Ecolab 1999 Annual Report

Is it clean?

Ecolab Inc.
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29970/0800/0300

ECOLAB

We make you shine.


Or is it Ecolab clean?

Bugs

Bugs. Creepy, crawly, disgusting – and more than a little dangerous. Whether bugs are microscopic or all too visible, they can ruin products, reputations, brands and health. Fortunately, Ecolab has the solutions. Products that keep surgical and dental instruments perfectly sterile. Programs that wipe out pests in food processing plants. Systems that keep manufacturing equipment and workers' hands clean and sanitary. From *Salmonella* and *Streptococcus* to fleas and flies, we make bug problems fly away.

Bugs Eliminated

on instruments

on containers

on food

on hands

Stains

“Nothing” has never looked so good. With Ecolab, troublesome spots are a thing of the past. Dishes, linens, uniforms and surfaces sparkle thanks to Ecolab’s advanced chemistry and breakthrough technology. Specific product lines are tailored for general housekeeping, restaurants, industrial laundries, hospitals and more. Our scientists dream up solutions that save businesses time and money – working hard so that spots never stain our customers’ reputations.

Stain-free

Crisis

Stop the presses! Ecolab is on the job – with products and systems that help ensure pure water, uncontaminated food, sanitary hospitals and safer working environments. From cheese to peas and soda to seltzer, our products help safeguard food and beverages while assuring freshness and flavor. Our state-of-the-art packaging and dispensing systems protect workers and the bottom line. All backed by cutting-edge research that delivers innovation after innovation. And we'll put that in black and white.

Crisis Averted

through security

through research

through purity

through food safety

Service

Does downtime have you seeing red? Not on our watch. With more than 9,300 sales-and-service associates, Ecolab delivers fast, professional equipment diagnosis and repair around the clock, around the globe. Our friendly, experienced customer service team is available 24 hours a day, seven days a week, while an extensive delivery fleet makes sure products get where they're needed. As the worldwide leader, Ecolab's top priority is helping customers succeed. You can count on it.

Service Anytime

About the Cover

Ecolab Clean. These two small words make a big difference for businesses that must protect their products, consumers – and the bottom line. Ecolab's innovative cleaning and sanitizing solutions have earned our company a global reputation and made us the industry leader. Our products and systems delve into every facet of businesses where impeccable sanitation is a must. We treat our customers' business environments, equipment and products as though they're our own. And all the while, we provide the best training, service and support available. Keeping businesses clean is an admirable goal. Keeping them "Ecolab Clean" is a higher standard we proudly meet.

Description of Business

Founded in 1923, Ecolab is the leading global developer and marketer of premium cleaning, sanitizing, pest elimination, maintenance and repair products and services for 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, which is more than 6,900 members strong.

Ecolab operates directly in 38 countries in North America, Asia Pacific, Latin America and Africa, employing nearly 13,000 associates. In Europe, it reaches customers through the Henkel-Ecolab joint venture headquartered in Düsseldorf, Germany. Henkel-Ecolab does business in 27 countries, including Eastern European markets, and employs 4,800 associates. Its direct sales-and-service force numbers 2,400. 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.

Forward-Looking Statements

This Annual Report to Stockholders contains various "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, phrases or words such as "will likely result," "are expected to," "will continue," "is anticipated," "we believe," "estimate," "project" (including the negative or variations thereof) or similar terminology identify forward-looking statements. 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 Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 1999, 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.

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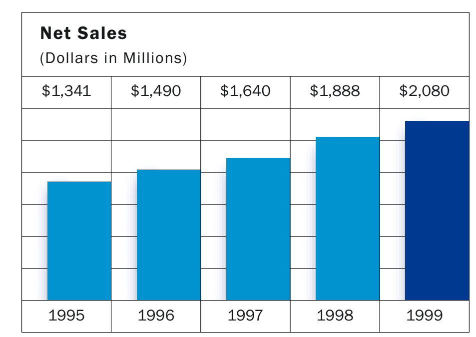
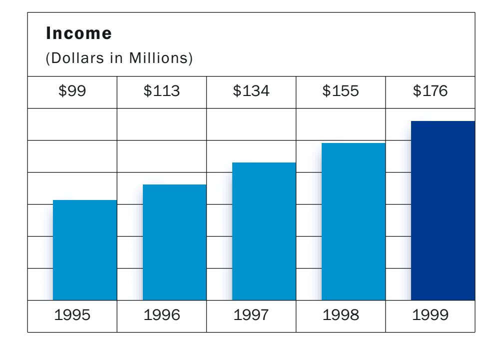
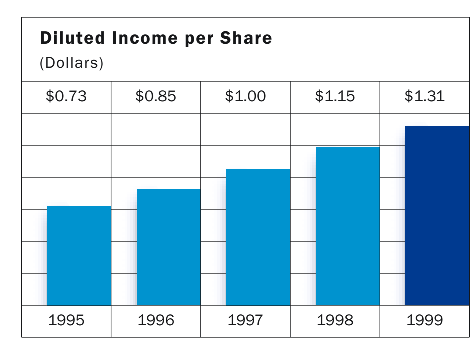
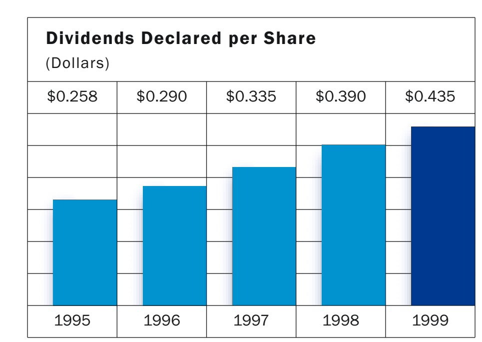
Financial Highlights

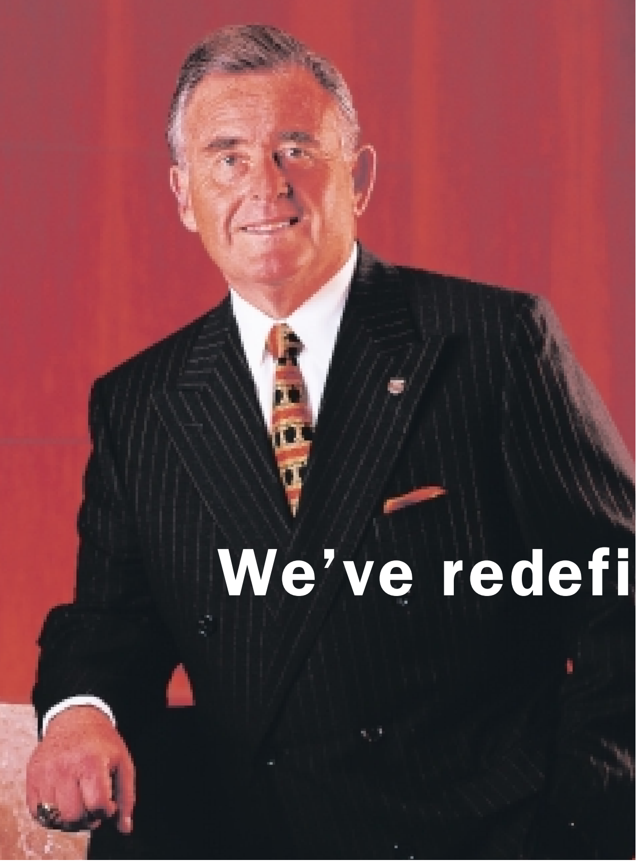
				Percent Change	
(thousands, except per share)	**1999**	1998	1997	**1999**	1998
Net Sales	**$2,080,012**	$1,888,226	$1,640,352	**10%**	15%
Income from Continuing Operations	**175,786**	154,506	133,955	**14**	15
Percent of Sales	**8.5%**	8.2%	8.2%		
Diluted Income from Continuing Operations Per Common Share	**1.31**	1.15	1.00	**14**	15
Diluted Weighted-Average Common Shares Outstanding	**134,419**	134,047	133,822	**–**	–
Cash Dividends Declared per Common Share	**0.435**	0.390	0.335	**12**	16
Cash Provided by Continuing Operating Activities	**293,494**	274,529	235,098	**7**	17
Capital Expenditures	**145,622**	147,631	121,667	**(1)**	21
Shareholders' Equity	**762,016**	690,541	551,701	**10**	25
Return on Beginning Equity	**25.5%**	28.0%	25.8%		
Total Debt	**281,074**	295,032	308,268	**(5)**	(4)
Total Debt to Capitalization	**26.9%**	29.9%	35.8%		
Total Assets	**$1,585,946**	$1,470,995	$1,416,299	**8%**	4%











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

We've redefined 'clean'—and have the results to prove it.

To Our Shareholders

Ecolab has given a whole new meaning to "clean." In fact, we've been relentlessly defining and redefining clean for more than three quarters of a century. Since 1923, Ecolab has set the standard for excellence in the cleaning and sanitation industry. And just when it seems we couldn't possibly raise the bar any higher, we top ourselves yet again — delighting our customers and outshining the competition every step of the way.

Simply put, there's clean. And then there's Ecolab Clean.

Consequently, we've also set an equally impressive standard for financial performance. Ecolab is among an elite group of companies that have all demonstrated the ability to generate strong, consistent growth. Quarter after quarter. Year after year. Indeed, we're one of only 9 companies in the Standard & Poor's 500 index that can boast of having achieved 20 consecutive quarters of double-digit earnings per share growth, while at the same time maintaining a greater than 20 percent return on equity and an investment-grade balance sheet. That's a remarkable fact, and it's a testament to the continuing vitality of our aggressive Circle the Customer – Circle the Globe business strategy.

In other words, there are results. And then there are Ecolab Results. Read on for a brief overview of our many achievements during 1999.

Performance defined:

Once again, I'm very pleased to be able to tell you that, as the previous year came to a close, Ecolab had a great many things to feel good about financially – to say the least.

• Sales from wholly owned operations, for instance, were up 10 percent to $2.1 billion. That's another record, and it represents the first time that we've exceeded the $2 billion mark in our company's history. Credit goes to our incomparable sales-and-service force and its continued, aggressive sales endeavors, as well as new product and service launches, and significant personnel additions.

• Our global sales coverage, including our European joint venture, Henkel-Ecolab, reached $3 billion. Fueled by the diligent efforts of Ecolab associates around the world, these outstanding results helped us offset the effects of the Asian and Latin American economies, which were sluggish.

• Our income from continuing operations rose 14 percent to $176 million. Diluted earnings per share also went up 14 percent to $1.31. It was our seventh consecutive year of double-digit earnings per share growth. There aren't many companies who can say that, and Ecolab is proud to be one of them.

• We watched our stock price increase from $36.19 to a record $39.13 during 1999, our fifth consecutive year of growth. Despite a tumultuous period in which investors focused heavily on Internet and technology stocks, we finished another year with a record market price and capitalization.

• Our return on beginning shareholders' equity was 25 percent, once again exceeding our corporate goal of 20 percent.

• In December, we raised our quarterly cash dividend 14 percent to $0.12 per common share. As a result, our indicated annual rate went up to $0.48 per share. It was our eighth consecutive annual dividend rate increase.

• Ecolab continued to enjoy strong cash flow, with cash provided by continuing operations of $293 million – a record level. This strong cash flow also contributed to a strengthened balance sheet. Our 1999 total debt to capitalization ratio was 27 percent, allowing us to uphold a strong "A" category balance sheet from all the major rating agencies. In recognition, Moody's Investors Service upgraded Ecolab's senior debt rating from A3 to A2 and our commercial paper rating from Prime-2 to Prime-1. In doing so, Moody's cited our steady earnings and cash flow growth, as well as improved Henkel-Ecolab performance.

Growth defined:

To attain the kind of financial success outlined above, a company must have premium, differentiated products and services that handle its customers' toughest challenges. And it must possess an extraordinary team of people to provide sales, service and support. Ecolab has both.

• First let's talk products. In 1999, we introduced more highly differentiated, value-added products to solve customers' needs. They include the *Aerolite* Professional Laundry System, which dispenses superconcentrated on-premise laundry products automatically, eliminating buckets, half-used containers and messy spills. We've enjoyed great success with the *Super Express Service Station*, a detailing system for full-service car washes that features popular Blue Coral-brand products. And we're very excited about *MatchUp*, a modular cleaning program specifically designed for the unique needs of quickservice restaurants.

• Food safety remained a high-profile issue during 1999, and Ecolab was again at the forefront with offerings that protect both our customers' businesses, and their customers' health. *Victory*, for instance, is an EPA-registered wash solution for foodservice operations that's designed to remove potentially dangerous microorganisms from the surfaces of fruits and vegetables. Food processing plants are raving about *EcoCare*, a personnel hygiene program that includes everything from hand cleaners to doorway sanitizing systems. We even leveraged our immense food safety expertise to create comprehensive cleaning and sanitation programs for the world's pharmaceutical and cosmetic manufacturers.

• I've said it before, and I'll say it again: Ecolab's sales-and-service force is the largest, best-trained organization of its kind in the industry. And in 1999, it became even bigger and better. We added more than 550 associates, for a total of nearly 7,000. If you include our Henkel-Ecolab associates, the number rises to more than 9,300 associates globally. That is service coverage on an unprecedented scale. And because our field associates are always learning and expanding their knowledge – whether at our world-class Ecolab University training center in St. Paul or in other venues around the world – they truly become experts in cleaning and sanitation.

• Ecolab further bolstered its foundation for future growth through acquisitions. We kicked off the year by welcoming Tucson, Ariz.-based Blue Coral Systems into the Ecolab fold. The purchase made Ecolab the leader in the U.S. vehicle wash market, and it allows us to provide our customers with a full range of branded vehicle cleaning, appearance and specialty products. We also acquired Metro Appliance Service Inc. of Minneapolis, Minn., a provider of commercial kitchen equipment parts and repair services. Metro will contribute to Ecolab's growing national service network for commercial cooking, warewashing and refrigeration equipment. The integrations of several other recent acquisitions – including Brent Chemical Technologies, Savolite, and Vulcan Chemical Technologies, among others – proceeded along smoothly.

• In August, we broke ground on a new, state-of-the-art manufacturing plant in Martinsburg, W.Va. Scheduled to begin operations in January 2001, the 225,000-square-foot facility will make us even better equipped to keep up with the ever-increasing demand for our many products and services. The goods produced there will be distributed all along the Eastern seaboard, from Maine to the tip of Florida. Martinsburg will combine the best practices of all of our plants globally, both in terms of manufacturing processes and environmental stewardship.

Leadership defined:

Ecolab's senior management team underwent a number of changes in 1999. We welcomed new faces and said goodbye to some friends whose tireless contributions to this company will be felt for years to come. Among them were the following:

• When Mike Shannon, our former chairman of the board and chief financial and administrative officer, announced his retirement (see sidebar), it prompted Ecolab's board of directors to elect me to the additional post of chairman of the board, effective January 1, 2000. I am extremely honored by the board's confidence in me, and I savor the opportunity to lead this great company into its next century of growth.

• Mike Shannon's departure also opened the door to our new executive vice president and chief financial officer, L. White Matthews III. Before joining Ecolab in July, White spent more than 20 years with Union Pacific, where he was CFO and a director. He is a valued addition to the Ecolab family.

• In March, the board of directors acknowledged the retirement of longtime director Philip L. Smith. Phil was a respected voice on the board for 10 years, and he will be greatly missed.

• Also in March, the board welcomed new members Jerry A. Grundhofer and William L. Jews. Jerry is president and chief executive officer of Firstar Corp., a bank holding company based in Milwaukee, Wis. Bill is president and chief executive officer of CareFirst Inc., a regional healthcare services provider headquartered in Owings Mills, Md.

• Robert L. Lumpkins was elected to Ecolab's board of directors in August. Bob is vice chairman of the board and chief financial officer of Cargill Inc., a Minneapolis, Minn.-based marketer, processor and distributor of agricultural, food, financial and industrial products.

We enthusiastically welcome our three new directors aboard.

Proud? Definitely:

For years I've been saying how great our associates are. Now that fact has been acknowledged by *Industry Week*, a prominent trade publication that focuses on global manufacturing enterprises. In August, *Industry Week* named Ecolab to its list of the world's 100 best-managed companies. The award is a tribute to the fact that our associates constantly uphold the highest standards of performance, and we're honored to have been among the select group of recipients.

Outlook for 2000:

It's the dawn of the 21st century, and we're ready to make it the Ecolab Century.

That's because, for us, this new century of growth effectively began long before our calendar pages officially turned to the year 2000 a few short months ago. Back when the 1990s were still in full swing, we were already busy building the Ecolab of the future – piece by piece.

We launched an incredible array of cutting-edge product and service offerings, all created to meet our customers' changing cleaning and sanitizing needs in this new era. We made strategic acquisitions, seizing opportunities to broaden our reach and expertise. And we made significant investments in personnel, technology and training. This allowed us to further strengthen our sales-and-service organization – already considered the industry's best – and its ability to circle the customer and circle the globe, providing Ecolab Clean worldwide. All of which was driven by our desire to provide better service to our customers, and continued growth to our investors.

Yes, today we can confidently say that Ecolab is truly a 21st-century company and that we're well-positioned for exceptional growth in the coming decades. But that doesn't mean we're now going to sit back and relax. Not by a long shot. As you well know, companies such as Ecolab that not only want to survive, but to thrive, during the next 100 years will have to constantly grow, adapt and stay at least one step ahead of the pack. That's what Ecolab intends to do, and 2000 will be no exception.

We fully expect the coming year to be one of success and accomplishment. Ecolab will continue to capitalize on the tremendous momentum we now enjoy, taking full advantage of every opportunity to better serve our customers, our associates, and our shareholders. Sure, there will be challenges along the way – ongoing industry consolidation remains a concern, as does the usual economic uncertainty in some areas of the world – but we're more than up to the task. Differentiated solutions, delivered around the globe by an unparalleled team of experts, resulting in increased sales and greater market share: It all adds up to growth. That's what Ecolab does best.

Ecolab Clean equals Ecolab Results. The Ecolab Century is about to begin.

Allan L. Schuman

Allan L. Schuman

Chairman of the Board, President and Chief Executive Officer

Michael E. Shannon

Celebrating 15 years of service

1999 marked the retirement of Mike Shannon. Throughout his 15 years with Ecolab, Mike made many substantial and long-range contributions to our company. He built a strong financial and administrative staff, brought excellent executive and strategic leadership to the financial management of the company, and developed solid community and government relations programs. Moreover, Mike was very active in leadership positions within the community, from arts organizations to human services. Ecolab is fortunate to have had the thoughtful and disciplined insights he brought to its management team, as well as his breadth of involvement. Thank you, Mike, for your tireless support of Ecolab and your work to build its future.

Review of Operations

United States

Institutional

Innovative warewashing, on-premise laundry, housekeeping, water filtration and conditioning, and pool and spa management products, programs and services for the foodservice and hospitality industries.

Highlights

Institutional achieved another year of outstanding growth and progress in 1999, outpacing the industry and setting new performance standards. The division's core warewashing, housekeeping and on-premise laundry businesses continued to grow at strong, steady rates, and a number of new product offerings were successfully launched. The division's many accomplishments in 1999 include the following:

- Once again attained excellent growth. The gains resulted from strong new product sales, improved customer retention and market penetration, increased service levels and a favorable environment in the U.S. foodservice and hospitality industries.

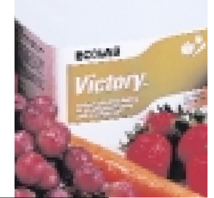
Institutional
Performance, efficiency and improved safety make the Aerolite system a breath of fresh air for on-premise laundries. It offers one-touch dispensing, color- and shape-coded packaging, and a patented anti-spill feature.

- Introduced innovative new offerings such as the *Digits* Hand Hygiene System, which ensures proper employee handwashing in food establishments. It features a unique fluorescent glow box that allows employees to see where hands haven't been properly washed. *Victory*, an antimicrobial fruit and vegetable wash additive, is designed to reduce the number of illness-causing microorganisms on the surface of produce without affecting its flavor or odor. The division also made key additions to existing product lines, including its revolutionary *GeoSystem 9000* warewashing program.

- Made significant strides with its new *Aqua Balance* Pool & Spa Management Program. Transferred from the Water Care Services Division early in the year, *Aqua Balance*'s opportunities were greatly expanded by Institutional's broad sales coverage throughout the United States. This enabled the division to sign lucrative service agreements with several major chains in the lodging industry.

- Broadened its very successful *FresH$_2$O* Water Filtration & Conditioning Program to include filtration technology for hot-water applications and laundry machines. In addition, the *FresH$_2$O* line now includes point-of-use scale control systems. The entire program continues to prosper on the strength of excellent results combined with regular, reliable service.

- Organized a new *EcoSystems* business unit to more fully leverage its expertise and array of solutions in food safety and employee safety. It encompasses both the *FresH$_2$O* program and *Raburn*, which provides products and programs that enhance safety and efficiency in the foodservice and hospitality industries. Plans are underway to add a number of related, proprietary programs under the *EcoSystems* umbrella in the coming year.



Institutional
Restaurants are winning the war against foodborne illness with Victory. It removes potentially disease-causing microbes from the surfaces of fruits and vegetables, washing away worry while leaving foods' natural taste and odor intact.

- Enjoyed ongoing success with the *Ecotemp* program, which provides customers with high-quality, low-temperature dishmachines. By aggressively targeting low-temp competitors in the non-contract marketplace, *Ecotemp* made impressive new customer gains.

Outlook

Institutional is well-positioned to deliver yet another year of high growth and further increase its market share in 2000, thanks to a number of major factors. For example, the division will continue to capitalize on its broad range of strengths, which include its unmatched research and development resources, marketing prowess and the industry's largest, best-trained sales-and-service organization. It remains committed to providing customers with new, innovative, value-added products and services, as well as improving and expanding its existing product lines. Additionally, the division's *Keystone* and *Eco-Clean Elite* distributor programs will play a key growth role during 2000 as investments made in 1999 garner increased business among small, independent customers. Further, Institutional will work with Ecolab's other divisions to Circle the Customer, offering an increasing number of effective, cost-efficient product and service solutions.

Kay

Cleaning and sanitation products and training programs for the quickservice restaurant, convenience store and food retail markets.

Highlights

Ecolab's Kay Division achieved record results in 1999, outpacing quickservice restaurant (QSR) industry growth and significantly expanding its food retail (grocery) and international businesses. Among the highlights:

- Once again introduced a variety of differentiated products and programs. These include *MatchUp*, a portable dilution system targeted toward the QSR market; *Bio-Shield*, a new patented drain program for removing grease, cellulose and other substances that block foodservice drains; and *Block Whitener*, a chlorinated gel that cleans and bleaches cutting boards to control contamination.

Kay
Quickservice customers' toughest grease and grime are no match for Kay's MatchUp cleaning system. It combines heavy-duty product concentrates with easy-to-use dispensing technology, ensuring consistent results and use costs time after time.

- Signed agreements with two additional major U.S. grocery chains, further boosting its fast-growing food retail business, which now extends coast to coast.

- Continued to build its sales-and-service force, a key competitive advantage, and bolstered its equipment and information technology infrastructure.

- Successfully entered the U.S. convenience store market, bringing the same high-quality products, service and training disciplines that have been successful in the QSR and food retail markets.

- Expanded its flourishing international operations into four new countries, most notably Japan, which represents the second-largest QSR market in the world.

Outlook

Kay anticipates another year of above-average growth in 2000. It will further build its QSR business by leveraging its enhanced sales and service capabilities and by continuing to pursue aggressive growth in the food retail and convenience store markets. Kay also expects to leverage its prospects by offering new, unique and innovative solutions to meet evolving customer needs in its current markets, as well as by seeking out new market opportunities.

GCS
GCS Service does much more than provide around-the-clock repairs and parts for cooking, refrigeration and warewashing equipment. Its customized preventative maintenance programs help avert major equipment problems before they occur.

GCS Service

Kitchen equipment repair services and parts for the foodservice and hospitality industries.

Highlights

GCS Service made significant progress during its first full year as an Ecolab division, achieving strong sales growth, enhanced profitability and improved service protocols. Specific highlights include:

- Grew revenues at double-digit rates, partnering with the Institutional, Kay and Pest Elimination divisions, and fostering a more sales-driven philosophy among field management. Also, during the second half of 1999, GCS formed a corporate account group that is expected to have a major impact in 2000.

- Achieved progress toward national service coverage by opening new field offices in Las Vegas, Nev.; East Rutherford, N.J.; Grand Rapids, Mich.; and Seattle, Wash.

- Continued to expand its coverage throughout the United States via key acquisitions such as Metro Appliance Service Inc., a Minneapolis, Minn.-based provider of commercial kitchen equipment parts and repair services to the Upper Midwest marketplace.

Pest Elimination
Where cockroaches are concerned, customers feel the need for speed. ECO2000 Fast Bait is an odorless, nearly invisible cockroach bait that provides the industry's fastest kill rate. Guaranteed. And no prep work or clean-up is required.

Outlook

Ecolab's GCS Service Division will continue to build a solid foundation for further growth. A greatly strengthened sales team – including field management, the newly formed corporate account group, and several account executive positions to be added in 2000 – will lead the way. The division's national service organization will be further enhanced geographically through internal development and acquisitions.

Pest Elimination

Commercial pest elimination and prevention services and grease elimination programs.

Highlights

By further expanding its customized programs and strengthening its sales-and-service organization, Pest Elimination enjoyed another year of record-breaking growth. Highlights include:

- Again attained double-digit increases in nearly all of its primary market segments. Growth was particularly strong in the food and beverage and quickservice restaurant markets, thanks in part to healthy cross-selling relationships with other Ecolab divisions.

- Continued to differentiate itself from the competition by introducing technologically advanced, proprietary products such as *Fast Bait*, a new addition to its highly successful *ECO2000* integrated cockroach elimination program. *Fast Bait* kills cockroaches within one hour of ingestion, the industry's fastest rate. Also offered the first granular *ECO2000* bait, which is particularly effective in very warm, damp environments and other difficult-to-treat locations.

- Launched bird and termite service programs, each well-received by customers, that are specially designed for commercial properties. Both utilize state-of-the-art products and equipment, and can be tailored for an individual property's particular needs. Additionally, expanded the successful *Ecoflo* Grease Elimination Program nationwide.

- Bolstered its already strong U.S. sales and service teams by adding 120 new associates in key regions. Strategically enhanced its market coverage in Canada and Mexico.

Outlook

With plans underway for the launch of more differentiated service offerings and new market segments being considered, Pest Elimination expects continued attractive sales and earnings growth in 2000.

Professional Products

Unique floor care, carpet care, odor control, personal hand soap, surgical scrub, disinfecting and general sanitizing products, programs and systems for the commercial, industrial and healthcare markets.

Highlights

Professional Products took a number of significant steps during 1999 to reposition itself for growth in 2000. Accomplishments for the year include:

- Strengthened its field sales team and management structure, making strategic organizational changes to improve efficiency and bolster sales-and-service performance.

- Revamped its efforts in the $2.5 billion U.S. janitorial market by enhancing its emphasis on distributor sales. The division's actions fostered substantial growth in floor care and dispensing system sales.

- Won several significant corporate account contracts, particularly in the healthcare and nonfood retail markets, that will provide repeat incremental business in future years.

Professional Products
Effective handwashing is critical to infection prevention. Utilizing patented SkinSynergy technology, Endure products help healthcare personnel thwart life-threatening nosocomial infections by working in conjunction with one another.

- Introduced key product offerings for 2000. These include the Huntington-brand *Endure* Dermatology Management System, an integrated line of skin care products for healthcare employees, and the *Quik Floor Applicator*, a unique floor finish dispensing system that can cut related labor expenditures by 50 percent. Sales of *Quik Fill Magnum* – a high-capacity dispensing system launched in late 1998 to the industrial market – gained considerable momentum throughout 1999 and are expected to climb further.

Outlook

By capitalizing on corporate account gains, organizational investments and new product rollouts, Professional Products expects renewed growth and improved profitability in 2000. Management plans to aggressively drive new account growth and improved customer retention.

Textile Care

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

Highlights

In 1999, Textile Care initiated aggressive steps in a successful response to industry consolidations and pricing pressures. A management realignment, successful roll-outs of several new product lines, key corporate account gains and a strong emphasis on training all contributed to 1999 sales growth and laid the foundation for a strong performance in 2000. Specific highlights include:

- Vigorous sales efforts stressing Textile Care's innovative products and superior service led to key corporate account gains in the commercial laundry segment, resulting in significant growth.

- Launched *AdvaCare 120*, a complete, low-temperature line of laundry products for the healthcare market that saves energy, extends linen life and reduces formula times. *AdvaCare 120 Fluid Repellent*, a key product, protects the barrier properties of expensive surgical gowns and prevents fluid strike-through.

- Expanded its *Turbo* commercial laundry line, adding several new products that provide superior cleaning at temperatures significantly below industry standards. Also added a non-phosphate product to its *Exec 120°* shirt laundry line, which has established itself as the industry standard.

- Strengthened its corporate account team to increase market penetration and sustain growth.

Outlook

Though its markets are expected to remain challenging in 2000, Textile Care expects to continue its sales momentum with new products and programs in the shirt laundry, commercial and healthcare markets. An emphasis on product innovation, value-added systems and niche market sales will help drive this growth.

Textile Care
Innovative product offerings, such as Textile Care's AdvaCare 120 Fluid Repellent, help drive Ecolab's growth. The product adds an invisible layer of repellency to surgical gowns and hospitality textiles, dramatically increasing the life of reusable garments.

Food & Beverage

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

Highlights

Capitalizing on its food safety and brand protection expertise, Food & Beverage enjoyed an excellent year of double-digit sales growth despite a competitive industry and consolidation within some markets. Highlights for the year include:

- Posted record sales growth in its agribusiness, meat processing and engineering segments through differentiated cleaning systems that offer customers improved control over manufacturing costs.

- Increased sales and market share in the beverage segment thanks to key corporate account partnerships gained through comprehensive offerings that provide unparalleled results and brand protection.

- Continued double-digit sales growth in the food processing industry with advanced technology such as *Maxxum*, a fully automated system that formulates, allocates and dispenses cleaning and sanitizing products for food processing and beverage plants.

- Grew business in the fruit and vegetable segment with *Tsunami*, a wash-water additive recognized for its control of spoilage organisms in fresh produce. Also grew the vegetable processing market with proprietary technology that effectively cleans olestra, a non-fat product used in some snack foods.

- Launched *EcoCare*, a personnel hygiene program for manufacturing plants that includes everything from hand cleaners and sanitizers to touchless dispensers and doorway sanitizing systems. *EcoCare* has been very well-received.

Food & Beverage
Ecolab fully circles its customers with comprehensive programs such as EcoCare, a personnel hygiene system for manufacturing plants. With doorway sanitizers, hand soaps, touchless dispensers and more, EcoCare takes food safety to a new level.

- Entered the cosmetic and pharmaceutical markets with the *Cosa* product line, a global effort leveraging the shared technology and expertise of Ecolab and Henkel-Ecolab, the company's European joint venture.

- Achieved continued growth in the agribusiness market thanks in part to its *Valiant* line, an udder health program that dramatically improves animal health, product safety and labor costs.

Outlook

In 2000, Ecolab's Food & Beverage Division will remain an industry leader in the development of new, differentiated products, systems and technologies – advances that help protect brands, products and consumers. Increasingly healthy sales and profit growth is expected in traditional business segments, such as beverage, agribusiness, food and critical environments, as well as in the new pharmaceutical and cosmetic markets. Aggressive corporate account efforts in the soft drink and brewery segments will also fuel success in 2000.

Water Care Services

Water treatment programs for boilers, cooling water and waste treatment systems.

Highlights

Water Care achieved sales improvement in 1999 utilizing Ecolab's Circle the Customer strategy to cross-sell with its sister divisions, and by offering differentiated products and systems. The year's highlights include:

- Increased business in the targeted food, beverage, institutional, commercial laundry and cruise markets, leveraging Ecolab's strong account relationships while carefully controlling costs.

- Rolled out the rapidly expanding *Easy-Check* program, a color marking system for cooling and boiler water that dramatically reduces water-testing time.

Outlook

Water Care will further penetrate its key market segments in 2000, particularly the food processing and beverage markets. It will also continue to offer innovative products and services that help customers save time and labor while improving performance.

Vehicle Care

Wash products for vehicle rental, fleet and consumer car washes.

Highlights

1999 was a year of major development and growth for Ecolab's Vehicle Care Division. It completed the second major acquisition of its two-year existence – successfully integrating field and administrative organizations, merging product lines, and introducing exciting, new offerings – to emerge as the undisputed leader in the U.S. vehicle wash market. Accomplishments include:

Vehicle Care
The car-driving public has long trusted Blue Coral-brand products. Now thanks to Ecolab's Super Express Service Station, commercial car washes can offer these products to their customers as an add-on service, which boosts profitability.

- While melding its existing organization with that of Blue Coral Systems – the Tucson, Ariz.-based marketer of automotive cleaning products for commercial car washes that was acquired during 1999's first quarter – Vehicle Care delivered excellent results. Comparable business growth increased by double digits, and the acquisition yielded a tripling of the division's 1998 sales.

- Rolled out popular new offerings such as the *Super Express Service Station*, an express detailing unit that allows full-service wash operations to quickly dispense *Blue Coral Wax*, *Black Magic* tire dressing and *Rain X* window treatment. Consumer awareness of these brand names makes them a valuable marketing asset, increasing operators' profitability.

- Experienced rapid growth in the high-pressure automatic wash segment, which is dominated by major oil companies' chains of convenience stores with attached car washes.

Outlook

With a strong, integrated, national divisional structure and identity now in place, Vehicle Care expects to continue leveraging its strength in its core market segments. In addition, it will work toward aggressive growth in emerging areas such as the auto rental and truck fleet markets.

International

Serving 38 countries through direct operations, and more than 100 countries through distributors, licensees and export operations, by providing cleaning and sanitizing products, equipment, systems and services for the hospitality, institutional and industrial markets.

Africa

Highlights

Ecolab's Africa operations enjoyed improved results in 1999 as strengthened management and enhanced service in both the institutional and food and beverage segments drove sales and profit growth. Specific highlights include:

- Strengthened its business by acquiring South Africa's Brent Chemicals, a leader in the food and beverage market. This acquisition bolstered Ecolab's management and service capabilities in the important South African market, and will provide a sound base for operations throughout Africa.

- Benefited from improved stability in the South African economy, which led to improved performance in the latter half of the year. This should set the stage for good growth in 2000.

Outlook

Expanding global product lines will play an increasingly important role as Ecolab's Africa operation forwards the company's mission to fully circle its customers. The company will continue to seek opportunities in additional markets throughout Africa and the Middle East, and will benefit from increased customer investment in this region.

Asia Pacific

Highlights

Ecolab's Asia Pacific operations continued to feel the effects of the region's economic turmoil as hospitality markets remained soft. However, Ecolab's aggressive field sales efforts drove growth, while new products and careful monitoring of expenses helped achieve a substantial increase in operating income. The year's highlights include:

- Enjoyed ongoing success with the *Ecotemp* dishmachine leasing program, the *EcoStar* laundry system and the *Oasis Compac* general housekeeping line.

- Achieved solid sales growth across the region, particularly in Southeast Asia and Korea, which recorded double-digit increases.

International
Ecolab's food safety expertise is reaching new shores thanks to the SafeSteps program, which includes highly effective products, detailed training, and point-of-usage materials for the entire foodservice operation.

- Continued to increase sales of several popular Food & Beverage offerings, including *Vortexx* sanitizer and *Lubodrive* conveyor lubricant, which is quickly establishing itself as a market leader.

- Rolled out the *SafeSteps* food safety program accompanied by vigorous training of its territory managers, all of whom will become certified in SERVSAFE, the recognized industry standard for food safety.

- Began preparations for the September 2000 Olympics in Sydney, Australia. The new Olympic Stadium is already fully installed with Ecolab warewashing and kitchen cleaning systems. Ecolab will also be onsite at the athlete and media villages, as well as the hotels that will house thousands of visitors.

Outlook

Ecolab's Asia Pacific operations should benefit from the expected strengthening of Asian economies in 2000, resulting in improved sales growth leveraged by improved margins. These gains will be driven by superior customer retention, growth of existing business, new products and a strong corporate accounts focus.

Canada

Highlights

Canada offset a challenging economy to post solid growth and expanded market share. Specific accomplishments include:

- Enjoyed excellent growth of its *FresH*$_2$*O* system, which provides institutional businesses with point-of-use water filtration and conditioning.

- Strengthened its *Ecotemp* dishmachine program with specialized personnel and route systems.

- Grew its Food & Beverage sales by nearly double-digit rates and maintained its status as the market leader in this segment, drawing on new product introductions, improved account retention, substantial corporate agreements, and a good dairy business environment.

Outlook

Canada will launch a broad array of new products and systems in 2000 in its institutional, textile care, vehicle care, professional products, and food and beverage segments. It will also enhance its distributor line through expansion of current product lines and additional support to distributors. By focusing on aggressive training, comprehensive offerings and customer retention, Canada expects continued sales growth and market share gains as it outpaces the competition.

Latin America

Highlights

Led by record-breaking performances in Mexico and Central America, Ecolab's Latin America operations achieved solid growth in 1999 despite a currency devaluation in Brazil. Specific highlights include:

- Enjoyed robust growth in Mexico and Central America thanks to healthy economies, tight cost controls, new product introductions and aggressive management action.

- Launched a number of new products and systems, including the *Oasis Compac* housekeeping system and the comprehensive *SafeSteps* food safety program. These well-received initiatives were accompanied by intense, ongoing sales force training programs.

International
Where space is limited, the Oasis Compac cleaning system offers compact, easy-to-use wall dispensers that can be installed almost anywhere. And its premium product line covers the entire spectrum of foodservice and housekeeping needs.

- Expanded business in the brewery and beverage segments with several key global account gains.

- Introduced the rapidly expanding *Ecolab Elite* distributor product line to remote areas of Brazil, and expanded the popular *Ecotemp* dishmachine leasing program through its countries.

Outlook

Continued strength in Mexico and Central America is expected to lead the region in 2000 as differentiated offerings, ongoing training, aggressive sales efforts and a strong global account focus help drive growth. Further, Ecolab is well positioned to leverage the improving economy in Brazil. Acquisitions and new market segments will also play a key role in Latin America's future growth.

Henkel-Ecolab

Offering the same premium cleaning and sanitizing products and services throughout Europe to the hospitality, institutional and industrial markets.

Highlights

Henkel-Ecolab enjoyed another record year in 1999. Leading the results were new product and system offerings, initiatives that strengthened its sales-and-service organization and management team, and an enhanced presence in high-growth markets such as southern and eastern Europe. Highlights for the year include the following:

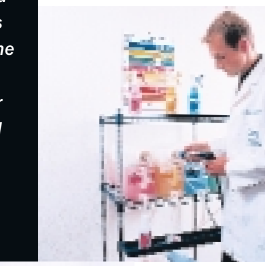
- Grew net sales 7 percent to DM 1.7 billion, far outperforming European market development. When converted to U.S. dollars, sales were $938 million. Ecolab's equity in the earnings of Henkel-Ecolab increased 14 percent.

- Launched proprietary, new product and equipment solutions in all four divisions. Examples include the *Clinpro* product line for distributors, the *purDos* system for the textile industry, and the *P3 Oxysan* clean-in-place disinfectant system for bottling and dairy operations. In addition, Professional Hygiene introduced a new washroom concept and Hospital Hygiene rolled out a line of foam-based handcare products.

- Expanded its market coverage into the Eastern European nations of Georgia, Armenia, Croatia, Ukraine and the Baltic states. In addition, Henkel-Ecolab acquired Gibson Chemicals' assets in the United Kingdom, further strengthening its competitive position in England, Scotland, Wales and Northern Ireland.

- Made several key additions to its management team, further preparing its organization for the challenges and opportunities that lie ahead in the 21st century. The company also grew its European sales-and-service network by adding field personnel in vital growth areas.

Henkel-Ecolab
Henkel-Ecolab's environmentally oriented purDOS system provides textile customers with the world's first automatic paste dosage system for small and medium-sized washing machines.



- Successfully implemented use of the new euro currency for all external business transactions.

- Earned company-wide ISO 14001 environmental management certification, as well as increased ISO 9001 compliance in all countries and regions.

- Received prestigious industry awards in product design for its state-of-the-art *Compactomix Compactat*, *ISI 33 Floor Care Applicator*, *Quik Pak* and *Power Pak* offerings.

Outlook

Building upon its strong sales progress and pivotal infrastructure investments, Henkel-Ecolab will remain focused on its core product and service strengths during 2000. The development and launch of more differentiated product and service offerings, as well as aggressive, cross-divisional marketing initiatives in all markets, will continue to fuel the joint venture's growth and profitability.

Financial Discussion

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

The 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 include expectations concerning investments in the sales-and-service force, business prospects for Professional Products and Textile Care operations, customer consolidations, global economic conditions and liquidity requirements. 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 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 Part I of the company's Annual Report on Form 10-K for the year ended December 31, 1999, 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.

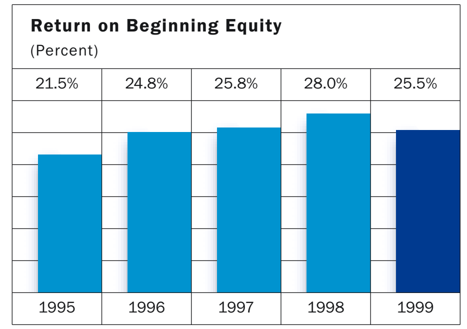
1999 Overview

1999 was the eighth consecutive year that Ecolab achieved exceptionally strong financial results and established new records in a number of areas. The company's more significant accomplishments included:

• The company came very close to exceeding all three of its long-term financial objectives for the fourth year in a row. These objectives include 15 percent growth in diluted income per common share, 20 percent return on beginning shareholders' equity and an investment grade balance sheet.

• Income from continuing operations increased 14 percent to a record $176 million, or $1.31 per diluted share. 1999 was Ecolab's seventh consecutive year of double-digit growth in earnings per share. The company also reached its twentieth consecutive quarter of double-digit earnings per share growth in the fourth quarter of 1999.

• Return on beginning shareholders' equity was 25 percent for 1999 and exceeded the company's long-term objective for the eighth consecutive year.



• The company continued to maintain its long-term financial objective of an investment grade balance sheet. This was the seventh consecutive year that the company's debt continued to be rated within the "A" categories by the major rating agencies. In addition, Moody's Investors Service upgraded the company's debt and commercial paper ratings during 1999.

• Net sales were nearly $2.1 billion, a new record level, and increased 10 percent over the prior year.

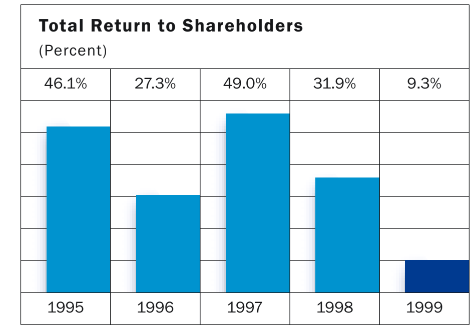
• Operating income rose 11 percent for 1999 to reach a new all-time high of $290 million. As a percent of net sales, operating income was 13.9 percent, unchanged from the record level set in 1998.

• The company's equity in earnings of Henkel-Ecolab rose at double-digit rates for the second year in a row to a new all-time high.

• Cash provided by continuing operations rose 7 percent, reaching a record level of $293 million.

• The company increased its annual dividend rate for the eighth consecutive year. The annual dividend rate rose 14 percent to an annual rate of $0.48 per common share.

• Ecolab's stock price rose to record levels during 1999 and closed out the year with a gain of 8 percent. Including dividends, Ecolab's stock yielded a return of 9 percent to shareholders.



Share appreciation plus dividends

• The company continued to make strategic business acquisitions in order to broaden its product and service offerings in line with its Circle the Customer – Circle the Globe strategy. During 1999, the company added to its Vehicle Care operations with the acquisition of Blue Coral Systems, a leading manufacturer of branded vehicle cleaning, appearance and specialty products to the commercial vehicle wash industry. Also during the year, the company added to its commercial kitchen equipment repair services operations and to its Food & Beverage operations in Africa through small 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.

Operating Results

Consolidated

(thousands, except per share)	**1999**	1998	1997
Net sales	**$2,080,012**	$1,888,226	$1,640,352
Operating income	**$ 289,951**	$ 261,980	$ 218,504
Income			
Continuing operations	**$ 175,786**	$ 154,506	$ 133,955
Discontinued operations		38,000	
Net income	**$ 175,786**	$ 192,506	$ 133,955
Diluted income per common share			
Continuing operations	**$ 1.31**	$ 1.15	$ 1.00
Discontinued operations		0.28	
Net income	**$ 1.31**	$ 1.44	$ 1.00

Consolidated net sales approached $2.1 billion for 1999 and increased 10 percent over net sales of nearly $1.9 billion in 1998. Nearly all of the company's operating segments contributed to the company's growth in sales for 1999, with strong growth from the core U.S. Institutional and Food & Beverage operations. Business acquisitions also contributed to overall sales growth for 1999. Businesses acquired in 1999 and the annualized effect of businesses acquired in 1998 accounted for approximately one-third of the growth in consolidated sales for 1999. Changes in currency translation had a very modest negative effect on the consolidated sales growth rate for 1999. The growth in sales also reflected the benefits of new products, new customers, and a larger and better trained sales-and-service force. 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 1999.

The company's consolidated gross profit margin was 54.9 percent of net sales for 1999 and was unchanged from the prior year. The benefits from increased sales of the higher margin products of the company's U.S. core operations, an improved margin in the Asia Pacific region, and sales volume growth of new products were generally offset by the effects of the lower gross profit margins of businesses acquired. Selling price increases during 1999 were not significant.

For 1999, selling, general and administrative expenses were 41.0 percent of net sales, unchanged from the prior year. Selling, general and administrative expenses included two unusual items in 1999. During the third quarter of 1999, the company recognized a non-taxable gain of $1.5 million, or $0.01 per share, on the receipt of shares from an insurance company that demutualized and issued shares in a public offering. During the fourth quarter, the company recognized approximately $4 million of bad debt expense related to a large distributor. In addition to these two items, the selling, general and administrative expense margin reflected the benefits of synergies from the effects of business acquisitions, tight cost controls, lower investments in international areas experiencing difficult economic conditions and strong sales growth. These benefits were offset by increased expenses related to the company's retirement plans, and higher investments in the sales-and-service force and new business development. The company expects to continue to invest in its sales-and-service force, including investments in training and productivity.

Consolidated operating income increased 11 percent for 1999 and reached $290 million compared with $262 million in 1998. Business acquisitions contributed to the growth in operating income and accounted for approximately one-tenth of the increase. The consolidated operating income margin was unchanged from 1998's record level of 13.9 percent. Operating income improvement reflected continued strong growth trends in the U.S. Institutional, Food & Beverage and Pest Elimination operations, and significant growth in the Asia Pacific region for 1999.

Income from continuing operations rose to $176 million, or $1.31 per diluted share, an increase of 14 percent over income of $155 million, or $1.15 per diluted share in 1998. The increase in income reflected double-digit growth in operating income and in the company's equity in earnings of Henkel-Ecolab. As a percentage of net sales, income from continuing operations improved to 8.5 percent of net sales, compared with 8.2 percent of net sales in the prior year.

1998 compared with 1997

Consolidated net sales were nearly $1.9 billion for 1998, an increase of 15 percent over net sales of $1.6 billion in 1997. Both the company's United States and International operations reported double-digit sales growth and contributed to the consolidated sales improvement. Business acquisitions were significant to the company's growth, accounting for approximately one-half of the overall sales growth for 1998. Changes in currency translation had a negative effect on sales growth and negatively impacted the consolidated growth rate by 3 percentage points. The growth in sales also reflected the benefits of new products, new customers, competitive gains, investments in the growth and training of the sales-and-service force and a continuation of generally good conditions in the hospitality and lodging industries, particularly in the United States.

The gross profit margin was 54.9 percent of net sales for 1998, down slightly from 1997's record gross profit margin of 56.0 percent. The decrease in gross profit margin reflected a comparison against an exceptionally strong period in 1997, the effects of business acquisitions and lower margins in the Asia Pacific region which was affected by economic and monetary problems. These negative effects on the gross profit margin were partially offset by the effects of sales of new products and good sales volume growth. Selling price increases were constrained due to competitive conditions in several of the markets in which the company does business.

Selling, general and administrative expenses were 41.0 percent of net sales in 1998, a decrease from 42.7 percent of net sales in 1997. Selling, general and administrative expense margins were down for both the company's United States and International operations, with a significant decrease in the Asia Pacific region. The improvement in the selling, general and administrative expense margin reflected the benefits of tight cost controls, synergies from the integration of businesses acquired, improved sales productivity and strong sales growth. These benefits were partially offset by continued investments in the training and growth of the sales-and-service force.

Consolidated operating income reached $262 million for 1998, an increase of 20 percent over operating income of $219 million in 1997. Business acquisitions accounted for approximately one-fifth of the increase in operating income. The consolidated operating income margin rose to 13.9 percent for 1998 and surpassed 1997's operating income margin of 13.3 percent to reach a new all-time high. A continuation of particularly strong growth in the U.S. Institutional and Food & Beverage operations and solid performances by the U.S. Pest Elimination and Kay businesses were the major contributors to the company's overall profit improvement.

Income from continuing operations for 1998 rose 15 percent to $155 million, or $1.15 per diluted share from $134 million, or $1.00 per diluted share in 1997. This improvement reflected double-digit growth in operating income and an increase in the company's equity in earnings of Henkel-Ecolab. Earnings were negatively affected by increased net interest expense compared with the prior year. Income from continuing operations was 8.2 percent of net sales in both 1998 and 1997.

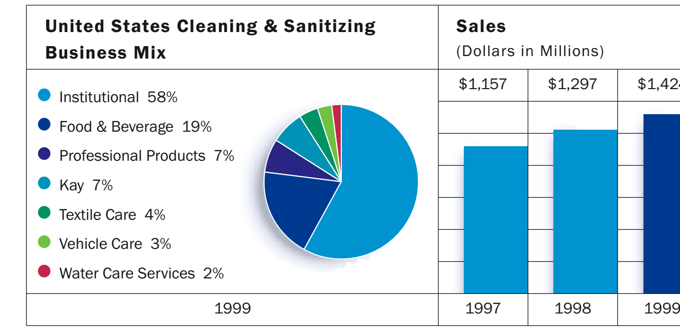
In addition to ongoing operations, a tax issue related to the disposal of a business in 1992 was resolved during 1998, resulting in a one-time gain from discontinued operations of $38 million, or $0.28 per diluted share. As a result of tax losses on the disposition of this business, the company's U.S. federal income tax payments were reduced in 1992 through 1995 by approximately $58 million. However, pending final acceptance of the company's treatment of the losses, no income tax benefit was recognized for financial reporting purposes. During 1998, an agreement was reached with the Internal Revenue Service on the final tax treatment for the losses. This agreement resulted in the payment of approximately $39 million of income taxes and interest, and the recognition of the gain from discontinued operations.

Net income for 1998 totaled $193 million, or $1.44 per diluted share, compared with $134 million, or $1.00 per diluted share in 1997.

Operating Segment Performance

(thousands)	**1999**	1998	1997
Net sales			
United States			
Cleaning & Sanitizing	**$1,424,037**	$1,296,797	$1,156,625
Other Services	**211,562**	160,063	119,203
Total	**1,635,599**	1,456,860	1,275,828
International Cleaning & Sanitizing	**438,013**	419,898	316,889
Total	**2,073,612**	1,876,758	1,592,717
Effect of foreign currency translation	**6,400**	11,468	47,635
Consolidated	**$2,080,012**	$1,888,226	$1,640,352
Operating income			
United States			
Cleaning & Sanitizing	**$ 230,520**	$ 218,500	$ 180,975
Other Services	**25,114**	19,084	14,655
Total	**255,634**	237,584	195,630
International Cleaning & Sanitizing	**37,807**	27,478	20,274
Total	**293,441**	265,062	215,904
Corporate	**(4,570)**	(4,347)	(4,088)
Effect of foreign currency translation	**1,080**	1,265	6,688
Consolidated	**$ 289,951**	$ 261,980	$ 218,504
Operating income as a percent of sales			
United States			
Cleaning & Sanitizing	**16.2%**	16.8%	15.6%
Other Services	**11.9**	11.9	12.3
Total	**15.6**	16.3	15.3
International Cleaning & Sanitizing	**8.6%**	6.5%	6.4%

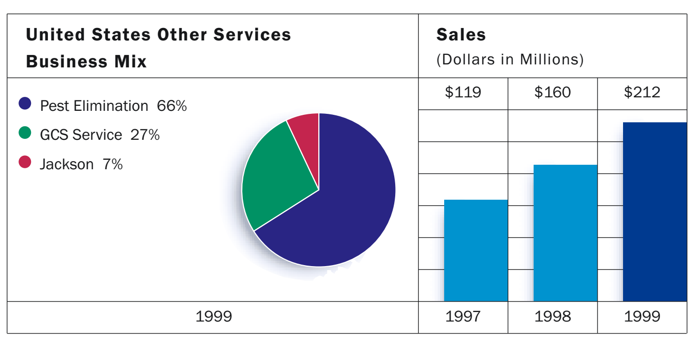
The company's operating segments have similar products and services and the company is organized to manage its operations geographically. The company's operating segments have been aggregated into three reportable segments: United States Cleaning & Sanitizing, United States Other Services, and International Cleaning & Sanitizing. The company evaluates the performance of its International operations based on fixed management rates of currency exchange. Therefore, International sales and operating income totals, as well as the International financial information included in this financial discussion, are based on translation into U.S. dollars at the fixed currency exchange rates used by management for 1999. All other accounting policies of the reportable segments are consistent with generally accepted accounting principles and the accounting policies of the company described in Note 2 of the notes to consolidated financial statements. Additional information about the company's reportable segments is included in Note 15 of the notes to consolidated financial statements.



Sales of the company's United States Cleaning & Sanitizing operations reached $1.4 billion in 1999, an increase of 10 percent over sales of nearly $1.3 billion in 1998. Sales benefited from business acquisitions and the continued strong performances of the core Institutional and Food & Beverage operations. Business acquisitions accounted for approximately one-fourth of the growth in United States Cleaning & Sanitizing sales for 1999. Sales growth also included the benefits from sales of new products, investments the company has made in the sales-and-service force, and generally good conditions in the hospitality and lodging industries. Selling price increases during 1999 were not significant. Sales of the company's U.S. Institutional operations increased 8 percent for 1999. Institutional's growth reflected new customer business, good customer retention, continued double-digit growth in sales of its *Ecotemp*, specialty and housekeeping programs, and good growth in warewashing sales. Sales for Kay's U.S. operations increased 9 percent for 1999 and reflected the continued expansion of its food retail business and good growth in sales to its core quickservice customers. Sales of Textile Care operations were up 5 percent for 1999 and included benefits from new product offerings and new customers. Textile Care continued to be challenged by consolidations and pricing pressures in its markets and the company expects these difficult conditions to continue in the near term. Professional Products reported a 3 percent decrease in sales for 1999. Lower sales to the specialty and government education markets were partially offset by growth in sales to corporate accounts. The company is focusing on improving its Professional Products operations. Sales of

Water Care Services operations increased 4 percent for 1999. Water Care sales included new customer business, however, results were limited by a very competitive business environment. The company's Food & Beverage operations reported sales growth of 11 percent for 1999. Excluding the annualized effect of businesses acquired in 1998, Food & Beverage sales increased 8 percent with particularly strong growth in sales to the meat processing and agribusiness markets. In February 1999, the company acquired substantially all of the assets of Blue Coral Systems, a leading manufacturer of branded vehicle cleaning, appearance and specialty products to the commercial vehicle wash industry. Blue Coral Systems was combined with the company's existing Vehicle Care operations.

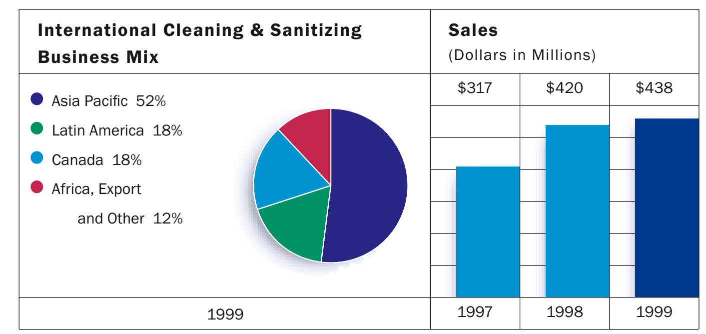
Sales of the company's United States Other Services operations totaled $212 million for 1999, an increase of 32 percent over sales of $160 million in 1998. Excluding sales of GCS Service, Inc. (GCS) which was acquired in July 1998, sales of United States Other Services increased 12 percent for 1999. Pest Elimination reported sales growth of 12 percent for 1999 reflecting good growth across all business lines. Pest Elimination sales benefited from a larger number of service offerings and gains from new customer business. The recently-acquired GCS kitchen equipment repair business continued to report solid growth, and the company is focusing on coordinating their operations with the other Ecolab businesses and expanding operations to provide national coverage. Sales of the Jackson equipment business increased 13 percent for 1999.



Management rate sales for the company's International Cleaning & Sanitizing operations were $438 million for 1999 and were up 4 percent over sales of $420 million in 1998. The benefits of business acquisitions were more than offset by the negative effects of a Gibson business which was sold during 1999. Excluding these business changes, International Cleaning & Sanitizing sales increased 6 percent for 1999. Sales for the Asia Pacific region, International's largest area of operation, increased 6 percent for 1999. Asia Pacific sales included good growth in Japan, Australia and New Zealand, and double-digit growth in Southeast Asia. Asia Pacific sales reflected good growth in sales to both the food and beverage and institutional markets. Latin America reported sales growth of 7 percent for 1999 which included significant double-digit growth in Mexico and Central America, partially offset by modestly lower sales in Brazil which was affected by a currency devaluation. Institutional and Food & Beverage sales showed good improvement in the Latin America region. Sales in Canada were up 4 percent for 1999 with higher sales to both the food and beverage and institutional markets. Sales of Africa/Export operations increased 19 percent for 1999 due to an acquisition early in the year in South Africa, and solid growth in Export operations.

Operating income of the company's United States Cleaning & Sanitizing operations increased 6 percent to $231 million in 1999, compared with operating income of $219 million in 1998. Business acquisitions accounted for approximately one-fifth of the growth in operating income for 1999. Operating income growth reflected continued strong growth in the core Institutional and Food & Beverage operations and improved performances by Textile Care and Water Care during 1999. Operating income of Professional Products decreased during 1999 and income of Kay's U.S. operations was modestly lower than the prior year. The operating income margin for United States Cleaning & Sanitizing operations decreased to 16.2 percent of net sales in 1999 from 16.8 percent in 1998. This decrease reflected disappointing results of Professional Products operations, investments in the sales-and-service force to support new business development and the effects of the lower margins of businesses acquired. The operating income margin benefited from the strong core operations performance, higher sales volume, sales of new products, modest increases in raw material costs and tight cost controls. The company added 370 sales-and-service associates to its United States Cleaning & Sanitizing operations during 1999.

Operating income of United States Other Services operations totaled $25 million for 1999 and increased 32 percent over 1998 operating income of $19 million. Excluding GCS, which was acquired in July of 1998, operating income of United States Other Services increased 22 percent for 1999. The operating income margin for United States Other Services was 11.9 percent for 1999, unchanged from the prior year. The operating income margin for 1999 reflected substantially increased income of the Jackson business and an improved Pest Elimination margin due to good sales growth and productivity improvements. These benefits were offset by the addition of the lower margin GCS business. During 1999, the company added 185 sales-and-service associates to its United States Other Services operations.



Operating income for the company's International Cleaning & Sanitizing operations was $38 million for 1999, an increase of 38 percent over operating income of $27 million in 1998. The operating income margin for International operations rose to 8.6 percent of net sales in 1999 from 6.5 percent in 1998. Operating income increased significantly during 1999 in Asia Pacific, Latin America and Africa/Export operations reflecting good sales growth and tight cost controls. Overall, the total number of sales-and-service associates in International Cleaning & Sanitizing operations at year-end 1999 was unchanged from the prior year.

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, technical support and administrative personnel are also necessary in order to facilitate growth of International operations.

1998 compared with 1997

Sales of the company's United States Cleaning & Sanitizing operations were nearly $1.3 billion for 1998 and increased 12 percent over sales approaching $1.2 billion in 1997. This sales increase reflected benefits from business acquisitions, a continuation of particularly strong performances by the company's core Institutional and Food & Beverage operations and double-digit growth in sales reported by Kay. Business acquisitions accounted for approximately one-third of the growth in sales of the United States Cleaning & Sanitizing operations. Sales in 1998 also benefited from new product introductions, new customers, competitive gains, a larger and better trained sales-and-service force and favorable trends in the hospitality and lodging industries. Selling price increases continued to be constrained due to competitive pricing conditions in several of the markets in which the company does business. Sales of the company's Institutional operations increased 11 percent for 1998. Institutional reported strong double-digit growth in its *Ecotemp*, laundry, specialty and housekeeping programs and solid growth in sales to warewashing markets. Institutional benefited from new customers, competitive gains and high customer retention. Kay's U.S. operations reported sales growth of 10 percent for 1998 reflecting new business, continued growth in its food retail services business and retention of key customers. Textile Care sales increased 1 percent for 1998. Textile Care has a number of new product offerings, but continues to experience pressures from consolidations in the commercial laundry market and a difficult pricing environment. Professional Products sales were up 6 percent, with double-digit growth in its specialty and brand-name program and infection prevention products, and modest growth in its core janitorial business. Sales of the company's Water Care operations increased 6 percent for 1998, reflecting double-digit growth in its cruise ship business, partially offset by lower distributor sales to municipal markets. Food & Beverage reported sales growth of 15 percent for 1998. Food & Beverage sales growth included the benefits of businesses acquired in 1998 and the annualized effect of the 1997 acquisition of Chemidyne. Excluding the effect of these business acquisitions, Food & Beverage sales increased 8 percent and included strong growth in sales to the beverage and food processing markets and good growth in sales to the dairy markets, despite challenging consolidation and pricing conditions.

For 1998, sales of the company's United States Other Services operations increased 34 percent to $160 million, compared with $119 million in 1997. Sales for 1998 included the mid-year acquisition of GCS, a nationwide provider of commercial kitchen equipment repair services. Other Services sales grew 14 percent excluding the GCS business acquisition. Pest Elimination reported sales growth of 14 percent for 1998 with strong sales across all of its business lines, including its core contract services business, its flying insect defense program and ancillary services. Pest Elimination had very good contract growth during 1998, continued its high customer retention and benefited from weather conditions that contributed to greater pest elimination needs during 1998. Sales of the Jackson equipment business increased 18 percent for 1998, reflecting good sales to the quickservice market.

Management rate sales of the company's International Cleaning & Sanitizing operations were $420 million for 1998, up 33 percent over sales of $317 million in 1997. Sales in 1998 benefited from the acquisition of Gibson at the end of 1997 and from the addition of a business in Japan during 1998. These business acquisitions accounted for approximately two-thirds of International sales growth for 1998. The Asia Pacific region reported sales growth of 54 percent for 1998. Excluding business acquisitions, Asia Pacific sales increased 10 percent and reflected double-digit growth in Japan and Southeast Asia, modest growth in Australia and a decrease in sales in New Zealand. Sales to the Asia Pacific food and beverage markets were up significantly and the region recorded modest growth in sales to institutional markets. Latin America sales for 1998 increased 9 percent over the prior year. The region continued to be led by double-digit growth in Mexico. Sales were also up at double-digit rates in Venezuela and in Central America, while sales growth in Brazil was modest. Latin America recorded good growth in sales to both the institutional and food and beverage markets. Sales in Canada increased 9 percent for 1998 and included high single-digit growth in sales to both the institutional and food and beverage markets. Sales for the company's operations in Africa decreased 6 percent for 1998 as the company focused on integrating the various businesses acquired over the last couple of years.

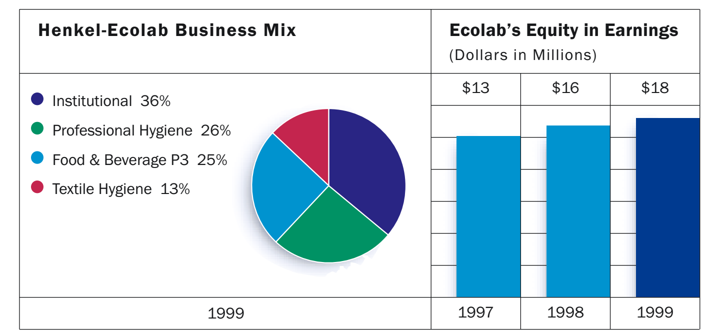
Operating income of the company's United States Cleaning & Sanitizing operations was $219 million in 1998, an increase of 21 percent over operating income of $181 million in 1997. Business acquisitions accounted for approximately one-tenth of the growth in operating income for 1998. Operating income growth in the core Institutional and Food & Beverage businesses remained very strong and operating income in the U.S. Kay and Professional Products businesses was also up at double-digit rates. Textile Care and Water Care reported a decrease in operating income for 1998. The operating income margin for the United States Cleaning & Sanitizing operations improved to 16.8 percent of net sales, compared with 15.6 percent in 1997. The increased operating income margin reflected strong sales growth, including a continuation of strong performance in the core operations and in sales of new products, modest increases in raw material costs and the benefits of tight cost controls. The company added 255 sales-and-service associates to its United States Cleaning & Sanitizing operations during 1998.

United States Other Services reported an increase of 30 percent in operating income, to $19 million in 1998 from $15 million in the prior year. Excluding the GCS acquisition, operating income was up 27 percent. The operating income margin was down slightly, to 11.9 percent of net sales in 1998 from 12.3 percent the prior year, due in part to the addition of GCS. The increase in operating income for 1998 was driven by sales growth, productivity improvements and tight cost controls. 365 sales-and-service associates were added to the United States Other Services operations in 1998, including GCS associates.

International Cleaning & Sanitizing operations reported operating income of $27 million for 1998, an increase of 36 percent over 1997 operating income of $20 million. Business acquisitions accounted for approximately 90 percent of the growth in operating income for 1998. Operating income margins for the International Cleaning & Sanitizing operations were 6.5 percent of net sales in 1998 compared with 6.4 percent in the prior year. Operating income reflected significant double-digit growth in Latin America, good growth in Canada and a decrease in operating income in Africa and in the Asia Pacific region when the Gibson acquisition is excluded. The company added 300 sales-and-service associates to its International Cleaning & Sanitizing operations during 1998, including associates of businesses acquired.

Henkel-Ecolab

The company operates cleaning and sanitizing businesses in Europe through a 50 percent economic interest in Henkel-Ecolab. The company includes the operations of Henkel-Ecolab in its financial statements using the equity method of accounting. The company's equity in earnings of Henkel-Ecolab, including royalty income and after the deduction of intangible amortization, increased 14 percent to $18 million in 1999 from $16 million in 1998. When measured in Deutsche marks, earnings of Henkel-Ecolab increased 24 percent and reflected the benefits of good sales growth, improved European economies, and tight cost controls which more than offset investments made in the sales-and-service force and expenses related to the Year 2000 and euro conversions.



Henkel-Ecolab sales, although not consolidated in Ecolab's financial statements, increased 7 percent for 1999 when measured in Deutsche marks. Excluding the effects of business acquisitions and a business sold during the year, sales increased 6 percent for 1999. Henkel-Ecolab sales reflected growth across all of its major businesses, the benefits of new product introductions and a larger and better trained sales-and-service force. Henkel-Ecolab sales increased 4 percent for 1999 when measured in U.S. dollars.

1998 compared with 1997

The company's equity in earnings of Henkel-Ecolab was $16 million in 1998, a 19 percent increase over 1997. When measured in Deutsche marks, net income of Henkel-Ecolab increased 18 percent for 1998. This improvement reflected increased sales, the benefits of cost controls and a lower overall effective income tax rate.

Henkel-Ecolab sales increased 10 percent for 1998 when measured in Deutsche marks. Excluding businesses acquired in the United Kingdom and Germany, sales increased 5 percent for 1998 with good growth across most divisions and regions. Sales in Germany were weak due in part to government and private spending cutbacks. When measured in U.S. dollars, Henkel-Ecolab sales were up 7 percent for 1998.

Corporate

Corporate operating expense was $5 million in 1999 and $4 million in 1998 and 1997. Corporate operating expense includes overhead costs directly related to Henkel-Ecolab.

Interest and Income Taxes

Net interest expense was $23 million for 1999 and increased 4 percent over net interest expense of $22 million in 1998. This increase reflected lower interest income on lower average levels of cash and cash equivalents. Total debt levels during 1999 were generally consistent with the prior year.

Net interest expense for 1998 was $22 million, an increase of 72 percent over net interest expense of $13 million in 1997. This increase was due to debt incurred at the end of 1997 for the Gibson business acquisition and for additional borrowings related to other business acquisitions, income tax payments to settle an outstanding tax issue and share repurchases during 1998.

The company's effective income tax rate was 41.1 percent for 1999, down from the effective income tax rate of 42.4 percent in 1998. This decrease was principally due to a lower 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. The 1999 effective income tax rate also benefited slightly from a non-taxable one-time gain of $1.5 million related to the demutualization of an insurance company.

The company's effective income tax rate was 42.4 percent for 1998, and increased from an effective income tax rate of 41.5 percent in 1997. This increase was principally due to a higher overall effective rate on earnings of International operations and to the effects of business acquisitions.

Financial Discussion

Year 2000 Conversion

The company has not, to date, experienced any significant problems in its operating or business systems as a result of the "Year 2000 issue." Likewise, the company has not encountered material Year 2000 problems with customers, suppliers or common carriers. Henkel-Ecolab reported similar results. Overall, the Year 2000 rollover proceeded in accordance with the company's expectations.

However, it is possible that the full impact of the date change has not been fully recognized. For example, it is possible that currently undetected Year 2000 problems may occur at future dates. The company believes that any such problems are likely to be minor and correctable. In addition, the company could still be negatively affected if its customers or suppliers are adversely affected by the Year 2000 or similar issues.

The company's aggregate expenditures on Year 2000 readiness efforts from 1997 to 1999 did not have a significant effect on the company's consolidated results of operations, financial position or liquidity.

Euro Currency Conversion

The company's principal activities in Europe are not conducted directly. Rather, such activities are conducted through Henkel-Ecolab, a joint venture operation.

On January 1, 1999, 11 of the 15 member countries of the European Monetary Union established fixed conversion rates between their existing currencies and a new currency, the euro. During a transition period from January 1, 1999, through June 30, 2002, the euro will replace the national currencies that exist in the participating countries.

The transition to the euro creates a number of sales, marketing, finance and accounting issues. These issues are being addressed by the management of Henkel-Ecolab.

While the company will continue to evaluate the impact of the euro introduction over time, based on currently available information and the nature of the company exposures, the company does not, at this time, believe that the transition to the euro will have a significant effect on the company's consolidated results of operations, financial position or liquidity.

Financial Position, Cash Flows and Liquidity

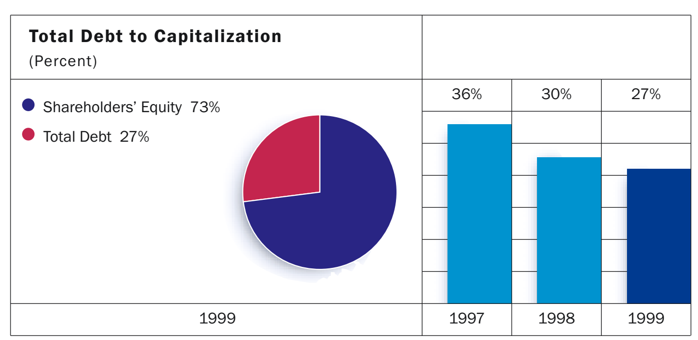
Financial Position

The company has maintained its long-term financial objective of an investment grade balance sheet since 1993. The company's debt continued to be rated within the "A" categories by the major rating agencies during 1999. Significant changes during 1999 and 1998 related to the company's balance sheet included the following:

• Total assets were approximately $1.6 billion as of December 31, 1999, an increase from total asset levels of $1.5 billion at year-end 1998 and $1.4 billion at year-end 1997. The increase in asset levels reflects growth in ongoing operations and assets added through business acquisitions over the last two years. The increases in other noncurrent assets are primarily due to the acquisition of Blue Coral in 1999, and GCS and a cleaning and sanitizing business acquired in Japan in 1998. Accounts receivable, inventories and property, plant, and equipment were also added during 1999 and 1998 as a result of these business acquisitions.

• Working capital levels have remained fairly constant over the last three years and totaled $107 million at year-end 1999 and $104 million and $105 million at year-end 1998 and 1997, respectively.

• The lower level of the company's investment in Henkel-Ecolab at year-end 1999 was principally due to the effects of changes in currency translation and dividends which were received from Henkel-Ecolab.

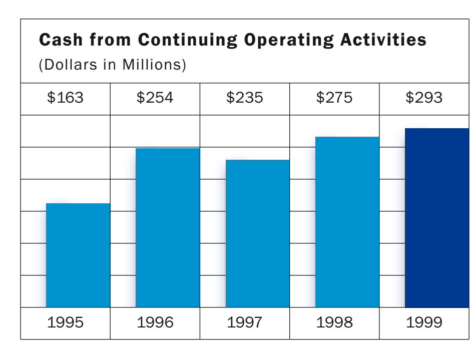


• Total debt was $281 million at year-end 1999, down slightly from total debt of $295 million at year-end 1998 and $308 million at year-end 1997. During 1998, the company replaced a portion of the long-term debt outstanding under its Multicurrency Credit Agreement with approximately $60 million of Australian-dollar-denominated debt under a medium-term note agreement and approximately $30 million of Australian-dollar-denominated commercial paper. During 1999, the company repaid the remaining debt under its Multicurrency Credit Agreement and reduced debt by a scheduled repayment on its 9.68 percent Senior Notes. Total debt included increases in notes payable during each of the last two years. As of December 31, 1999, the ratio of total debt to capitalization was 27 percent, compared to 30 percent at year-end 1998 and 36 percent at year-end 1997. In addition to lower debt levels, the improvements in the total debt to capitalization ratios reflected increased shareholders' equity, which resulted from strong earnings performances and the 1998 gain from discontinued operations.

• Other noncurrent liabilities totaled $87 million at December 31, 1999 and $68 million and $125 million at year-end 1998 and 1997, respectively. During 1998, the company resolved a tax issue related to the disposal of a business in 1992. As a result, the company reduced its noncurrent liabilities through the payment of income taxes of approximately $39 million and the recognition of a gain from discontinued operations of $38 million.

Cash Flows

Cash flow provided by continuing operating activities reached a record $293 million for 1999, an increase from $275 million in 1998 and $235 million in 1997. Operating cash flows have benefited from strong earnings growth including additional earnings and cash flows from businesses acquired. Operating cash flows for 1999 included higher dividends from Henkel-Ecolab compared with the prior year. In 1997, operating cash flows were unfavorably affected by a cash outflow due to an $18 million income tax deposit against outstanding federal income tax issues that had been accrued for in other noncurrent liabilities.



Cash used for discontinued operating activities in 1998 reflects income taxes paid related to a business which was discontinued in 1992.

Cash flows used for investing activities included capital expenditures of $146 million in 1999, $148 million in 1998 and $122 million in 1997. 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 also continued to invest in additional manufacturing facilities through construction and business acquisitions in order to meet sales requirements more efficiently. Cash used for businesses acquired included Blue Coral in 1999, a cleaning and sanitizing business acquired in Japan in 1998, and the Gibson acquisition in 1997. Investing activities cash flows for 1999 and 1998 also include the proceeds from the sale of certain Gibson businesses and duplicate facilities which the company chose not to retain.

Cash used for financing activities included cash used to reacquire shares and to pay dividends, and in 1999 and 1998, net cash used to reduce long-term debt.

In 1999, the company increased its annual dividend rate for the eighth consecutive year. The company has paid dividends on its common stock for 63 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
1999	**$0.105**	**$0.105**	**$0.105**	**$0.12**	**$0.435**
1998	0.095	0.095	0.095	0.105	0.39
1997	0.08	0.08	0.08	0.095	0.335

Liquidity

The company maintains a $275 million committed line of credit under its 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 additional source of liquidity. The company believes its existing cash balances, cash generated by operating activities, including cash flows from Henkel-Ecolab, available credit, and additional credit available based on a strong financial position, are more than adequate to fund all of the requirements which are reasonably foreseeable for 2000 for growth, possible acquisitions, new program investments, scheduled debt repayments and dividend payments.

Consolidated Statement of Income

Year ended December 31 (thousands, except per share)	1999	1998	1997
Net sales	**$2,080,012**	$1,888,226	$1,640,352
Cost of sales	**937,612**	851,173	722,084
Selling, general and administrative expenses	**852,449**	775,073	699,764
Operating income	**289,951**	261,980	218,504
Interest expense, net	**22,713**	21,742	12,637
Income from continuing operations before income taxes and equity in earnings of Henkel-Ecolab	**267,238**	240,238	205,867
Provision for income taxes	**109,769**	101,782	85,345
Equity in earnings of Henkel-Ecolab	**18,317**	16,050	13,433
Income from continuing operations	**175,786**	154,506	133,955
Gain from discontinued operations		38,000	
Net income	**$ 175,786**	$ 192,506	$ 133,955
Basic income per common share			
Income from continuing operations	**$ 1.36**	$ 1.20	$ 1.03
Gain from discontinued operations		0.29	
Net income	**$ 1.36**	$ 1.49	$ 1.03
Diluted income per common share			
Income from continuing operations	**$ 1.31**	$ 1.15	$ 1.00
Gain from discontinued operations		0.28	
Net income	**$ 1.31**	$ 1.44	$ 1.00
Weighted-average common shares outstanding			
Basic	**129,550**	129,157	129,446
Diluted	**134,419**	134,047	133,822

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

December 31 (thousands, except per share)	1999	1998	1997
Assets			
Current assets			
Cash and cash equivalents	**$ 47,748**	$ 28,425	$ 61,169
Accounts receivable, net	**299,751**	246,695	246,041
Inventories	**176,369**	165,627	154,831
Deferred income taxes	**41,701**	36,256	34,978
Other current assets	**11,752**	26,511	12,482
Total current assets	**577,321**	503,514	509,501
Property, plant and equipment, net	**448,116**	420,205	395,562
Investment in Henkel-Ecolab	**219,003**	253,646	239,879
Other assets	**341,506**	293,630	271,357
Total assets	**$1,585,946**	$1,470,995	$1,416,299
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term debt	**$ 112,060**	$ 67,991	$ 48,884
Accounts payable	**122,701**	124,646	130,682
Compensation and benefits	**90,618**	79,431	74,317
Income taxes	**5,743**	244	13,506
Other current liabilities	**139,552**	127,479	137,075
Total current liabilities	**470,674**	399,791	404,464
Long-term debt	**169,014**	227,041	259,384
Postretirement health care and pension benefits	**97,527**	85,793	76,109
Other liabilities	**86,715**	67,829	124,641
Shareholders' equity (common stock, par value $1.00 per share; shares outstanding: 1999 – 129,416; 1998 – 129,479; 1997 – 129,127)	**762,016**	690,541	551,701
Total liabilities and shareholders' equity	**$1,585,946**	$1,470,995	$1,416,299

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended December 31 (thousands)	1999	1998	1997
Operating Activities			
Net income	$ 175,786	$ 192,506	$ 133,955
Less: gain from discontinued operations		38,000	
Income from continuing operations	175,786	154,506	133,955
Adjustments to reconcile income from continuing operations to cash provided by continuing operations:			
Depreciation	109,946	99,276	84,415
Amortization	24,584	22,695	16,464
Deferred income taxes	(3,903)	(2,012)	(2,074)
Equity in earnings of Henkel-Ecolab	(18,317)	(16,050)	(13,433)
Henkel-Ecolab royalties and dividends	21,826	10,451	25,367
Other, net	(303)	1,526	4,630
Changes in operating assets and liabilities:			
Accounts receivable	(44,643)	1,352	(21,231)
Inventories	(8,913)	(11,667)	(14,395)
Other assets	(23,842)	(7,631)	(10,993)
Accounts payable	(4,512)	(7,794)	20,876
Other liabilities	65,785	29,877	11,517
Cash provided by continuing operations	293,494	274,529	235,098
Cash used for discontinued operations		(38,887)	
Cash provided by operating activities	293,494	235,642	235,098
Investing Activities			
Capital expenditures	(145,622)	(147,631)	(121,667)
Property disposals	6,293	7,060	3,424
Businesses acquired	(45,991)	(40,206)	(157,234)
Sale of Gibson businesses and assets	12,090	14,226	
Other, net	(1,246)	4,766	(1,240)
Cash used for investing activities	(174,476)	(161,785)	(276,717)
Financing Activities			
Notes payable	43,896	24,820	9,280
Long-term debt borrowings	62,552	117,740	117,000
Long-term debt repayments	(122,096)	(151,143)	(15,210)
Reacquired shares	(42,395)	(52,984)	(60,795)
Cash dividends on common stock	(54,333)	(49,000)	(41,456)
Other, net	13,263	5,679	26,278
Cash provided by (used for) financing activities	(99,113)	(104,888)	35,097
Effect of exchange rate changes on cash	(582)	(1,713)	(1,584)
Increase (Decrease) in Cash and Cash Equivalents	19,323	(32,744)	(8,106)
Cash and cash equivalents, beginning of year	28,425	61,169	69,275
Cash and cash equivalents, end of year	$ 47,748	$ 28,425	$ 61,169

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income and Shareholders' Equity

(thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income: Translation	Treasury Stock	Total
Balance December 31, 1996	$ 70,751	$ 187,111	$404,362	$ (7,390)	$ 6,787	$ (141,658)	$519,963
Net income			133,955				133,955
Foreign currency translation					(35,730)		(35,730)
Comprehensive income							98,225
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
Stock dividend	71,398	(71,398)					
Balance December 31, 1997	142,797	149,137	494,950	(9,160)	(28,943)	(197,080)	551,701
Net income			192,506				192,506
Foreign currency translation					(937)		(937)
Comprehensive income							191,569
Cash dividends on common stock			(50,309)				(50,309)
Stock options	1,059	16,047					17,106
Stock awards		6,833		(6,163)		1,198	1,868
Business acquisitions	850	26,195				220	27,265
Reacquired shares						(52,984)	(52,984)
Amortization				4,325			4,325
Balance December 31, 1998	144,706	198,212	637,147	(10,998)	(29,880)	(248,646)	690,541
Net income			175,786				175,786
Foreign currency translation					(29,483)		(29,483)
Comprehensive income							146,303
Cash dividends on common stock			(56,332)				(56,332)
Stock options	850	15,211					16,061
Stock awards		9,867		(8,006)		874	2,735
Business acquisitions						(187)	(187)
Reacquired shares						(42,395)	(42,395)
Amortization				5,290			5,290
Balance December 31, 1999	$145,556	$223,290	$756,601	$(13,714)	$(59,363)	$(290,354)	$762,016

Common Stock Activity

	1999		1998		1997	
Year ended December 31 (shares)	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Common Stock	Treasury Stock
Shares, beginning of year	144,705,783	(15,227,043)	142,796,652	(13,669,624)	70,750,741	(5,950,518)
Stock options	850,676		1,058,686		648,085	
Stock awards		196,546		206,366		124,440
Business acquisitions		(5,976)	850,445	33,083		308,343
Reacquired shares		(1,103,771)		(1,796,868)		(1,317,077)
Stock dividend					71,397,826	(6,834,812)
Shares, end of year	145,556,459	(16,140,244)	144,705,783	(15,227,043)	142,796,652	(13,669,624)

The accompanying notes are an integral part of the 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, pest elimination, maintenance and repair products and services for the hospitality, institutional and industrial markets. Customers include hotels and restaurants; foodservice, healthcare and educational facilities; quickservice (fast-food) units; commercial laundries; light industry; dairy plants and farms; and food and beverage processors around the world.

• 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 Henkel-Ecolab under the equity method of accounting. International subsidiaries and Henkel-Ecolab 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 Henkel-Ecolab 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 accumulated other comprehensive income in shareholders' equity.

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 41 percent, 45 percent and 40 percent of consolidated inventories at year-end 1999, 1998 and 1997, 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 dishwashing 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 of 5 to 50 years for buildings, 3 to 7 years for merchandising equipment, and 3 to 11 years for machinery and equipment.

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.

Income Per Common Share

The computations of the basic and diluted per share amounts for the company's continuing operations were as follows:

(thousands, except per share)	**1999**	1998	1997
Income from continuing operations	**$ 175,786**	$ 154,506	$ 133,955
Weighted-average common shares outstanding			
Basic (actual shares outstanding)	**129,550**	129,157	129,446
Effect of dilutive stock options	**4,869**	4,890	4,376
Diluted	**134,419**	134,047	133,822
Income from continuing operations per common share			
Basic	**$ 1.36**	$ 1.20	$ 1.03
Diluted	**$ 1.31**	$ 1.15	$ 1.00

Stock options to purchase approximately 3.6 million shares and 2.2 million shares for 1999 and 1998, respectively, were not dilutive and, therefore, were not included in the computations of diluted income per common share amounts.

Comprehensive Income

For the company, comprehensive income includes net income and foreign currency translation adjustments that are charged or credited to the accumulated other comprehensive income account in shareholders' equity.

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)	**1999**	1998	1997
Accounts Receivable, Net			
Accounts receivable	**$ 320,720**	$ 259,588	$ 256,919
Allowance for doubtful accounts	**(20,969)**	(12,893)	(10,878)
Total	**$ 299,751**	$ 246,695	$ 246,041
Inventories			
Finished goods	**$ 71,395**	$ 73,983	$ 67,823
Raw materials and parts	**106,239**	93,862	89,716
Excess of fifo cost over lifo cost	**(1,265)**	(2,218)	(2,708)
Total	**$ 176,369**	$ 165,627	$ 154,831
Property, Plant and Equipment, Net			
Land	**$ 13,516**	$ 12,584	$ 18,184
Buildings and leaseholds	**162,955**	157,302	145,021
Machinery and equipment	**273,101**	258,107	232,940
Merchandising equipment	**492,160**	435,998	379,531
Construction in progress	**15,522**	11,038	19,862
	957,254	875,029	795,538
Accumulated depreciation and amortization	**(509,138)**	(454,824)	(399,976)
Total	**$ 448,116**	$ 420,205	$ 395,562
Other Assets			
Intangible assets, net	**$ 249,756**	$ 236,659	$ 217,120
Investments in securities			5,000
Deferred income taxes	**24,591**	27,256	23,444
Other	**67,159**	29,715	25,793
Total	**$ 341,506**	$ 293,630	$ 271,357
Short-Term Debt			
Notes payable	**$ 96,992**	$ 52,441	$ 33,440
Long-term debt, current maturities	**15,068**	15,550	15,444
Total	**$ 112,060**	$ 67,991	$ 48,884
Long-Term Debt			
7.19% senior notes, due 2006	**$ 75,000**	$ 75,000	$ 75,000
9.68% senior notes, due 1995-2001	**28,571**	42,857	57,143
6.00% medium-term notes, due 2001	**63,500**	62,761	
Multicurrency Credit Agreement, due 2002		44,000	116,450
Other	**17,011**	17,973	26,235
	184,082	242,591	274,828
Long-term debt, current maturities	**(15,068)**	(15,550)	(15,444)
Total	**$ 169,014**	$ 227,041	$ 259,384

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

The company has a $275 million Multicurrency Credit Agreement with a consortium of banks. The company may borrow varying amounts from time to time on a revolving credit basis, with loans denominated in G-7 currencies, Australian dollars 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 1998 were denominated in U.S. dollars and had an average annual interest rate of 6.7 percent. Amounts outstanding at year-end 1997 were denominated in Australian dollars and had an average annual interest rate of 5.2 percent.

In August 1998, the company issued approximately $60 million of Australian-dollar-denominated medium-term notes that mature in November 2001. The company also issued approximately $30 million of Australian-dollar-denominated commercial paper (notes payable). The proceeds from these debt issuances were used to reduce debt under the company's Multicurrency Credit Agreement.

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.

As of December 31, the weighted-average interest rate on notes payable was 7.2 percent for 1999, 7.4 percent for 1998 and 5.4 percent for 1997.

As of December 31, 1999, the aggregate annual maturities of long-term debt for the next five years were: 2000 - $15,068,000; 2001 - $79,508,000; 2002 - $1,820,000; 2003 - $10,374,000 and 2004 - $417,000.

Interest expense was $25,053,000 in 1999, $25,012,000 in 1998 and $18,043,000 in 1997. Total interest paid was $24,451,000 in 1999, $25,198,000 in 1998 and $18,168,000 in 1997.

Other noncurrent liabilities included income taxes payable of $34 million at December 31, 1999, $30 million at December 31, 1998, and $82 million at December 31, 1997. During 1998, the company resolved a tax issue related to the disposal of a business in 1992. The company paid approximately $39 million and recognized a gain from discontinued operations of $38 million related to the settlement of this issue.

• 4. Financial Instruments

Foreign Currency and Interest Rate 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 related to intercompany debt, Henkel-Ecolab and subsidiary royalties and other intercompany transactions. These contracts generally expire within one year. Gains and losses on these contracts are deferred and recognized as part of the specific transactions hedged. The cash flows from these contracts are classified in the same category as the transaction hedged in the Consolidated Statement of Cash Flows.

The company had foreign currency forward exchange contracts with a face amount denominated primarily in Deutsche marks and totaling approximately $77 million at December 31, 1999, $71 million at December 31, 1998, and $70 million at December 31, 1997. The unrealized gains and losses on these contracts were not significant.

During 1998, the company entered into an interest rate swap agreement which is effective November 2001 through November 2004. This agreement provides for a fixed rate of interest on an amount equal to one-half of the debt under the company's medium-term notes. The fair value of the company's interest rate swap agreement was not significant as of year-end 1999 and 1998.

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)	**1999**	1998	1997
Carrying amount			
Cash and cash equivalents	**$ 47,748**	$ 28,425	$ 61,169
Long-term investments in securities			5,000
Short-term debt	**112,060**	67,991	48,884
Long-term debt	**169,014**	227,041	259,384
Fair value			
Long-term debt	**$ 167,203**	$ 235,131	$ 266,926

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

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

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, a new standard of accounting and reporting for derivative instruments and hedging activities. The company is required to adopt the new standard in the first quarter of 2001. The company's use of derivative and hedging financial instruments is limited and, therefore, the company does not anticipate that the impact of the new standard will be significant.

• 5. Gain From Discontinued Operations

During the third quarter of 1998, the company resolved a tax issue related to the disposal of a business in 1992. As a result of tax losses on the disposition of this business, the company's U.S. federal income tax payments were reduced in 1992 through 1995 by a total of approximately $58 million. However, pending final acceptance of the company's treatment of the losses, no income tax benefit was recognized for financial reporting purposes. During 1998, an agreement was reached with the Internal Revenue Service on the final tax treatment for the losses. This agreement resulted in the payment of approximately $39 million of income taxes and interest, and the recognition of a gain from discontinued operations of $38 million or $0.28 per diluted share for the year ended December 31, 1998.

• 6. Business Acquisitions

Gibson Business Acquisition

During 1997, the company completed 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.

The acquisition was accounted for as a purchase. The purchase price of the shares and the direct costs of the transaction totaled approximately $130 million and were initially financed through the company's Multicurrency Credit Agreement. The excess of the purchase price over the net tangible assets acquired was approximately $88 million and is being amortized on a straight-line basis over useful lives averaging 25 years. The assets acquired and the liabilities assumed in the transaction were included in the company's Consolidated Balance Sheet as of the November 30, 1997, effective date.

The following unaudited pro forma financial information reflects the combined results of the company and the retained Gibson businesses for the year ended December 31, 1997, assuming the acquisition had occurred at the beginning of 1997. Pro forma adjustments have been included to give effect to amortization of the excess of the purchase price over the net tangible assets acquired, interest expense on debt incurred to finance the acquisition and the related income tax effects. In accordance with the pro forma adjustment guidelines, cost savings from efficiencies and synergies have not been reflected in the information shown below.

(thousands, except per share)	1997
Net sales	$1,741,006
Income from continuing operations	131,455
Diluted income from continuing operations per common share	$ 0.98

The pro forma results are presented for information purposes only and are not necessarily indicative of the results of operations which actually would have resulted had the combination occurred at the beginning of 1997 or of future results of operations of the consolidated businesses.

Other Business Acquisitions

In February 1999, the company purchased substantially all of the assets of Blue Coral Systems, a subsidiary of the Pennzoil-Quaker State Company. Blue Coral Systems is a leading marketer of a broad line of branded vehicle cleaning, appearance and specialty products to the commercial vehicle wash industry, with annual sales of approximately $30 million. Pennzoil-Quaker State Company retained all consumer applications for the Blue Coral products and provided the company with exclusive rights to the United States and Canadian commercial markets.

The company also added to its Food & Beverage operations in South Africa and to its commercial kitchen equipment repair services business through business acquisitions during fiscal 1999. Each of the businesses acquired had annual sales of approximately $5 million.

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 to the company's consolidated results of operations, financial position and cash flows.

• 7. Henkel-Ecolab

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. Henkel-Ecolab's results of operations and the company's equity in earnings of Henkel-Ecolab included:

(thousands)	**1999**	1998	1997
Henkel-Ecolab			
Net sales	**$937,817**	$904,217	$844,689
Gross profit	**526,486**	500,107	470,698
Income before income taxes	**82,529**	65,946	63,640
Net income	**$ 46,643**	$ 38,540	$ 33,701
Ecolab equity in earnings			
Ecolab equity in net income	**$ 23,322**	$ 19,270	$ 16,851
Ecolab royalty income from Henkel-Ecolab, net of income taxes	**2,570**	4,550	4,583
Amortization expense for the excess of cost over the underlying net assets of Henkel-Ecolab	**(7,575)**	(7,770)	(8,001)
Equity in earnings of Henkel-Ecolab	**$ 18,317**	$ 16,050	$ 13,433

The company's investment in Henkel-Ecolab includes the unamortized excess of the company's investment over its equity in Henkel-Ecolab's net assets. This excess was $117 million at December 31, 1999, and is being amortized on a straight-line basis over estimated economic useful lives of up to 30 years.

Condensed balance sheet information for Henkel-Ecolab was:

December 31 (thousands)	**1999**	1998	1997
Current assets	**$351,189**	$368,604	$345,692
Noncurrent assets	**177,855**	179,188	145,601
Current liabilities	**246,411**	242,630	224,155
Noncurrent liabilities	**$ 73,807**	$ 82,097	$ 77,303

• 8. Income Taxes

Income from continuing operations before income taxes and equity in earnings of Henkel-Ecolab consisted of:

(thousands)	1999	1998	1997
Domestic	$232,684	$213,781	$173,851
Foreign	34,554	26,457	32,016
Total	$267,238	$240,238	$205,867

The provision for income taxes consisted of:

(thousands)	1999	1998	1997
Federal and state	$106,582	$ 92,094	$ 76,399
Foreign	7,090	11,700	11,020
Currently payable	113,672	103,794	87,419
Federal and state	(10,229)	(3,596)	(3,675)
Foreign	6,326	1,584	1,601
Deferred	(3,903)	(2,012)	(2,074)
Provision for income taxes	$109,769	$101,782	$ 85,345

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

December 31 (thousands)	1999	1998	1997
Deferred tax assets			
Postretirement health care and pension benefits	$ 36,664	$ 34,940	$ 30,991
Other accrued liabilities	46,024	47,601	41,611
Loss carryforwards	2,145	3,999	3,541
Other, net	14,401	9,821	12,766
Valuation allowance	(1,462)	(1,462)	(1,462)
Total	97,772	94,899	87,447
Deferred tax liabilities			
Property, plant and equipment basis differences	27,001	26,605	27,606
Other, net	4,479	4,782	1,419
Total	31,480	31,387	29,025
Net deferred tax assets	$ 66,292	$ 63,512	$ 58,422

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

	1999	1998	1997
Statutory U.S. rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.2	4.3	4.2
Foreign operations	0.6	1.4	0.6
Other, net	1.3	1.7	1.7
Effective income tax rate	41.1%	42.4%	41.5%

Cash paid for income taxes was approximately $94 million in 1999, $122 million in 1998 and $100 million in 1997. In 1998, approximately $39 million of payments resulted from the settlement of a tax issue related to the disposal of a business in 1992.

As of December 31, 1999, undistributed earnings of international subsidiaries and Henkel-Ecolab of approximately $32 million and $55 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 substantially offset by available foreign tax credits.

• 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 6,291,653 for 1999, 1,835,714 for 1998 and 5,274,652 for 1997. Common shares available for grant reflect 6 million shares approved during 1999 for issuance under the plans.

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. A summary of stock option activity and average exercise prices is as follows:

Shares	1999	1998	1997
Granted	1,688,190	3,342,555	1,031,760
Exercised	(850,676)	(1,058,686)	(1,295,170)
Canceled	(381,844)	(174,800)	(63,416)
December 31:			
Outstanding	11,445,161	10,989,491	8,880,422
Exercisable	6,619,361	6,134,840	5,922,150

Average exercise price per share	1999	1998	1997
Granted	$40.06	$43.33	$21.72
Exercised	9.92	8.05	8.50
Canceled	44.26	37.47	14.07
December 31:			
Outstanding	24.28	21.44	11.92
Exercisable	$13.83	$11.01	$ 9.66

Information related to stock options outstanding and stock options exercisable as of December 31, 1999, is as follows:

Options Outstanding

Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted- Average Exercise Price
$ 5.69 - $10.94	2,137,600	2.6 years	$ 8.98
$10.97 - $13.41	2,721,804	5.0 years	11.95
$14.88 - $21.89	2,020,862	7.0 years	18.84
$26.91 - $33.31	970,855	8.6 years	30.00
$35.81 - $41.59	1,579,040	9.6 years	40.00
$49.00	2,015,000	3.4 years	$49.00

Options Exercisable

Range of Exercise Prices	Options Exercisable	Weighted-Average Exercise Price
$ 5.69 - $10.94	2,137,600	$ 8.98
$ 10.97 - $13.41	2,721,804	11.95
$14.88 - $21.89	1,385,554	18.20
$26.91 - $33.31	299,403	29.98
$35.81 - $41.59	75,000	$41.59

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

The company measures compensation cost for its stock incentive and option plans using the intrinsic value-based method of accounting.

Had the company used the fair value-based method of accounting to measure compensation expense for its stock incentive and option 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, income from continuing operations and the related diluted per common share amounts for 1999, 1998 and 1997 would have been reduced to the following pro forma amounts:

(thousands, except per share)	1999	1998	1997
Income from continuing operations			
As reported	$175,786	$154,506	$133,955
Pro forma	170,654	150,773	131,763
Diluted income from continuing operations per common share			
As reported	1.31	1.15	1.00
Pro forma	$ 1.27	$ 1.12	$ 0.98

The weighted-average grant-date fair value of options granted in 1999, 1998 and 1997, 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:

	1999	1998	1997
Weighted-average grant-date fair value of options granted			
Granted at market prices	$11.32	$7.65	$5.94
Granted at prices exceeding market	$ 8.25	$1.78	
Assumptions			
Risk-free interest rate	6.2%	5.5%	6.2%
Expected life	6 years	6 years	6 years
Expected volatility	17.8%	17.8%	19.6%
Expected dividend yield	1.2%	1.5%	1.8%

• 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 Comprehensive Income and Shareholders' Equity.

Authorized common stock, par value $1.00 per share, was 200 million shares in 1999, 1998 and 1997. Treasury stock is stated at cost. Dividends declared per share of common stock were $0.435 for 1999, $0.39 for 1998 and $0.335 for 1997.

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,

• 10. Shareholders' Equity (continued)

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 also reacquires shares for general corporate purposes under a separate program established in 1995. As of December 31, 1999, there were approximately 3.1 million shares remaining to be purchased under this program. The company reacquired 998,200 shares of its common stock in 1999, 1,626,900 shares in 1998 and 2,561,400 shares in 1997 under these programs through open and private market purchases. The company anticipates that it will continue to periodically reacquire shares under its share repurchase programs.

• 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 $49,164,000 in 1999, $42,076,000 in 1998 and $38,155,000 in 1997. As of December 31, 1999, future minimum payments under operating leases with noncancelable terms in excess of one year were:

(thousands)	
2000	**$12,826**
2001	**8,769**
2002	**6,047**
2003	**4,664**
2004	**3,832**
Thereafter	**12,804**
Total	**$48,942**

• 12. Research Expenditures

Research expenditures that related to the development of new products and processes, including significant improvements and refinements to existing products, were $34,983,000 in 1999, $32,815,000 in 1998 and $30,420,000 in 1997.

• 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 in the company's accruals for environmental liabilities. While the final resolution of these contingencies could result in expenses different than 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 consolidated results of operations, financial position or liquidity.

• 14. Retirement Plans

Pension and Postretirement Health Care Benefits 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.

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.

A reconciliation of changes in the benefit obligations and fair value of assets of the company's U.S. pension and postretirement health care benefits plans is as follows:

	Pension Benefits			Postretirement Health Care Benefits		
(thousands)	**1999**	1998	1997	**1999**	1998	1997
Benefit obligation, beginning of year	**$343,825**	$287,027	$240,116	**$106,677**	$ 91,121	$71,549
Service cost	**20,049**	16,336	13,330	**6,999**	5,668	4,325
Interest cost	**22,926**	20,563	18,371	**7,062**	6,382	5,711
Participant contributions				**1,029**	741	767
Changes in assumptions	**(67,573)**	27,194	22,495	**(20,939)**	9,768	6,957
Actuarial loss (gain)	**(1,586)**	732	(1,402)	**(1,562)**	(4,431)	5,057
Benefits paid	**(9,664)**	(8,027)	(8,534)	**(3,769)**	(2,572)	(3,245)
Business acquisitions			2,651			
Benefit obligation, end of year	**$ 307,977**	$343,825	$287,027	**$ 95,497**	$106,677	$91,121
Fair value of plan assets, beginning of year	**$278,921**	$237,304	$196,839	**$ 20,433**	$ 16,764	$11,885
Actual return on plan assets	**53,586**	32,256	28,531	**4,114**	2,261	1,609
Company contributions	**14,383**	17,388	17,453	**5,309**	3,239	5,748
Participant contributions				**1,029**	741	767
Benefits paid	**(9,664)**	(8,027)	(8,534)	**(3,769)**	(2,572)	(3,245)
Business acquisitions			3,015			
Fair value of plan assets, end of year	**$ 337,226**	$278,921	$237,304	**$ 27,116**	$ 20,433	$16,764

A reconciliation of the funded status and the actuarial assumptions for the U.S. pension and postretirement plans is as follows:

	Pension Benefits			Postretirement Health Care Benefits		
(thousands)	**1999**	1998	1997	**1999**	1998	1997
Funded status	**$ 29,249**	$ (64,904)	$ (49,723)	**$ (68,381)**	$ (86,244)	$(74,357)
Unrecognized actuarial loss (gain)	**(42,972)**	59,647	46,028	**(3,866)**	21,468	17,280
Unrecognized prior service cost (benefit)	**14,294**	16,175	18,056	**(7,995)**	(8,546)	(9,097)
Unrecognized net transition asset	**(7,717)**	(9,120)	(10,523)			
Prepaid (accrued) benefit costs	**$ (7,146)**	$ 1,798	$ 3,838	**$ (80,242)**	$ (73,322)	$(66,174)
Weighted-average actuarial assumptions						
Discount rate for service and interest cost, at beginning of year	**6.75%**	7.25%	7.75%	**6.75%**	7.25%	7.75%
Projected salary increases	**5.1**	5.1	5.1			
Expected return on assets	**9.0**	9.0	9.0	**9.0**	9.0	9.0
Discount rate for year-end benefit obligation	**8.00%**	6.75%	7.25%	**8.00%**	6.75%	7.25%

• 14. Retirement Plans (continued)

For postretirement benefit measurement purposes, 7.5 percent (for pre-age 65 retirees) and 6.2 percent (for post-age 65 retirees) annual rates of increase in the per capita cost of covered health care were assumed for 2000. 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.

Pension and postretirement health care benefits expense for the company's U.S. and International operations was:

	Pension Benefits			Postretirement Health Care Benefits		
(thousands)	**1999**	1998	1997	**1999**	1998	1997
Service cost – employee benefits earned during the year	**$ 20,049**	$ 16,336	$ 13,330	**$ 6,999**	$ 5,668	$ 4,325
Interest cost on benefit obligation	**22,926**	20,563	18,371	**7,062**	6,382	5,711
Expected return on plan assets	**(23,247)**	(20,128)	(17,183)	**(1,786)**	(1,463)	(1,016)
Recognition of net actuarial loss	**3,120**	2,179	1,407	**505**	351	125
Amortization of prior service cost (benefit)	**1,881**	1,881	1,905	**(551)**	(551)	(551)
Amortization of net transition asset	**(1,403)**	(1,403)	(1,403)			
Total U.S. expense	**23,326**	19,428	16,427	**12,229**	10,387	8,594
International expense	**1,390**	1,251	1,112			
Total expense	**$ 24,716**	$ 20,679	$ 17,539	**$12,229**	$10,387	$ 8,594

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 $14 million at December 31, 1999. The annual expense for these plans was approximately $3 million in 1999 and 1998, and approximately $2 million in 1997.

Assumed health care cost trend rates have a significant effect on the amounts reported for the company's postretirement health care benefits plan. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	1 Percentage Point	
(thousands)	Increase	Decrease
Effect on total of postretirement service and interest cost components	**$ 408**	**$ (367)**
Effect on postretirement benefit obligation	**4,706**	**(4,253)**

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 $8,475,000 in 1999, $7,383,000 in 1998 and $7,156,000 in 1997.

• 15. Operating Segments

The company's operating segments have generally similar products and services and the company is organized to manage its operations geographically. The company's operating segments have been aggregated into three reportable segments.

The "United States Cleaning & Sanitizing" segment provides cleaning and sanitizing products and services to United States markets through its Institutional, Kay, Textile Care, Professional Products, Vehicle Care, Water Care and Food & Beverage operations.

The "United States Other Services" segment includes all other U.S. operations of the company. This segment provides pest elimination, equipment repair and maintenance, and commercial dishwashing services through its Pest Elimination, GCS and Jackson operations.

The company's "International Cleaning & Sanitizing" segment provides cleaning and sanitizing product and service offerings to international markets in Asia Pacific, Latin America, Africa, Canada and through its Export operations.

Information on the customers, markets, and products and services of each of the company's operating segments is included on the inside back cover, in the Business Overview section of this Annual Report.

The company evaluates the performance of its international operations based on fixed management currency exchange rates. All other accounting policies of the reportable segments are consistent with generally accepted accounting principles and the accounting policies of the company described in Note 2 of these notes to consolidated financial statements. The profitability of the company's operating segments is evaluated by management based on operating income. Intersegment sales and transfers were not significant.

Financial information for each of the company's reportable segments is as follows:

	United States				Other		
(thousands)	Cleaning & Sanitizing	Other Services	Total United States	International Cleaning & Sanitizing	Foreign Currency Translation	Corporate	Consolidated
Net sales							
1999	**$1,424,037**	**$211,562**	**$1,635,599**	**$438,013**	**$ 6,400**		**$2,080,012**
1998	1,296,797	160,063	1,456,860	419,898	11,468		1,888,226
1997	1,156,625	119,203	1,275,828	316,889	47,635		1,640,352
Operating income							
1999	**230,520**	**25,114**	**255,634**	**37,807**	**1,080**	**$ (4,570)**	**289,951**
1998	218,500	19,084	237,584	27,478	1,265	(4,347)	261,980
1997	180,975	14,655	195,630	20,274	6,688	(4,088)	218,504
Depreciation & amortization							
1999	**96,346**	**4,442**	**100,788**	**25,726**	**1,703**	**6,313**	**134,530**
1998	87,456	3,145	90,601	24,054	1,727	5,589	121,971
1997	76,130	2,716	78,846	15,691	2,191	4,151	100,879
Total assets							
1999	**831,494**	**85,617**	**917,111**	**344,142**	**14,181**	**310,512**	**1,585,946**
1998	701,341	77,491	778,832	318,763	22,592	350,808	1,470,995
1997	641,441	36,448	677,889	348,921	45,786	343,703	1,416,299
Capital expenditures							
1999	**109,889**	**4,182**	**114,071**	**26,236**	**4,670**	**645**	**145,622**
1998	109,976	4,383	114,359	31,192	1,383	697	147,631
1997	$ 90,914	$ 3,539	$ 94,453	$ 23,121	$ 3,228	$ 865	$ 121,667

Corporate operating expense includes overhead costs directly related to Henkel-Ecolab. Corporate assets are principally cash and cash equivalents and the company's investment in Henkel-Ecolab.

The company has two classes of products and services within its United States and International Cleaning & Sanitizing operations which comprise 10 percent or more of consolidated net sales. Worldwide sales of warewashing products were approximately 27 percent, 28 percent and 31 percent of consolidated net sales in 1999, 1998 and 1997, respectively. Sales of laundry products and services on a worldwide basis were approximately 12 percent, 13 percent and 14 percent of consolidated net sales in 1999, 1998 and 1997, respectively.

Long-lived assets of the company's United States and International operations were as follows:

December 31 (thousands)	**1999**	1998	1997
United States	**$360,541**	$332,072	$294,372
International	**82,937**	81,207	74,809
Corporate	**2,047**	3,931	3,812
Effect of foreign currency translation	**2,591**	2,995	22,569
Consolidated	**$448,116**	$420,205	$395,562

Notes To Consolidated Financial Statements

• 16. Quarterly Financial Data (Unaudited)

(thousands, except per share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1999					
Net sales					
United States					
Cleaning & Sanitizing	**$336,822**	**$358,272**	**$385,508**	**$343,435**	**$1,424,037**
Other Services	**47,328**	**53,313**	**56,467**	**54,454**	**211,562**
International Cleaning & Sanitizing	**102,759**	**108,279**	**111,580**	**115,395**	**438,013**
Effect of foreign currency translation	**2,395**	**552**	**956**	**2,497**	**6,400**
Total	**489,304**	**520,416**	**554,511**	**515,781**	**2,080,012**
Cost of sales	**220,425**	**234,725**	**247,619**	**234,843**	**937,612**
Selling, general and administrative expenses	**206,616**	**213,949**	**219,037**	**212,847**	**852,449**
Operating income					
United States					
Cleaning & Sanitizing	**50,863**	**57,558**	**70,479**	**51,620**	**230,520**
Other Services	**4,551**	**6,149**	**8,207**	**6,207**	**25,114**
International Cleaning & Sanitizing	**7,618**	**9,160**	**10,078**	**10,951**	**37,807**
Corporate	**(1,099)**	**(1,234)**	**(1,111)**	**(1,126)**	**(4,570)**
Effect of foreign currency translation	**330**	**109**	**202**	**439**	**1,080**
Total	**62,263**	**71,742**	**87,855**	**68,091**	**289,951**
Interest expense, net	**5,750**	**6,209**	**4,860**	**5,894**	**22,713**
Income before income taxes and equity in earnings of Henkel-Ecolab	**56,513**	**65,533**	**82,995**	**62,197**	**267,238**
Provision for income taxes	**23,622**	**26,905**	**33,555**	**25,687**	**109,769**
Equity in earnings of Henkel-Ecolab	**2,147**	**4,756**	**5,581**	**5,833**	**18,317**
Net income	**$ 35,038**	**$ 43,384**	**$ 55,021**	**$ 42,343**	**$ 175,786**
Diluted net income per common share	**$ 0.26**	**$ 0.32**	**$ 0.41**	**$ 0.32**	**$ 1.31**
Weighted-average common shares outstanding					
Basic	**129,539**	**129,596**	**129,546**	**129,517**	**129,550**
Diluted	**134,626**	**134,666**	**134,394**	**133,981**	**134,419**
1998					
Net sales					
United States					
Cleaning & Sanitizing	$303,435	$324,347	$343,771	$325,244	$1,296,797
Other Services	29,179	34,907	48,536	47,441	160,063
International Cleaning & Sanitizing	97,936	105,137	108,173	108,652	419,898
Effect of foreign currency translation	5,812	4,069	(443)	2,030	11,468
Total	436,362	468,460	500,037	483,367	1,888,226
Cost of sales	195,909	210,116	224,365	220,783	851,173
Selling, general and administrative expenses	186,733	194,604	196,501	197,235	775,073
Operating income					
United States					
Cleaning & Sanitizing	44,606	52,644	65,128	56,122	218,500
Other Services	2,930	4,725	6,905	4,524	19,084
International Cleaning & Sanitizing	6,198	7,380	8,375	5,525	27,478
Corporate	(910)	(1,479)	(1,149)	(809)	(4,347)
Effect of foreign currency translation	896	470	(88)	(13)	1,265
Total	53,720	63,740	79,171	65,349	261,980
Interest expense, net	5,406	5,400	5,069	5,867	21,742
Income from continuing operations before income taxes and equity in earnings of Henkel-Ecolab	48,314	58,340	74,102	59,482	240,238
Provision for income taxes	20,289	24,475	31,794	25,224	101,782
Equity in earnings of Henkel-Ecolab	2,563	3,824	4,704	4,959	16,050
Income from continuing operations	30,588	37,689	47,012	39,217	154,506
Gain from discontinued operations			38,000		38,000
Net income	$ 30,588	$ 37,689	$ 85,012	$ 39,217	$ 192,506
Diluted income per common share					
Income from continuing operations	$ 0.23	$ 0.28	$ 0.35	$ 0.29	$ 1.15
Gain from discontinued operations			0.28		0.28
Net income	$ 0.23	$ 0.28	$ 0.63	$ 0.29	$ 1.44
Weighted-average common shares outstanding					
Basic	128,958	128,667	129,573	129,431	129,157
Diluted	133,934	133,803	134,319	134,154	134,047

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
Chairman of the Board, President and Chief Executive Officer

L. White Matthews III
Executive Vice President and
Chief Financial Officer

Report of Independent Accountants

To the Shareholders and Directors
Ecolab Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, comprehensive income and shareholders' equity and cash flows present fairly, in all material respects, the consolidated financial position of Ecolab Inc. as of December 31, 1999, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of Ecolab Inc.'s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Saint Paul, Minnesota
February 28, 2000

Summary Operating and Financial Data

December 31 (thousands, except per share)	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Operations											
Net sales											
United States	**$ 1,635,599**	$ 1,456,860	$ 1,275,828	$ 1,148,778	$ 1,030,126	$ 942,070	$ 867,415	$ 816,405	$ 757,564	$ 712,579	$ 646,895
International (at average rates of currency exchange during the year)	**444,413**	431,366	364,524	341,231	310,755	265,544	234,981	241,229	201,738	184,220	179,705
Europe (at average rates of currency exchange during the year)										150,809	122,871
Total	**2,080,012**	1,888,226	1,640,352	1,490,009	1,340,881	1,207,614	1,102,396	1,057,634	959,302	1,047,608	949,471
Cost of sales	**937,612**	851,173	722,084	674,953	603,167	533,143	491,306	485,206	447,356	495,086	461,256
Selling, general and administrative expenses	**852,449**	775,073	699,764	629,739	575,028	529,507	481,639	446,814	393,700	425,983	383,512
Merger costs and nonrecurring expenses						8,000					12,978
Operating income	**289,951**	261,980	218,504	185,317	162,686	136,964	129,451	125,614	118,246	126,539	91,725
Interest expense, net	**22,713**	21,742	12,637	14,372	11,505	12,909	21,384	35,334	30,489	28,321	31,628
Income from continuing operations before income taxes and equity in earnings of Henkel-Ecolab	**267,238**	240,238	205,867	170,945	151,181	124,055	108,067	90,280	87,757	98,218	60,097
Provision for income taxes	**109,769**	101,782	85,345	70,771	59,694	50,444	33,422	27,392	29,091	32,494	19,411
Equity in earnings of Henkel-Ecolab	**18,317**	16,050	13,433	13,011	7,702	10,951	8,127	8,600	4,573		
Income from continuing operations	**175,786**	154,506	133,955	113,185	99,189	84,562	82,772	71,488	63,239	65,724	40,686
Income (loss) from discontinued operations		38,000							(274,693)	(4,408)	(29,379)
Extraordinary loss and changes in accounting principles							715		(24,560)		
Net income (loss)	**175,786**	192,506	133,955	113,185	99,189	84,562	83,487	71,488	(236,014)	61,316	11,307
Preferred stock dividends									(4,064)	(7,700)	(429)
Net income (loss) to common shareholders, as reported	**175,786**	192,506	133,955	113,185	99,189	84,562	83,487	71,488	(240,078)	53,616	10,878
Pro forma adjustments						5,902	(2,667)	(2,797)	(2,933)	(2,956)	(3,196)
Pro forma net income (loss) to common shareholders	**$ 175,786**	$ 192,506	$ 133,955	$ 113,185	$ 99,189	$ 90,464	$ 80,820	$ 68,691	$ (243,011)	$ 50,660	$ 7,682
Income (loss) per common share, as reported											
Basic — continuing operations	**$ 1.36**	$ 1.20	$ 1.03	$ 0.88	$ 0.75	$ 0.63	$ 0.61	$ 0.53	$ 0.51	$ 0.56	$ 0.34
Basic — net income (loss)	**1.36**	1.49	1.03	0.88	0.75	0.63	0.62	0.53	(2.05)	0.52	0.09
Diluted — continuing operations	**1.31**	1.15	1.00	0.85	0.73	0.62	0.60	0.52	0.50	0.56	0.34
Diluted — net income (loss)	**1.31**	1.44	1.00	0.85	0.73	0.62	0.61	0.52	(2.05)	0.51	0.09
Pro forma income (loss) per common share											
Basic — continuing operations	**1.36**	1.20	1.03	0.88	0.75	0.67	0.59	0.51	0.48	0.53	0.31
Basic — net income (loss)	**1.36**	1.49	1.03	0.88	0.75	0.67	0.60	0.51	(2.08)	0.49	0.06
Diluted — continuing operations	**1.31**	1.15	1.00	0.85	0.73	0.66	0.58	0.50	0.48	0.53	0.31
Diluted — net income (loss)	**$ 1.31**	$ 1.44	$ 1.00	$ 0.85	$ 0.73	$ 0.66	$ 0.59	$ 0.50	$ (2.08)	$ 0.49	$ 0.06
Weighted-average common shares outstanding — basic	**129,550**	129,157	129,446	128,991	132,193	135,100	135,056	134,408	117,050	103,298	118,516
Weighted-average common shares outstanding — diluted	**134,419**	134,047	133,822	132,817	134,956	137,306	137,421	136,227	118,178	104,258	120,196
Selected Income Statement Ratios											
Gross profit	**54.9%**	54.9%	56.0%	54.7%	55.0%	55.9%	55.4%	54.1%	53.4%	52.7%	51.4%
Selling, general and administrative expenses	**41.0**	41.0	42.7	42.3	42.9	44.6	43.7	42.2	41.1	40.6	41.7
Operating income	**13.9**	13.9	13.3	12.4	12.1	11.3	11.7	11.9	12.3	12.1	9.7
Income from continuing operations before income taxes	**12.8**	12.7	12.6	11.5	11.3	10.3	9.8	8.5	9.1	9.4	6.3
Income from continuing operations	**8.5**	8.2	8.2	7.6	7.4	7.0	7.5	6.8	6.6	6.3	4.3
Effective income tax rate	**41.1%**	42.4%	41.5%	41.4%	39.5%	40.7%	30.9%	30.3%	33.1%	33.1%	32.3%
Financial Position											
Current assets	**$ 577,321**	$ 503,514	$ 509,501	$ 435,507	$ 358,072	$ 401,179	$ 311,051	$ 264,512	$ 293,053	$ 216,612	$ 370,875
Property, plant and equipment, net	**448,116**	420,205	395,562	332,314	292,937	246,191	219,268	207,183	198,086	187,735	203,056
Investment in Henkel-Ecolab	**219,003**	253,646	239,879	285,237	302,298	284,570	255,804	289,034	296,292		
Other assets	**341,506**	293,630	271,357	155,351	107,573	88,416	105,607	98,135	152,857	480,911	420,115
Total assets	**$ 1,585,946**	$ 1,470,995	$ 1,416,299	$ 1,208,409	$ 1,060,880	$ 1,020,356	$ 891,730	$ 858,864	$ 940,288	$ 885,258	$ 994,046
Current liabilities	**$ 470,674**	$ 399,791	$ 404,464	$ 327,771	$ 310,538	$ 253,665	$ 201,498	$ 192,023	$ 240,219	$ 177,643	$ 201,585
Long-term debt	**169,014**	227,041	259,384	148,683	89,402	105,393	131,861	215,963	325,492	208,147	228,632
Postretirement health care and pension benefits	**97,527**	85,793	76,109	73,577	70,666	70,882	72,647	63,393	56,427	8,742	12,859
Other liabilities	**86,715**	67,829	124,641	138,415	133,616	128,608	93,917	29,179	11,002	138,792	135,343
Shareholders' equity	**762,016**	690,541	551,701	519,963	456,658	461,808	391,807	358,306	307,148	351,934	415,627
Total liabilities and shareholders' equity	**$ 1,585,946**	$ 1,470,995	$ 1,416,299	$ 1,208,409	$ 1,060,880	$ 1,020,356	$ 891,730	$ 858,864	$ 940,288	$ 885,258	$ 994,046
Selected Cash Flow Information											
Cash provided by operating activities	**$ 293,494**	$ 235,642	$ 235,098	$ 254,269	$ 166,463	$ 169,346	$ 175,674	$ 120,217	$ 128,999	$ 154,208	$ 123,215
Depreciation and amortization	**134,530**	121,971	100,879	89,523	76,279	66,869	60,609	60,443	55,653	61,024	53,113
Capital expenditures	**145,622**	147,631	121,667	111,518	109,894	88,457	68,321	59,904	53,752	58,069	54,430
EBITDA from continuing operations	**424,481**	383,951	319,383	274,840	238,965	203,833	190,060	186,057	173,899	187,563	144,838
Cash dividends declared per common share	**$ 0.435**	$ 0.39	$ 0.335	$ 0.29	$ 0.2575	$ 0.2275	$ 0.1975	$ 0.17875	$ 0.175	$ 0.1675	$ 0.165
Selected Financial Measures/Other											
Total debt and preferred stock	**$ 281,074**	$ 295,032	$ 308,268	$ 176,292	$ 161,049	$ 147,213	$ 151,281	$ 236,695	$ 407,221	$ 353,886	$ 382,764
Total debt and preferred stock to capitalization	**26.9%**	29.9%	35.8%	25.3%	26.1%	24.2%	27.9%	39.8%	57.0%	50.1%	47.9%
Book value per common share	**$ 5.89**	$ 5.33	$ 4.27	$ 4.01	$ 3.53	$ 3.41	$ 2.90	$ 2.66	$ 2.30	$ 3.41	$ 3.55
Return on beginning equity	**25.5%**	28.0%	25.8%	24.8%	21.5%	21.6%	23.3%	23.3%	13.6%	12.9%	2.5%
Dividends/diluted net income per common share	**33.2%**	33.9%	33.5%	34.1%	35.3%	36.7%	32.4%	34.4%	42.7%	32.8%	183.3%
Annual common stock price range	**$44.44-31.69**	$38.00-26.13	$28.00-18.13	$19.75-14.56	$15.88-10.00	$11.75-9.63	$11.91-9.07	$9.57-6.66	$8.38-4.88	$ 7.78-4.16	$ 8.94-6.22
Number of employees	**12,870**	12,007	10,210	9,573	9,026	8,206	7,822	7,601	7,428	8,106	7,845

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 two-for-one stock splits declared in 1997 and 1993. 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. EBITDA from continuing operations is the total of operating income, and depreciation and amortization for the year. Number of employees excludes ChemLawn operations.

Board of Directors

Leslie S. Biller Chief Operating Officer and Vice Chairman, Wells Fargo & Company (diversified financial services), Director since 1997, Compensation* and Governance Committees

Ruth S. Block Retired Executive Vice President and Chief Insurance Officer, The Equitable (insurance and investment products), Director since 1985, Compensation and Finance Committees

Jerry A. Grundhofer President and Chief Executive Officer, Firstar Corporation (multi-bank holding company), Director since 1999, Compensation and Governance Committees

James J. Howard Chairman of the Board, President and Chief Executive Officer, Northern States Power Company (public utility company), Director since 1991, Audit and Governance* Committees

William L. Jews President and Chief Executive Officer, CareFirst, Inc. (not-for-profit health care service holding company), Director since 1999, Audit and Finance Committees

Joel W. Johnson Chairman of the Board, President and Chief Executive Officer, Hormel Foods Corporation (food products), Director since 1996, Compensation and Governance Committees

Jerry W. Levin President and Chief Executive Officer, Sunbeam Corporation (household consumer products), Director since 1992, Compensation and Governance Committees

Robert L. Lumpkins Vice Chairman and Chief Financial Officer of Cargill, Incorporated (agricultural, food, financial and industrial products), Director since 1999, Audit and Finance Committees

Reuben F. Richards Retired Chairman of the Board, Terra Industries Inc. (agribusiness), Director since 1983, Audit and Finance* Committees

Richard L. Schall Consultant, Retired Vice Chairman of the Board and Chief Administrative Officer, Dayton Hudson Corporation (national retailer), Director since 1978, Audit* and Finance Committees

Roland Schulz Executive Vice President and Member of Executive Board, Henkel KGaA (household and personal care products and adhesives), Director since 1993, Finance Committee

Allan L. Schuman Chairman of the Board, President and Chief Executive Officer, Ecolab Inc., Director since 1991, Governance Committee

Hugo Uyterhoeven Timken Professor of Business Administration Emeritus, Graduate School of Business Administration, Harvard University, Director since 1992, Audit and Finance Committees

Albrecht Woeste Chairman of the Shareholders' Committee and Supervisory Board, Henkel KGaA (household and personal care products and adhesives), Director since 1991, Audit and Governance Committees

*Committee Chair

Officers

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

Lawrence T. Bell
Vice President-Law and General Counsel

Alan P. Blumenfeld
Vice President and Chief Information Officer

Peter D'Almada
Senior Vice President-Institutional North America

John G. Forsythe
Vice President-Tax and Public Affairs

Steven L. Fritze
Vice President and Controller

Arthur E. Henningsen Jr.
Senior Vice President and Chief Planning Officer

Kenneth A. Iverson
Vice President and Secretary

Diana D. Lewis
Vice President-Human Resources

Richard L. Marcantonio
Executive Vice President-Industrial Group

William A. Mathison
Vice President and General Manager-Food & Beverage North America

L. White Matthews III
Executive Vice President and Chief Financial Officer

James L. McCarty
Senior Executive Vice President-Institutional Group

Maurizio Nisita
Senior Vice President-Global Operations

Daniel J. Schmechel
Vice President and Treasurer

Mary J. Schumacher
Vice President and Chief Technical Officer

C. William Snedeker
Vice President and General Manager-Pest Elimination

John P. Spooner
Executive Vice President-International Group

Shareholder Information

Common Stock
Stock trading symbol ECL

- Ecolab common stock is listed and traded on the New York Stock Exchange ("NYSE") and the Pacific Exchange ("PCX"). Ecolab shares are also traded on an unlisted basis on certain other exchanges.
- Options are traded on the NYSE.
- Ecolab common stock is included in the Chemicals (Specialty) Group of the Standard & Poor's 500 Stock Index.

As of March 1, 2000, Ecolab had 5,559 shareholders of record. The closing stock price on March 1, 2000, was $28.875 per share.

Dividend Policy
Ecolab has paid common stock dividends for 63 consecutive years.

- Quarterly cash dividends are usually paid on the 15th of January, April, July and October.
- Dividends of $0.095 per share were declared in February, May and August 1998. Dividends of $0.105 per share were declared in December 1998, and February, May and August 1999. A dividend of $0.12 per share was declared in December 1999.

Earnings and Corporate News
Corporate news releases, including earnings and other financial information, are available at:

- Web site: **www.ecolab.com**
- Telephone: 1-800-FACT-ECL (800-322-8325); Alaska, Hawaii and international callers dial (402) 573-9859
- E-mail: financial.info@ecolab.com

Copies of Ecolab's Form 10-K, 10-Q and 8-K reports as filed with the Securities and Exchange Commission are available free of charge. These documents may be obtained on-line or by contacting:

- Ecolab Inc. Attention: Corporate Secretary
  Telephone: (651) 293-2233
  E-mail: investor.info@ecolab.com

Independent Accountants
PricewaterhouseCoopers LLP
650 Third Avenue South
Minneapolis, MN 55402

Investor Inquiries
Securities analysts, portfolio managers and representatives of financial institutions seeking information about Ecolab may contact:

- Michael J. Monahan
  Vice President
  External Relations
  Telephone: (651) 293-2809

♻ Reduce, Re-use, Recycle
If you received multiple copies of this report, you may have duplicate investment accounts. Help save resources. Please contact your broker or the transfer agent to request assistance.

Shareholder Services

Annual Meeting
The annual meeting of stockholders will be held on Friday, May 12, 2000, at 10 a.m. at The Alexander Hamilton U.S. Custom House, 1 Bowling Green, New York, NY 10004.

Dividend Reinvestment
Shareholders of record may elect to reinvest their dividends. Plan participants may also elect to purchase Ecolab common stock through this service. To enroll in the plan, shareholders should contact the transfer agent for a brochure and authorization form.

Recorded News and On-line Resources
Call 1-800-FACT-ECL (800-322-8325); Alaska, Hawaii and international callers dial (402) 573-9859.

- Visit Ecolab's web site at **www.ecolab.com** for financial results and investor information.
- Shareholders of record may view their shareholder account information on-line at **http://gateway.equiserve.com**. For log-in assistance, shareholders may call the transfer agent at 1-877-843-9327.

Research Coverage
Investors may contact the following firms which have recently provided research coverage on Ecolab:

- Banc of America Securities; Credit Suisse First Boston; Dain Rauscher; Goldman Sachs; Ingalls & Snyder; Merrill Lynch; Morgan Stanley Dean Witter; New Vernon Associates; PaineWebber; Salomon Smith Barney; Standard & Poor's; U.S. Bancorp Piper Jaffray; and Value Line.

The reference to such firms does not imply any endorsement of the information by Ecolab.

Transfer Agent, Registrar and Paying Agent
First Chicago Trust Division of EquiServe LP

- Telephone: (201) 324-0313; or 1-800-322-8325; TDD/Hearing Impaired: (201) 222-4955
- E-mail: equiserve@equiserve.com
- Web site: **www.equiserve.com**

The transfer agent provides telephone assistance Monday-Friday 8:30 a.m. to 7 p.m. (Eastern Time). Round-the-clock service is also available on-line and to callers using touch-tone telephones.

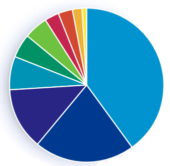
Transfer Agent mailing addresses:

- For items delivered by courier:
  Mail Suite 4680, 8th Floor
  14 Wall Street, New York, NY 10005
- General written inquiries:
  P.O. Box 2500, Jersey City, NJ 07303-2500
- Stock transfer correspondence:
  P.O. Box 2506, Jersey City, NJ 07303-2506
- Dividend Reinvestment Plan correspondence:
  P.O. Box 2598, Jersey City, NJ 07303-2598

Ecolab

Business Mix | **Customers/Markets** | **Sales** | **Services/Products** | **Sales-and-Service Associates**

Serving customers in more than 160 countries around the world, Ecolab provides products, systems, technology and services to meet all their cleaning and sanitation needs. Ecolab develops and markets complementary programs and offerings through nine business units in the United States: Institutional, Pest Elimination, Kay, Textile Care, Professional Products, Water Care Services, Vehicle Care, GCS Service and Food & Beverage. In addition, as a global supplier, Ecolab reaches customers in Asia Pacific, Canada, Africa and Latin America through direct subsidiaries, export operations, joint ventures, distributors and licensees. Its capability to surround customers with products and services, no matter where or when they do business, is the premise behind Ecolab's Circle the Customer – Circle the Globe strategy.

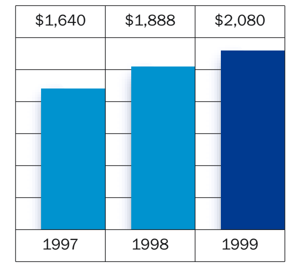


1999
- Institutional 40%
- International 21%
- Food & Beverage 13%
- Pest Elimination 7%
- Kay 5%
- Professional Products 5%
- GCS Service 3%
- Textile Care 3%
- Vehicle Care 2%
- Water Care Services 1%

Customers:
- Restaurants
- Hotels
- Quickservice operations
- Food retail (grocery)
- Schools
- Laundries
- Healthcare facilities
- Dairy farms and plants
- Food, beverage and brewery processing plants
- Pharmaceutical and cosmetic facilities
- Office buildings
- Shopping malls
- Light industry
- Fleet and vehicle wash

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

Sales
(Dollars in Millions)



Institutional:
Innovative warewashing, on-premise laundry, housekeeping, water filtration and conditioning, and pool and spa management products, programs and services for the foodservice and hospitality industries.

Pest Elimination:
Commercial pest elimination and prevention services and grease eliminated programs.

Kay:
Cleaning and sanitation products and training programs for the quickservice restaurant, convenience store and food retail markets.

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

Professional Products:
Unique floor care, carpet care, odor control, personal hand soap, surgical scrub, disinfecting and general sanitizing products, programs and systems for the commercial, industrial and healthcare markets.

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

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

Vehicle Care:
Wash products for vehicle rental, fleet and consumer car washes.

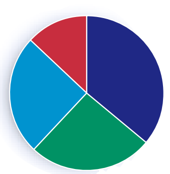
GCS Service:
Kitchen equipment repair services and parts for the foodservice and hospitality industries.

December 31	1997	1998	**1999**
Institutional	2,265	2,445	**2,705**
Kay	100	120	**150**
Textile Care	130	125	**130**
GCS Service	–	220	**285**
Vehicle Care	–	25	**100**
Food & Beverage	375	420	**420**
Pest Elimination	1,115	1,260	**1,380**
Professional Products	200	190	**195**
Water Care Services	95	95	**90**
Canada	265	300	**280**
Asia Pacific	505	750	**775**
Latin America	310	330	**310**
Africa/Export	85	85	**100**
Total	5,445	6,365	**6,920**

Prior years have been restated to conform to the 1999 presentation.

Henkel-Ecolab

In Europe, Ecolab enhances its Circle the Customer – Circle the Globe strategy through Henkel-Ecolab, a joint venture headquartered in Düsseldorf, Germany. Henkel-Ecolab's business parallels that of Ecolab's by offering the same premium products and services to its individual customers and to global chains requiring worldwide cleaning and sanitation consistency.

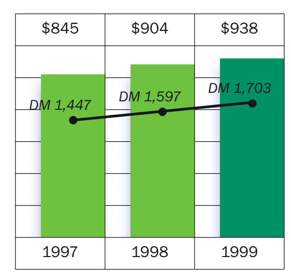


1999
- Institutional 36%
- Professional Hygiene 26%
- Food & Beverage P3 25%
- Textile Hygiene (Textile Care) 13%

Customers:
- Restaurants
- Hotels
- Laundries
- Healthcare facilities
- Pharmaceutical and cosmetic facilities
- Dairy farms and plants
- Food, beverage and brewery processing plants
- Schools
- Office buildings
- Light Industry

Markets:
- Europe

Sales
(Millions)



• Deutsche marks

Institutional:
Innovative warewashing, on-premise laundry, housekeeping and related products and services for the hospitality and foodservice markets.

Professional Hygiene:
Detergents, sanitizers, machines, equipment, floor care and odor control products for contract or in-house cleaning, and highly specialized disinfectants and other cleaning and sanitizing products for the healthcare industry.

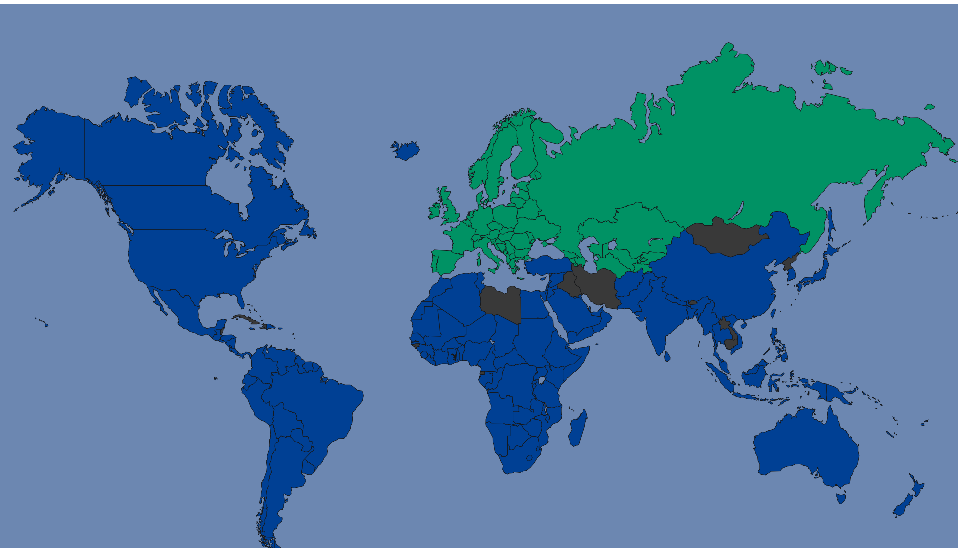
Food & Beverage P3:
Cleaning and sanitizing products, equipment, systems and services for the agribusiness, beverage, brewery, dairy, food processing, pharmaceutical and cosmetic industries.

Textile Hygiene:
Cleaning and sanitizing products and services for large commercial, on-premise and small independent laundries.

December 31	1997	1998	**1999**
Henkel-Ecolab	2,225	2,365	**2,400**

Global Coverage

- Countries served by Ecolab
- Countries served by Henkel-Ecolab



Ecolab Stock Performance

	1999		1998	
Quarter	**High**	**Low**	High	Low
First	**$41.25**	**$34.63**	$29.63	$26.63
Second	**44.44**	**34.69**	33.00	28.19
Third	**43.88**	**31.69**	33.11	27.13
Fourth	**39.25**	**32.50**	38.00	26.13

- Ecolab Stock Price
- Ecolab Stock Price Index. Dec. 31, 1996 = 100
- S&P 500 Index. Dec. 31, 1996 = 100