Asia Pacific region in 1998. Latin America reported U.S. dollar sales growth of 9 percent for 1997. The effects of changes in currency translation did not have a significant impact on Latin America's reported sales. Growth in the Latin America region was led by Mexico with significant double-digit growth and included good growth in Brazil. The region reported double-digit growth in sales to the food and beverage markets and good growth in Institutional sales. Canada reported sales growth of 15 percent for 1997, which included a modest negative impact from changes in currency translation. Approximately 70 percent of Canada's sales growth was due to business acquisitions. Canada's results also included good growth in sales to the institutional and food and beverage markets. Overall International sales results for 1997 included the benefits of business acquisitions in Central Africa during 1997 and good growth in sales of Kay's international operations. Sales in South Africa decreased during 1997, principally due to the elimination of low margin business.

International Business Mix



Sales
(Dollars in Millions)



Operating income for International's operations totaled $27 million in 1997, an increase of 13 percent over operating income of $24 million in 1996. Business acquisitions accounted for approximately 40 percent of the growth in International's operating income for 1997. Excluding the effects of currency translation, International operating income growth was 21 percent for 1997. Reported operating income margins improved to 7.4 percent of net sales in 1997 compared with 7.0 percent in 1996. Double-digit operating income growth in Asia Pacific and Canada more than offset a decrease in operating income in the Latin America region, which was principally due to investments in Brazil and Argentina. The company expects the monetary problems that began in East Asia in late 1997 to impact the Asia Pacific region in 1998. Although the company's operations in the areas primarily affected are limited, the company is cautious about growth for the year due to the uncertain economic conditions in the region.

Operating income margins of the company's International operations are substantially less than the operating income margins realized for the company's U.S. 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.

1996 compared with 1995

Total revenues for International operations of $341 million in 1996 increased 10 percent over revenues 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. Asia Pacific reported sales growth of 4 percent for 1996. 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. Reported sales of the Latin America 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.

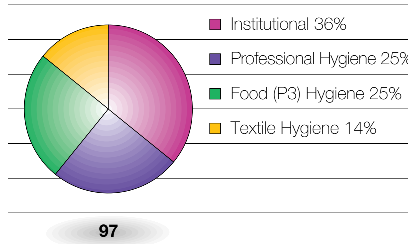
The company's International operations reported operating income of $24 million in 1996, an increase of 22 percent over operating income of $20 million in 1995. Excluding the effects of currency translation, International operating income growth was 29 percent for 1996. The reported operating income 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.

Henkel-Ecolab Joint Venture

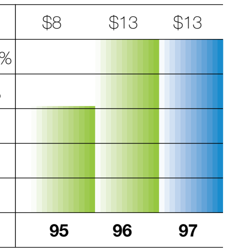
The company operates institutional and industrial cleaning and sanitizing businesses in Europe through its 50 percent economic interest in the Henkel-Ecolab joint venture. The company includes the operations of the Henkel-Ecolab joint venture in its financial statements using the equity method of accounting. The company's equity in earnings of the joint venture, including royalty income and after deduction of intangible amortization, was $13 million in 1997, a 3 percent increase over 1996. Results were negatively affected by the stronger U.S. dollar. When measured in Deutsche marks, net income of the joint venture increased 11 percent and reflected increased sales, improved gross margins and lower interest expense, partially offset by investments in the sales-and-service force.

Joint venture sales, although not consolidated in Ecolab's financial statements, increased 7 percent for 1997 when measured in Deutsche marks and included the benefits of a business acquisition, benefits of new product transfers from Ecolab to the joint venture and good sales to the institutional and food hygiene markets. When measured in U.S. dollars, however, joint venture sales for 1997 decreased 7 percent.

Henkel-Ecolab Business Mix



Ecolab's Equity in Earnings
(Dollars in Millions)



1996 compared with 1995

The company's equity in earnings of the Henkel-Ecolab joint venture was $13 million for 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 that 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 revenues 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.

Corporate

Corporate operating expense was $4 million in 1997, $3 million in 1996 and $4 million in 1995. Corporate operating expense includes overhead costs directly related to the joint venture.

Interest and Income Taxes

Net interest expense decreased 12 percent to less than $13 million in 1997, compared to net interest expense of over $14 million in 1996. This decrease was principally due to a scheduled debt repayment on the company's 9.68 percent senior notes and to increased interest income earned on higher average levels of cash and cash equivalents held during 1997. The company anticipates that its net interest expense will increase substantially for 1998 compared with 1997 levels, due to borrowings incurred under the Multicurrency Credit Agreement in late 1997 for the Gibson acquisition.

Net interest expense for 1996 increased 25 percent over net interest expense of $12 million 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.

Financial Discussion

The company's annual effective income tax rate was 41.5 percent for 1997, a modest increase from the 1996 effective income tax rate of 41.4 percent. This increase was due to a slightly higher overall effective rate on earnings of International operations. 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 company's annual effective income tax rate of 41.4 percent in 1996 increased from 39.5 percent in 1995. The increase in the effective income tax rate for 1996 was primarily due to a higher overall effective rate on earnings of International operations and to the effects of business acquisitions.

As a result of tax losses on the disposition of a discontinued business in 1992, the company's U.S. federal income tax payments were reduced in 1995 and prior years by a total of approximately $58 million, including $3 million in 1995. 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.

Year 2000 Conversion

The "year 2000" issue is the result of computer programs having date-sensitive software which may recognize a date using "00" as the year 1900 rather than the year 2000. This can result in system failure or miscalculations. The company recognizes the need to ensure that its operations will not be adversely affected by year 2000 issues and is establishing processes which it believes will be sufficient to evaluate and manage risks associated with the problem.

The company has largely completed a review of year 2000 compliance for its critical operating and application systems, particularly customer-oriented systems such as sales and order processing, billing and collections. As a result, the company has determined that it will be required to modify or replace significant portions of its software. This process is in progress and the intention is to complete it by the end of 1998. The costs are not expected to be significant.

The company is also in the process of analyzing its dispensing and cleaning systems and its manufacturing and building maintenance operations for dependence on date-sensitive software to identify and resolve any relevant issues in advance of the year 2000. Although a final cost estimate has not been determined, at this time the company does not believe the cost will be material. The company has begun the process of surveying key suppliers, vendors and customers to determine the status of such third parties' year 2000 remediation plans. If the company were to determine that a supplier, vendor or customer will not be able to remediate its year 2000 issue, the company would anticipate taking such steps as it reasonably could to mitigate the effects.

As part of its year 2000 process the company anticipates testing its systems for compliance; however, at this time only limited testing has occurred.

Risks and uncertainties associated with the year 2000 conversion are discussed in the company's Form 10-K for the year ended December 31, 1997 under the heading "Forward-Looking Statements and Risk Factors".

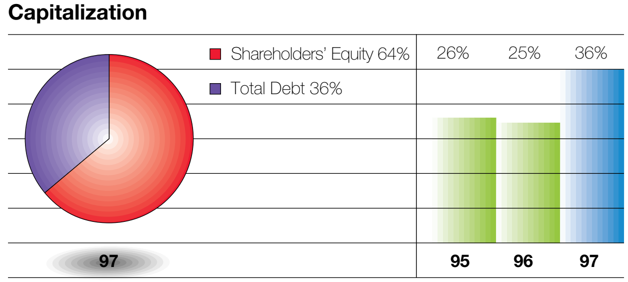
Financial Position, Cash Flows and Liquidity

Financial Position

The company reached its long-term financial objective of an investment grade balance sheet in 1993 and has continued to maintain this objective for the last five years. The company's debt was rated within the "A" categories by the major rating agencies during 1997. Significant changes to the company's balance sheet during 1997 included the following:

- The company's balance sheet as of December 31, 1997 reflected the assets and liabilities of Gibson and the other businesses acquired during 1997. The increase in other noncurrent assets from year-end 1996 was principally due to these acquisitions. Significant levels of accounts receivable, inventories, property, plant and equipment and other current liabilities were also added during 1997 as a result of these business acquisitions.
- Total debt was $308 million as of December 31, 1997 and increased from total debt of $176 million at year-end 1996 and $161 million at year-end 1995. The increase in total debt during 1997 included $116 million of borrowings incurred under the company's Multicurrency Credit Agreement to finance the purchase of the outstanding common shares of Gibson, and $22 million of debt which was included on Gibson's balance sheet at the time of acquisition. As of December 31, 1997, the ratio of total debt to capitalization was 36 percent, compared to 25 percent at year-end 1996 and 26 percent at year-end 1995.

Total Debt to Capitalization



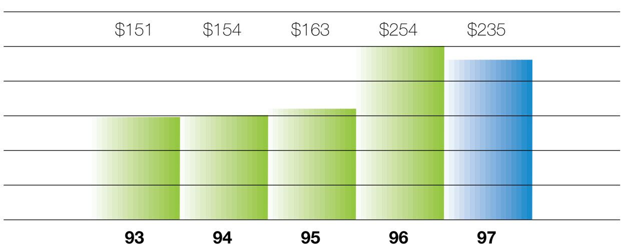
In late 1997, the company amended and restated its $225 million Multicurrency Credit Agreement in order to provide for financing of the Gibson acquisition. The amended and restated agreement increased the credit available to $275 million, extended the term one year to September 2002 and specifically provided for anticipated borrowings of Australian dollars.

- Working capital was $105 million at December 31, 1997, compared with working capital of $108 million at year-end 1996 and $48 million at year-end 1995. 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.
- The lower level of the company's investment in the Henkel-Ecolab joint venture at year-end 1997 was principally due to the effects of changes in currency translation and dividends which were received from the joint venture.
- Other noncurrent liabilities were $125 million at December 31, 1997 and decreased from year-end 1996 due to an income tax deposit made against outstanding federal income tax issues.
- The company capitalizes certain costs of computer software developed or obtained for internal use. The amounts capitalized are not significant and the company's policy for the capitalization of these costs is consistent with the guidelines included in the American Institute of Certified Public Accountants recent Statement of Position for accounting for costs of computer software developed or obtained for internal use.

Cash Flows

For 1997, the company generated $235 million of cash from continuing operating activities, compared with $254 million in 1996 and $163 million in 1995. The decrease in operating cash flows from 1996 reflected the reversal of favorable timing of payments, which affected the fourth quarter of 1996 and an income tax deposit made in 1997 against outstanding federal income tax issues that had been accrued for in other noncurrent liabilities. The decrease also reflected favorable cash flows during 1996 from the collection of accounts receivable related to strong fourth quarter 1995 sales. The comparison of cash provided by continuing operating activities was favorably affected by increased earnings during 1997 and higher dividends received from the Henkel-Ecolab joint venture.

Cash from Continuing Operating Activities
(Dollars in Millions)



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

Cash flows used for investing activities included capital expenditures of $122 million in 1997, $112 million in 1996 and $110 million in 1995. 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 over the last two years through construction and business acquisitions in order to meet sales requirements more efficiently. Cash was also used in 1997 for business acquisitions, primarily Gibson and Chemidyne.

Cash provided by financing activities included $116 million of debt incurred under the Multicurrency Credit Agreement to acquire Gibson. Strong operating cash flows were used to provide cash for shares reacquired, cash dividends and a scheduled repayment on the company's 9.68 percent senior notes.

In 1997, the company increased its annual dividend rate for the sixth consecutive year. The company has paid dividends on its common stock for 61 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
1997	**$0.08**	**$0.08**	**$0.08**	**$0.095**	**$0.335**
1996	0.07	0.07	0.07	0.08	0.29
1995	0.0625	0.0625	0.0625	0.07	0.2575

Liquidity

The company maintains a committed line of credit under the Multicurrency Credit Agreement for general corporate financing needs. The agreement includes a competitive bid feature to minimize the cost of the company's borrowings. The company also has a $200 million shelf registration as an alternative source 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 1998 requirements for growth, possible acquisitions, new program investments, scheduled debt repayments and dividend payments.

Income

Consolidated Statement of Income

Year ended December 31 (thousands, except per share)	1997	1996	1995
Net Sales	$1,640,352	$1,490,009	$1,340,881
Cost of Sales	722,084	674,953	603,167
Selling, General and Administrative Expenses	699,764	629,739	575,028
Operating Income	218,504	185,317	162,686
Interest Expense, Net	12,637	14,372	11,505
Income Before Income Taxes and Equity in Earnings of Joint Venture	205,867	170,945	151,181
Provision for Income Taxes	85,345	70,771	59,694
Equity in Earnings of Henkel-Ecolab Joint Venture	13,433	13,011	7,702
Net Income	$ 133,955	$ 113,185	$ 99,189
Net Income Per Common Share			
Basic	$ 1.03	$ 0.88	$ 0.75
Diluted	$ 1.00	$ 0.85	$ 0.73
Weighted Average Common Shares Outstanding			
Basic	129,446	128,991	132,193
Diluted	133,822	132,817	134,956

See notes to consolidated financial statements.

Balance Sheet

Consolidated Balance Sheet

December 31 (thousands, except per share)	1997	1996	1995
Assets			
Cash and cash equivalents	$ 61,169	$ 69,275	$ 24,718
Accounts receivable, net	246,041	205,026	198,432
Inventories	154,831	122,248	106,117
Deferred income taxes	34,978	29,344	21,617
Other current assets	12,482	9,614	7,188
Current Assets	509,501	435,507	358,072
Property, Plant and Equipment, Net	395,562	332,314	292,937
Investment in Henkel-Ecolab Joint Venture	239,879	285,237	302,298
Other Assets	271,357	155,351	107,573
Total Assets	$1,416,299	$1,208,409	$1,060,880
Liabilities and Shareholders' Equity			
Short-term debt	$ 48,884	$ 27,609	$ 71,647
Accounts payable	130,682	103,803	81,931
Compensation and benefits	74,317	71,533	59,766
Income taxes	13,506	26,977	18,248
Other current liabilities	137,075	97,849	78,946
Current Liabilities	404,464	327,771	310,538
Long-Term Debt	259,384	148,683	89,402
Postretirement Health Care and Pension Benefits	76,109	73,577	70,666
Other Liabilities	124,641	138,415	133,616
Shareholders' Equity (common stock, par value $1.00 per share; shares outstanding: 1997 – 129,127; 1996 – 129,600; 1995 – 129,403)	551,701	519,963	456,658
Total Liabilities and Shareholders' Equity	$1,416,299	$1,208,409	$1,060,880

See notes to consolidated financial statements.

Cash Flows

Consolidated Statement of Cash Flows

Year ended December 31 (thousands)	1997	1996	1995
Operating Activities			
Net income	$ 133,955	$ 113,185	$ 99,189
Adjustments to reconcile net income to			
cash provided by operating activities:			
Depreciation	84,415	75,185	64,651
Amortization	16,464	14,338	11,628
Deferred income taxes	(2,074)	(6,878)	(759)
Equity in earnings of joint venture	(13,433)	(13,011)	(7,702)
Joint venture royalties and dividends	25,367	15,769	5,610
Other, net	4,630	1,023	801
Changes in operating assets and liabilities:			
Accounts receivable	(21,231)	2,809	(26,843)
Inventories	(14,395)	(6,852)	(4,136)
Other assets	(10,993)	(5,255)	(11,371)
Accounts payable	20,876	16,397	4,561
Other liabilities	11,517	47,559	27,834
Cash provided by continuing operations	235,098	254,269	163,463
Cash provided by discontinued operations			3,000
Cash provided by operating activities	235,098	254,269	166,463
Investing Activities			
Capital expenditures	(121,667)	(111,518)	(109,894)
Property disposals	3,424	3,284	1,806
Sale of investments in securities			4,007
Businesses acquired	(157,234)	(54,911)	(26,437)
Other, net	(1,240)	(1,449)	6,991
Cash used for investing activities	(276,717)	(164,594)	(123,527)
Financing Activities			
Notes payable	9,280	(42,045)	29,355
Long-term debt borrowings	117,000	75,000	2,141
Long-term debt repayments	(15,210)	(35,690)	(20,060)
Reacquired shares	(60,795)	(22,790)	(90,391)
Cash dividends on common stock	(41,456)	(36,096)	(33,114)
Other, net	26,278	17,088	(4,561)
Cash provided by (used for) financing activities	35,097	(44,533)	(116,630)
Effect of exchange rate changes on cash	(1,584)	(585)	157
Increase (Decrease) in Cash and Cash Equivalents	(8,106)	44,557	(73,537)
Cash and cash equivalents, beginning of year	69,275	24,718	98,255
Cash and cash equivalents, end of year	$ 61,169	$ 69,275	$ 24,718

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, 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
Net income			133,955				133,955
Cash dividends on common stock			(43,367)				(43,367)
Stock options	648	15,877					16,525
Stock awards		5,093		(5,200)		1,427	1,320
Business acquisitions		12,454				3,946	16,400
Reacquired shares						(60,795)	(60,795)
Amortization				3,430			3,430
Translation					(35,730)		(35,730)
Stock dividend	71,398	(71,398)					
Balance December 31, 1997	**$142,797**	**$149,137**	**$494,950**	**$(9,160)**	**$(28,943)**	**$(197,080)**	**$551,701**

Common Stock Activity

Year ended December 31 (shares)	1997 Common Stock	1997 Treasury Stock	1996 Common Stock	1996 Treasury Stock	1995 Common Stock	1995 Treasury Stock
Shares, beginning of year	70,750,741	(5,950,518)	70,078,398	(5,376,917)	69,659,101	(1,988,427)
Stock options	648,085		672,343		419,297	
Stock awards		124,440		150,010		198,314
Business acquisitions		308,343				
Reacquired shares		(1,317,077)		(723,611)		(3,586,804)
Stock dividend	71,397,826	(6,834,812)				
Shares, end of year	142,796,652	(13,669,624)	70,750,741	(5,950,518)	70,078,398	(5,376,917)

See notes to consolidated financial statements.

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 40 percent, 44 percent and 38 percent of consolidated inventories at year-end 1997, 1996 and 1995, 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 Common Share

In the fourth quarter of 1997, the company adopted Statement of Financial Accounting Standards No. 128, a new standard of computing and presenting both basic and diluted net income per common share amounts. All prior periods have been changed to conform with the new presentation. However, basic and diluted net income per share amounts are generally consistent with net income per share amounts previously reported.

The computation of the basic and diluted per share amounts were as follows:

(thousands, except per share)	1997	1996	1995
Net income	$133,955	$113,185	$ 99,189
Weighted average common shares outstanding			
Basic (actual shares outstanding)	129,446	128,991	132,193
Effect of dilutive stock options	4,376	3,826	2,763
Diluted	133,822	132,817	134,956
Net income per common share			
Basic	$ 1.03	$ 0.88	$ 0.75
Diluted	$ 1.00	$ 0.85	$ 0.73

Virtually all stock options outstanding for each of these periods were dilutive and included in the calculation of the diluted per share amounts.

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. Actual results could differ from these estimates.

3. Balance Sheet Information

December 31 (thousands)	1997	1996	1995
Accounts Receivable, Net			
Accounts receivable	$ 256,919	$ 214,369	$ 206,763
Allowance for doubtful accounts	(10,878)	(9,343)	(8,331)
Total	$ 246,041	$ 205,026	$ 198,432
Inventories			
Finished goods	$ 67,823	$ 52,232	$ 47,035
Raw materials and parts	89,716	73,060	62,132
Excess of fifo cost over lifo cost	(2,708)	(3,044)	(3,050)
Total	$ 154,831	$ 122,248	$ 106,117
Property, Plant and Equipment, Net			
Land	$ 18,184	$ 7,969	$ 6,941
Buildings and leaseholds	145,021	129,781	117,042
Machinery and equipment	232,940	208,704	188,453
Merchandising equipment	379,531	330,277	292,962
Construction in progress	19,862	11,745	14,571
	795,538	688,476	619,969
Accumulated depreciation and amortization	(399,976)	(356,162)	(327,032)
Total	$ 395,562	$ 332,314	$ 292,937
Other Assets			
Intangible assets, net	$ 217,120	$ 96,865	$ 50,773
Investments in securities	5,000	5,000	5,000
Deferred income taxes	23,444	26,582	27,383
Other	25,793	26,904	24,417
Total	$ 271,357	$ 155,351	$ 107,573
Short-Term Debt			
Notes payable	$ 33,440	$ 12,333	$ 54,950
Long-term debt, current maturities	15,444	15,276	16,697
Total	$ 48,884	$ 27,609	$ 71,647
Long-Term Debt			
7.19% senior notes, due 2006	$ 75,000	$ 75,000	$
9.68% senior notes, due 1995-2001	57,143	71,429	85,714
Multicurrency Credit Agreement, due 2002	116,450		
Other	26,235	17,530	20,385
	274,828	163,959	106,099
Long-term debt, current maturities	(15,444)	(15,276)	(16,697)
Total	$ 259,384	$ 148,683	$ 89,402

The 9.68 percent senior notes include covenants regarding consolidated shareholders' equity and amounts of certain long-term debt.

In late 1997, the company amended and restated its $225 million Multicurrency Credit Agreement, increasing the credit available to $275 million, extending the term one year to September 2002, and specifically providing for anticipated borrowings of Australian dollars to acquire the outstanding shares of Gibson Chemical Industries Limited, as described in Note 5. The terms of the amended and restated agreement are otherwise generally similar to the agreement which it replaced. 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. The agreement includes a covenant regarding the ratio of total debt to capitalization. Amounts outstanding under the agreement at year-end 1997 were denominated in Australian dollars and had an average annual interest rate of 5.2 percent.

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 5.4 percent for 1997, 5.1 percent for 1996 and 6.3 percent for 1995.

As of December 31, 1997, the aggregate annual maturities of long-term debt for the next five years were: 1998 – $15,444,000; 1999 – $15,184,000; 2000 – $15,155,000; 2001 – $14,988,000 and 2002 – $126,770,000.

Interest expense was $18,043,000 in 1997, $19,084,000 in 1996 and $15,857,000 in 1995. Total interest paid was $18,168,000 in 1997, $16,897,000 in 1996 and $16,170,000 in 1995.

Other noncurrent liabilities included income taxes payable of $82 million at December 31, 1997, $100 million at December 31, 1996 and $96 million at December 31, 1995. 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 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.

4. Financial Instruments (continued)

The company had foreign currency forward exchange contracts with a face amount denominated primarily in Deutsche marks and totaling approximately $70 million at December 31, 1997, $115 million at December 31, 1996 and $125 million at December 31, 1995. 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 were:

December 31 (thousands)	1997	1996	1995
Carrying amount			
Cash and cash equivalents	**$ 61,169**	$ 69,275	$24,718
Long-term investments in securities	**5,000**	5,000	5,000
Short-term debt	**48,884**	27,609	71,647
Long-term debt	**259,384**	148,683	89,402
Fair value			
Long-term debt	**$266,926**	$155,558	$98,513

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

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

Gibson Business Acquisition

In October 1997, the company made a public tender offer for all of the outstanding stock of Gibson Chemical Industries Limited (Gibson) located in Melbourne, Australia. Gibson is a manufacturer and marketer of cleaning and sanitizing products, primarily for the Australian and New Zealand institutional, healthcare and industrial markets. On November 5, 1997, the company waived all of the remaining conditions to its tender offer and, effective November 30, 1997, had acquired substantially all of the outstanding Gibson shares.

The acquisition has been accounted for as a purchase. The purchase price of the shares and the direct costs of the transaction totaled approximately $130 million and were financed through the company's Multicurrency Credit Agreement. The company's international subsidiaries are included in the financial statements on the basis of their November 30 fiscal year ends, and, therefore, Gibson's operations are not included in the company's Consolidated Statement of Income for 1997. The assets acquired and the liabilities assumed in the transaction are included in the company's Consolidated Balance Sheet as of the November 30 effective date.

The company's plan for integration is not complete and, therefore, the allocation of the purchase price to the assets acquired and the liabilities assumed is preliminary. The significant open issues in the integration plan are the determination of which of the acquired businesses may not be retained, and decisions relative to certain duplicate facilities. Management expects the integration plan to be completed near the end of the first quarter of 1998.

The following unaudited pro forma financial information reflects the combined results of the company and Gibson assuming the acquisition had occurred at the beginning of 1997.

(thousands, except per share)	1997
Net sales	**$1,769,590**
Net income	**133,454**
Diluted net income per common share	**$ 1.00**

The pro forma results are presented for information purposes only and include all of the acquired Gibson businesses and the preliminary purchase accounting as described above. Therefore, the pro forma results do not reflect any purchase accounting refinements that may arise when the integration plan is completed and approved. At that time, the pro forma results for Gibson will be adjusted to reflect the final plan.

Other Business Acquisitions

In January 1997, the company acquired three small institutional and food and beverage businesses in the Central Africa region. Sales of the acquired businesses were approximately $6 million in 1996.

In March 1997, the company acquired the institutional, food and beverage and commercial laundry cleaning and sanitizing businesses of the Savolite Group, which is based in Vancouver, British Columbia, Canada. The acquired Savolite businesses complement the company's operations, primarily in Canada, with limited operations also in the U.S. Pacific Northwest. Sales of the acquired Savolite businesses were approximately $8 million in 1996.

In August 1997, the company acquired the Chemidyne Marketing Division of Chemidyne Corp. in Macedonia, Ohio. Chemidyne Marketing is a provider of cleaning and sanitizing products and equipment to the meat, poultry and processed food markets in the United States. Chemidyne Marketing has become part of the company's Food & Beverage Division. Sales of the acquired Chemidyne business were approximately $17 million in 1996.

In December 1997, the company issued common stock to purchase the specialty chemical business of Grace-Lee Products Incorporated, a Minneapolis, Minnesota-based manufacturer and marketer of cleaning products for the U.S. industrial market. Sales of the business acquired, which primarily serves the vehicle wash market, were approximately $16 million in 1996. The acquired Grace-Lee business has become part of the company's Institutional 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. Net sales and operating income of these businesses were not significant.

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)	1997	1996	1995
Joint venture			
Net sales	$844,689	$905,402	$909,196
Gross profit	470,698	497,909	502,849
Income before income taxes	63,640	65,091	44,392
Net income	$ 33,701	$ 34,808	$ 22,406
Ecolab equity in earnings			
Ecolab equity in net income	$ 16,851	$ 17,404	$ 11,203
Ecolab royalty income from joint venture, net of income taxes	4,583	4,730	5,814
Amortization expense for the excess of cost over the underlying net assets of the joint venture	(8,001)	(9,123)	(9,315)
Equity in earnings of Henkel-Ecolab joint venture	$ 13,433	$ 13,011	$ 7,702

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 $145 million at December 31, 1997, 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)	1997	1996	1995
Current assets	$345,692	$425,225	$393,391
Noncurrent assets	145,601	142,227	145,722
Current liabilities	224,155	309,599	247,980
Noncurrent liabilities	$ 77,303	$ 75,360	$ 71,119

7. Income Taxes

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

(thousands)	1997	1996	1995
Domestic	$173,851	$144,888	$123,628
Foreign	32,016	26,057	27,553
Total	$205,867	$170,945	$151,181

The provision for income taxes consisted of:

(thousands)	1997	1996	1995
Federal and state	$ 76,399	$ 66,868	$ 52,473
Foreign	11,020	10,781	7,980
Currently payable	87,419	77,649	60,453
Federal and state	(3,675)	(6,748)	74
Foreign	1,601	(130)	(833)
Deferred	(2,074)	(6,878)	(759)
Provision for income taxes	$ 85,345	$ 70,771	$ 59,694

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

December 31 (thousands)	1997	1996	1995
Deferred tax assets			
Postretirement health care and pension benefits	$ 30,991	$ 29,596	$ 28,689
Other accrued liabilities	41,611	39,151	28,339
Loss carryforwards	3,541	4,780	5,482
Other, net	12,766	8,814	9,209
Valuation allowance	(1,462)	(1,462)	(1,462)
Total	87,447	80,879	70,257
Deferred tax liabilities			
Property, plant and equipment basis differences	27,606	23,496	19,524
Other, net	1,419	1,457	1,733
Total	29,025	24,953	21,257
Net deferred tax assets	$ 58,422	$ 55,926	$ 49,000

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

	1997	1996	1995
Statutory U.S. rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.2	4.2	4.2
Foreign operations	.6	.5	(1.2)
Other, net	1.7	1.7	1.5
Effective income tax rate	41.5%	41.4%	39.5%

Cash paid for income taxes was approximately $100 million in 1997, $72 million in 1996 and $55 million in 1995. As a result of tax losses on the disposition of a discontinued business in 1992, the company's U.S. federal income tax payments were reduced in 1995 and prior years by a total of approximately

7. Income Taxes (continued)

$58 million, including $3 million in 1995. 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, 1997, undistributed earnings of international subsidiaries and the Henkel-Ecolab joint venture of approximately $43 million and $46 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)	1997	1996	1995
Service cost — employee benefits earned during the year	$ 13,330	$ 12,615	$ 9,878
Interest cost on projected benefit obligation	18,371	16,084	14,481
Actual return on plan assets	(28,531)	(20,389)	(27,356)
Net amortization and deferral	13,257	7,542	15,430
U.S. pension expense	16,427	15,852	12,433
International pension expense	1,112	1,261	1,040
Total pension expense	$ 17,539	$ 17,113	$ 13,473

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

December 31 (thousands)	1997	1996	1995
Actuarial present value of:			
Vested benefit obligation	$201,288	$167,652	$150,521
Non-vested benefit obligation	12,619	10,701	12,089
Accumulated benefit obligation	213,907	178,353	162,610
Effect of projected future salary increases	73,120	61,763	54,398
Projected benefit obligation	287,027	240,116	217,008
Plan assets at fair value	237,304	196,839	167,231
Plan assets less than the projected benefit obligation	(49,723)	(43,277)	(49,777)
Unrecognized prior service cost	18,056	20,325	22,230
Unrecognized net loss	46,028	37,763	44,258
Unrecognized net transition asset	(10,523)	(11,926)	(13,329)
Prepaid pension expense	$ 3,838	$ 2,885	$ 3,382

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:

	1997	1996	1995
Discount rate for service and interest cost, at beginning of year	7.75%	7.50%	8.25%
Projected salary increases, weighted average	5.1	5.1	5.1
Expected return on plan assets	9.0	9.0	9.0
Discount rate for year-end benefit obligations	7.25%	7.75%	7.50%

At December 31, 1996, the company updated the mortality assumptions used in its actuarial pension plan calculations. The effect of this change and a 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))	1997	1996	1995
Pension expense	$ 0.6	$ 2.1	$ (3.4)
Projected benefit obligation	$22.5	$ 1.2	$17.6

The company also has noncontributory non-qualified 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 $11 million at December 31, 1997 and the annual expense for these plans was approximately $2 million in each of the years 1997, 1996 and 1995.

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 benefits expense was:

(thousands)	1997	1996	1995
Service cost — benefits attributed to service during the period	$ 4,325	$3,298	$2,473
Interest cost on accumulated post-retirement benefit obligation	5,711	4,398	3,972
Actual return on plan assets	(1,609)	(863)	(703)
Net amortization and deferral	167	(213)	(271)
Total expense	$ 8,594	$6,620	$5,471

The funded status of the postretirement health care benefits plan was:

December 31 (thousands)	1997	1996	1995
Actuarial present value of accumulated postretirement benefit obligation for:			
Retirees	$ 24,835	$ 22,932	$ 18,112
Fully eligible active participants	8,357	6,533	5,450
Other active participants	57,929	42,084	35,885
Total	91,121	71,549	59,447
Plan assets at fair value	16,764	11,885	9,269
Plan assets less than accumulated postretirement benefit obligation	(74,357)	(59,664)	(50,178)
Unrecognized gain for prior service	(9,097)	(9,648)	(10,199)
Unrecognized net loss (gain)	17,280	5,984	(968)
Unfunded accrued postretirement health care benefits	$(66,174)	$(63,328)	$(61,345)

The assumptions for the discount rate and expected return on plan assets for the postretirement health care benefits plan were:

	1997	1996	1995
Discount rate for service and interest cost, at beginning of year	7.75%	7.50%	8.25%
Expected return on plan assets	9.0	9.0	6.0
Discount rate for year-end benefit obligation	7.25%	7.75%	7.50%

The decrease in the discount rate at year-end 1997 resulted in an increase in the accumulated benefit obligation of approximately $7 million. All other 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, 9.5 percent (for pre-age 65 retirees) and 7.5 percent (for post-age 65 retirees) annual rates of increase in the per capita cost of covered health care were assumed for 1998. 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 1997 by approximately $6 million and 1997 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 contributions are invested in Ecolab common stock and amounted to $7,156,000 in 1997, $6,622,000 in 1996 and $5,919,000 in 1995.

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 5,274,652 for 1997, 840,096 for 1996 and 2,249,536 for 1995.

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 ten years from date of grant. Stock option transactions were:

Shares	1997	1996	1995
Granted	1,031,760	1,266,680	1,861,346
Exercised	(1,295,170)	(1,344,686)	(838,594)
Canceled	(63,416)	(102,666)	(73,400)
December 31:			
Outstanding	8,880,422	9,207,248	9,387,920
Exercisable	5,922,150	5,859,968	5,713,276

Average exercise price per share	1997	1996	1995
Granted	$21.72	$15.26	$12.68
Exercised	8.50	7.65	5.71
Canceled	14.07	12.16	10.32
December 31:			
Outstanding	11.92	10.35	9.32
Exercisable	$ 9.66	$ 8.75	$ 8.05

9. Stock Incentive and Option Plans (continued)

Information related to stock options outstanding and stock options exercisable as of December 31, 1997 was as follows:

Options Outstanding

Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$ 5.69-$10.00	2,600,014	3.1 years	$ 7.02
$10.01-$15.00	4,193,796	6.7 years	$11.89
$15.01-$26.91	2,086,612	9.0 years	$19.05

Options Exercisable

Range of Exercise Prices	Options Exercisable	Weighted-Average Exercise Price
$ 5.69-$10.00	2,600,014	$ 7.02
$10.01-$15.00	3,039,704	$11.57
$15.01-$26.91	282,432	$15.32

Stock awards are generally subject to restrictions, including forfeiture in the event of termination of employment. Restrictions generally lapse over periods of 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.

The company adopted Statement of Financial Accounting Standards No. 123, a new standard of accounting and reporting for stock-based compensation plans, 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 periods, based on the fair value of options at the date of grant, net income and diluted net income per common share for 1997, 1996 and 1995 would have been reduced to the following pro forma amounts:

(thousands, except per share)	1997	1996	1995
Net income			
As reported	$133,955	$113,185	$99,189
Pro forma	131,763	111,761	98,622
Diluted net income per common share			
As reported	1.00	0.85	0.73
Pro forma	$ 0.98	$ 0.84	$ 0.73

The pro forma information above only includes stock options granted since 1995. 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 for 1997, 1996 and 1995 and the significant assumptions used in determining the underlying fair value of each option grant on the date of grant utilizing the Black-Scholes option-pricing model were as follows:

	1997	1996	1995
Weighted-average grant-date fair value of options granted	$5.94	$4.15	$3.92
Assumptions			
Risk-free interest rate	6.2%	6.2%	6.7%
Expected life	6 years	6 years	6 years
Expected volatility	19.6%	20.9%	24.8%
Expected dividend yield	1.8%	1.9%	1.9%

10. Shareholders' Equity

The company's common stock was split two for one in the form of a 100 percent stock dividend paid January 15, 1998 to shareholders of record on December 26, 1997. All per share and number of share data have been retroactively restated to reflect the stock split, except for the Consolidated Statement of Shareholders' Equity.

Authorized common stock, par value $1.00 per share, was 200 million shares in 1997 and 100 million shares in 1996 and 1995. Treasury stock is stated at cost. Dividends declared per share of common stock were $0.335 for 1997, $0.29 for 1996 and $0.2575 for 1995.

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-half of a 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 share repurchase program which is intended to offset the dilutive effect of shares issued for employee benefit plans. The company reacquired 1,944,600 shares of its common stock in 1997 and 1,154,600 shares in 1996 under this program through open and private market purchases. The company anticipates that it will continue to periodically reacquire shares under its share repurchase program.

In June 1995, the company purchased approximately 7 million shares (approximately 5 percent of total shares then outstanding) of its common stock at a price of $12.50 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. The company also reacquired 616,800 shares in 1997 and 105,800 shares in 1996 under this program and the company may purchase approximately 4.2 million additional shares from time to time through open market and privately negotiated transactions to complete the remaining portion of a 12 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 $38,155,000 in 1997, $35,071,000 in 1996 and $32,292,000 in 1995. As of December 31, 1997, future minimum payments under operating leases with noncancelable terms in excess of one year were:

(thousands)	
1998	$11,549
1999	7,803
2000	5,186
2001	3,145
2002	1,848
Thereafter	11,916
Total	$41,447

12. Research Expenditures

Research expenditures that related to the development of new products and processes, including significant improvements and refinements to existing products, were $30,420,000 in 1997, $28,676,000 in 1996 and $28,031,000 in 1995.

13. Environmental Compliance Costs

The company and certain subsidiaries are party to various environmental actions that 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, results of operations and cash flows to date has not been significant. The company 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 anticipated. 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, African and Kay's international operations.

(thousands)	1997	1996	1995
Net Sales			
United States	$1,275,828	$1,148,778	$1,030,126
International	364,524	341,231	310,755
Total	$1,640,352	$1,490,009	$1,340,881
Operating Income			
United States	$ 195,630	$ 164,886	$ 147,330
International	26,962	23,871	19,580
Corporate	(4,088)	(3,440)	(4,224)
Total	$ 218,504	$ 185,317	$ 162,686
Identifiable Assets			
United States	$ 727,423	$ 641,831	$ 535,107
International	366,254	190,595	183,088
Joint venture	239,879	285,237	302,298
Corporate	82,743	90,746	40,387
Total	$1,416,299	$1,208,409	$1,060,880

In accordance with company policy, operating expenses incurred at the corporate level totaling $27,554,000 in 1997, $23,766,000 in 1996 and $22,688,000 in 1995 have been allocated to the geographic segments in determining operating income.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, a new standard for reporting information about operating or business segments in financial statements. The new standard will be effective for the company's annual financial statements in 1998. The company does not expect the business segment information reported under the new standard to be substantially different than the information currently reported.

15. Quarterly Financial Data (Unaudited)

(thousands, except per share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1997					
Net sales					
United States	$290,703	$319,633	$338,764	$326,728	$1,275,828
International	83,057	92,177	94,109	95,181	364,524
Total	373,760	411,810	432,873	421,909	1,640,352
Cost of sales	165,726	183,322	188,178	184,858	722,084
Selling, general and administrative expenses	164,604	175,685	177,899	181,576	699,764
Operating income					
United States	38,441	47,184	60,738	49,267	195,630
International	5,870	6,669	7,102	7,321	26,962
Corporate	(881)	(1,050)	(1,044)	(1,113)	(4,088)
Total	43,430	52,803	66,796	55,475	218,504
Interest expense, net	2,998	3,054	3,351	3,234	12,637
Income before income taxes and equity in earnings of joint venture	40,432	49,749	63,445	52,241	205,867
Provision for income taxes	16,577	20,397	26,613	21,758	85,345
Equity in earnings of joint venture	2,349	3,542	3,657	3,885	13,433
Net income	$ 26,204	$ 32,894	$ 40,489	$ 34,368	$ 133,955
Net income per common share					
Basic	$ 0.20	$ 0.25	$ 0.31	$ 0.27	$ 1.03
Diluted	$ 0.20	$ 0.25	$ 0.30	$ 0.26	$ 1.00
Weighted average common shares outstanding					
Basic	129,548	129,779	129,462	128,993	129,446
Diluted	133,520	133,963	133,930	133,740	133,822
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 common share					
Basic	$ 0.15	$ 0.21	$ 0.28	$ 0.23	$ 0.88
Diluted	$ 0.15	$ 0.21	$ 0.27	$ 0.23	$ 0.85
Weighted average common shares outstanding					
Basic	129,180	128,614	128,732	129,439	128,991
Diluted	132,788	132,424	132,384	133,658	132,817

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

Allan L. Schuman
President and Chief Executive Officer

Michael E. Shannon

Michael E. Shannon
Chairman of the Board,
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, 1997, 1996 and 1995, 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, 1997, 1996 and 1995, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

February 23, 1998
Saint Paul, Minnesota

Summary Operating and Financial Data

December 31 (thousands, except per share)	1997	1996	1995	1994
Operations				
Net sales				
United States	$ 1,275,828	$ 1,148,778	$ 1,030,126	$ 942,070
International	364,524	341,231	310,755	265,544
Europe				
Total	1,640,352	1,490,009	1,340,881	1,207,614
Cost of sales	722,084	674,953	603,167	533,143
Selling, general and administrative expenses	699,764	629,739	575,028	529,507
Merger costs and nonrecurring expenses				8,000
Operating income	218,504	185,317	162,686	136,964
Interest expense, net	12,637	14,372	11,505	12,909
Income from continuing operations before income taxes and equity in earnings of joint venture	205,867	170,945	151,181	124,055
Provision for income taxes	85,345	70,771	59,694	50,444
Equity in earnings of joint venture	13,433	13,011	7,702	10,951
Income from continuing operations	133,955	113,185	99,189	84,562
Income (loss) from discontinued operations				
Extraordinary loss and changes in accounting principles				
Net income (loss)	133,955	113,185	99,189	84,562
Preferred stock dividends				
Net income (loss) to common shareholders, as reported	133,955	113,185	99,189	84,562
Pro forma adjustments				5,902
Pro forma net income (loss) to common shareholders	$ 133,955	$ 113,185	$ 99,189	$ 90,464
Income (loss) per common share, as reported				
Basic — continuing operations	$ 1.03	$ 0.88	$ 0.75	$ 0.63
Basic — net income (loss)	1.03	0.88	0.75	0.63
Diluted — continuing operations	1.00	0.85	0.73	0.62
Diluted — net income (loss)	1.00	0.85	0.73	0.62
Pro forma income (loss) per common share				
Basic — continuing operations	1.03	0.88	0.75	0.67
Basic — net income (loss)	1.03	0.88	0.75	0.67
Diluted — continuing operations	1.00	0.85	0.73	0.66
Diluted — net income (loss)	$ 1.00	$ 0.85	$ 0.73	$ 0.66
Weighted average common shares outstanding — basic	129,446	128,991	132,193	135,100
Weighted average common shares outstanding — diluted	133,822	132,817	134,956	137,306
Selected Income Statement Ratios				
Gross profit	56.0%	54.7%	55.0%	55.9%
Selling, general and administrative expenses	42.7	42.3	42.9	44.6
Operating income	13.3	12.4	12.1	11.3
Income from continuing operations before income taxes	12.6	11.5	11.3	10.3
Income from continuing operations	8.2	7.6	7.4	7.0
Effective income tax rate	41.5%	41.4%	39.5%	40.7%
Financial Position				
Current assets	$ 509,501	$ 435,507	$ 358,072	$ 401,179
Property, plant and equipment, net	395,562	332,314	292,937	246,191
Investment in Henkel-Ecolab joint venture	239,879	285,237	302,298	284,570
Other assets	271,357	155,351	107,573	88,416
Total assets	$ 1,416,299	$ 1,208,409	$ 1,060,880	$ 1,020,356
Current liabilities	$ 404,464	$ 327,771	$ 310,538	$ 253,665
Long-term debt	259,384	148,683	89,402	105,393
Postretirement health care and pension benefits	76,109	73,577	70,666	70,882
Other liabilities	124,641	138,415	133,616	128,608
Shareholders' equity	551,701	519,963	456,658	461,808
Total liabilities and shareholders' equity	$ 1,416,299	$ 1,208,409	$ 1,060,880	$ 1,020,356
Selected Cash Flow Information				
Cash provided by operating activities	$ 235,098	$ 254,269	$ 166,463	$ 169,346
Depreciation and amortization	100,879	89,523	76,279	66,869
Capital expenditures	121,667	111,518	109,894	88,457
EBITDA from continuing operations	319,383	274,840	238,965	203,833
Cash dividends declared per common share	$ 0.335	$ 0.29	$ 0.2575	$ 0.2275
Selected Financial Measures/Other				
Total debt and preferred stock	$ 308,268	$ 176,292	$ 161,049	$ 147,213
Total debt and preferred stock to capitalization	35.8%	25.3%	26.1%	24.2%
Book value per common share	$ 4.27	$ 4.01	$ 3.53	$ 3.41
Return on beginning equity	25.8%	24.8%	21.5%	21.6%
Dividends/diluted net income per common share	33.5%	34.1%	35.3%	36.7%
Annual common stock price range	$28.00-18.13	$19.75-14.56	$15.88-10.00	$11.75-9.63
Number of employees	10,210	9,573	9,026	8,206

Pro forma results for 1994 and prior years 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 1997, 1993 and 1986 two-for-one stock splits. Other assets includes net assets of Ecolab Europe and discontinued operations prior to 1992. Other liabilities includes $110 million of convertible preferred stock at year-end 1989 and 1990. The ratios of return on beginning equity and dividends/diluted 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.

1993	1992	1991	1990	1989	1988	1987
$ 867,415	$ 816,405	$ 757,564	$ 712,579	$ 646,895	$ 589,715	$ 544,310
234,981	241,229	201,738	184,220	179,705	159,374	103,168
			150,809	122,871	122,250	104,174
1,102,396	1,057,634	959,302	1,047,608	949,471	871,339	751,652
491,306	485,206	447,356	495,086	461,256	433,734	361,545
481,639	446,814	393,700	425,983	383,512	337,707	307,851
				12,978		18,441
129,451	125,614	118,246	126,539	91,725	99,898	63,815
21,384	35,334	30,489	28,321	31,628	31,097	21,440
108,067	90,280	87,757	98,218	60,097	68,801	42,375
33,422	27,392	29,091	32,494	19,411	21,285	20,724
8,127	8,600	4,573				
82,772	71,488	63,239	65,724	40,686	47,516	21,651
		(274,693)	(4,408)	(29,379)	4,238	126,551
715		(24,560)				
83,487	71,488	(236,014)	61,316	11,307	51,754	148,202
		(4,064)	(7,700)	(429)		
83,487	71,488	(240,078)	53,616	10,878	51,754	148,202
(2,667)	(2,797)	(2,933)	(2,956)	(3,196)	(2,622)	(2,606)
$ 80,820	$ 68,691	$ (243,011)	$ 50,660	$ 7,682	$ 49,132	$ 145,596
$ 0.61	$ 0.53	$ 0.51	$ 0.56	$ 0.34	$ 0.41	$ 0.19
0.62	0.53	(2.05)	0.52	0.09	0.44	1.28
0.60	0.52	0.50	0.56	0.34	0.40	0.18
0.61	0.52	(2.05)	0.51	0.09	0.43	1.23
0.59	0.51	0.48	0.53	0.31	0.38	0.16
0.60	0.51	(2.08)	0.49	0.06	0.42	1.26
0.58	0.50	0.48	0.53	0.31	0.38	0.16
$ 0.59	$ 0.50	$ (2.08)	$ 0.49	$ 0.06	$ 0.41	$ 1.20
135,056	134,408	117,050	103,298	118,516	117,188	115,980
137,421	136,227	118,178	104,258	120,196	119,586	121,342
55.4%	54.1%	53.4%	52.7%	51.4%	50.2%	51.9%
43.7	42.2	41.1	40.6	41.7	38.7	43.4
11.7	11.9	12.3	12.1	9.7	11.5	8.5
9.8	8.5	9.1	9.4	6.3	7.9	5.6
7.5	6.8	6.6	6.3	4.3	5.5	2.9
30.9%	30.3%	33.1%	33.1%	32.3%	30.9%	48.9%
$ 311,051	$ 264,512	$ 293,053	$ 216,612	$ 370,875	$ 265,291	$ 283,700
219,268	207,183	198,086	187,735	203,056	194,509	176,856
255,804	289,034	296,292				
105,607	98,135	152,857	480,911	420,115	444,827	468,593
$ 891,730	$ 858,864	$ 940,288	$ 885,258	$ 994,046	$ 904,627	$ 929,149
$ 201,498	$ 192,023	$ 240,219	$ 177,643	$ 201,585	$ 181,758	$ 247,825
131,861	215,963	325,492	208,147	228,632	257,500	258,273
72,647	63,393	56,427	8,742	12,859	12,768	12,150
93,917	29,179	11,002	138,792	135,343	11,590	9,863
391,807	358,306	307,148	351,934	415,627	441,011	401,038
$ 891,730	$ 858,864	$ 940,288	$ 885,258	$ 994,046	$ 904,627	$ 929,149
$ 175,674	$ 120,217	$ 128,999	$ 154,208	$ 123,215	$ 113,514	$ 146,310
60,609	60,443	55,653	61,024	53,113	48,282	40,932
68,321	59,904	53,752	58,069	54,430	62,125	57,549
190,060	186,057	173,899	187,563	144,838	148,180	104,747
$ 0.1975	$ 0.17875	$ 0.175	$ 0.1675	$ 0.165	$ 0.16	$ 0.15
$ 151,281	$ 236,695	$ 407,221	$ 353,886	$ 382,764	$ 300,448	$ 320,080
27.9%	39.8%	57.0%	50.1%	47.9%	40.5%	44.4%
$ 2.90	$ 2.66	$ 2.30	$ 3.41	$ 3.55	$ 3.73	$ 3.46
23.3%	23.3%	13.6%	12.9%	2.5%	12.9%	19.5%
32.4%	34.4%	42.7%	32.8%	183.3%	37.2%	34.9%
$11.91-9.07	$9.57-6.66	$8.38-4.88	$7.78-4.16	$8.94-6.22	$6.94-5.32	$8.44-4.63
7,822	7,601	7,428	8,106	7,845	7,684	7,479

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*Committee Chair

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Officers

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President and Chief Executive Officer

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F. William Tuominen, Ph.D.
Senior Vice President and Chief Technical and Environmental Officer

Information

Financial/Shareholder Information

Visit Ecolab's Web site at www.ecolab.com for:
- Financial Results
- Investor Information
- News Releases and more

For recorded news or to obtain financial reports, call 1-800-FACT-ECL (1-800-322-8325). Alaska, Hawaii and international callers may dial (402) 573-9859.

Annual Meeting
The annual meeting of stockholders will be held on Friday, May 8, 1998, at 10 a.m. in the Ecolab Theater of The Culinary Institute of America at Greystone, 2555 Main Street, St. Helena, California 94574.

Common Stock
Ecolab common stock is listed on the New York Stock Exchange and Pacific Exchange, Inc. 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 2, 1998, the company had 5,074 shareholders of record.

Dividends
Ecolab has paid common stock dividends for 61 consecutive years. Quarterly cash dividends customarily are paid on the 15th of January, April, July and October. Dividends of $0.07 per share were declared in February, May and August 1996. Dividends of $0.08 per share were declared in December 1996, and February, May and August 1997. A dividend of $0.095 per share was declared in December 1997.

Dividend Reinvestment/Stock Purchase
All 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 Web site at www.ecolab.com to obtain news releases or copies of Ecolab's financial reports filed with the Securities and Exchange Commission. Alternatively, these documents, including the Form 10-K Annual Report for the year ended December 31, 1997, also may be obtained without charge by writing 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: Credit Suisse First Boston; Dain Rauscher, Inc.; Donaldson, Lufkin & Jenrette Securities Corporation; Ernst & Company; Goldman, Sachs & Co.; Ingalls & Snyder LLC; Merrill Lynch & Co.; Morgan Stanley, Dean Witter, Discover & Co.; PaineWebber Incorporated; Piper Jaffray Inc.; Standard & Poor's; and Value Line.

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Shareholders may call the transfer agent at the above numbers for information or assistance concerning 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 always available to callers with touch-tone telephones via the transfer agent's Automatic Voice Response System.

Ecolab Inc. is an equal opportunity employer.

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