



**One
question:**

Ecolab 2000 Annual Report

**I have hundreds of dishes to clean,
a freezer that needs repair, and the
health inspector just arrived.**



What can Ecolab
do for **me**?



In the next eight hours, I have to
clean 500 rooms, treat our whirlpools
and cater a huge banquet.



What can Ecolab
do for **me**?

We will: Arm you with products and systems that make every inch of your property look its best. Provide foodservice solutions that promote safety, and train your kitchen staff to use them effectively. Keep towels, sheets and other linens looking great and feeling soft. Discreetly eliminate insects and other pests. Guarantee around-the-clock kitchen equipment repair. Keep your rooftop and exhaust systems free from grease and fire danger. Clean the rental cars that deliver out-of-town guests. Replace chaos with calm.

I have to prepare food for five deli cases, stock my dairy and meat aisles, and be ready for customers 24 hours a day.

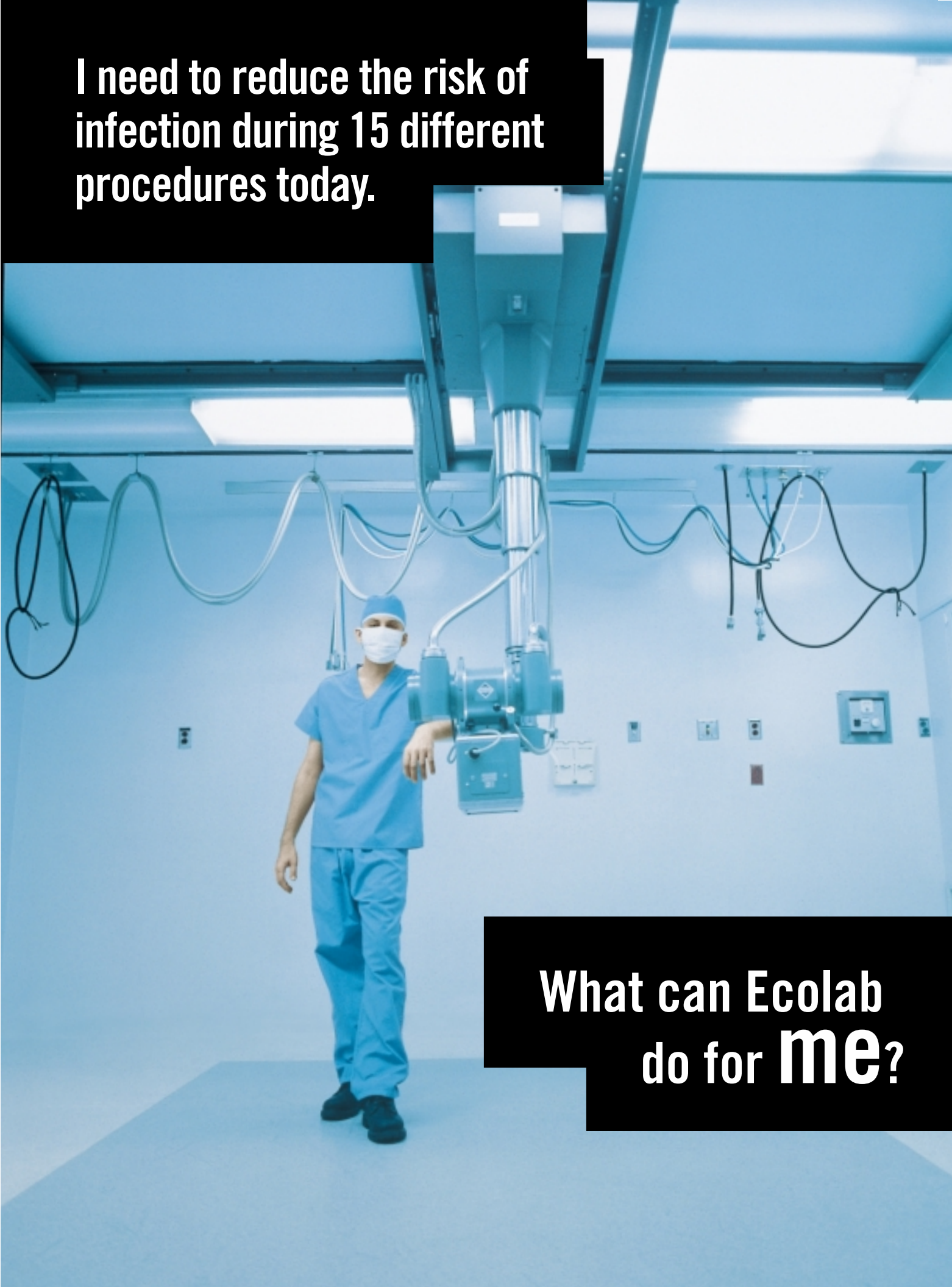


What can Ecolab
do for **me**?

We will: Help you guard against foodborne illness. Provide powerful cleaners and sanitizers for hands, food preparation and hard surfaces such as grocery shelves and floors. Offer superior product dispensing that improves safety and ease of use. Conduct regular food safety audits and train your staff in the most up-to-date food safety practices. Remotely monitor vital statistics of freezers, refrigerators and cooking equipment. Eliminate insects and other bacteria-spreading pests. Help ensure your continued good name.

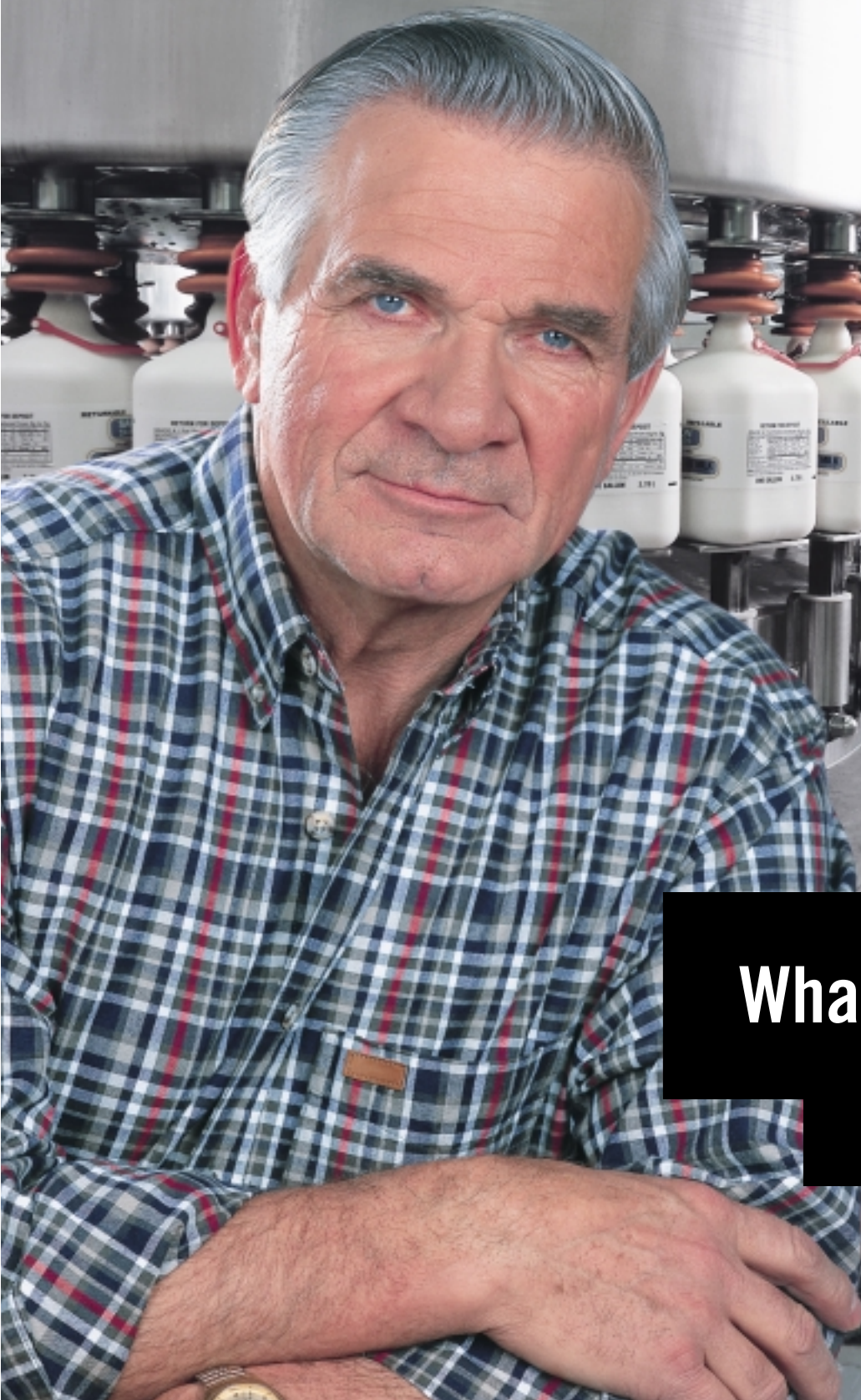
I need to reduce the risk of infection during 15 different procedures today.

What can Ecolab
do for **me**?



We will: Supply products designed to ensure that instruments are clean and sterile. Tackle tough microorganisms with our best hard-surface sanitizers. Battle bacteria with handwashes that promote frequent usage yet are gentle on skin. Keep disease-carrying flies from getting inside. Eliminate stains and extend the life of valuable hospital linens. Provide top-notch air quality programs for heating and cooling systems. Train staff members in effective infection prevention techniques. Help your entire facility operate smoothly.

I need to manufacture the highest-quality product with the longest shelf life possible.



What can Ecolab
do for **me**?

We will: Provide an outstanding lineup of food safety solutions. Help keep equipment, surfaces, hands and doorways free of contaminants. Defend against spoilage-causing organisms with world-class cleaning and sanitizing systems. Promote the quality of finished goods with advanced irradiation technology. Guarantee pest elimination from the perimeter to the plant floor. Conduct regular facility audits and personnel training. Protect your customers, your bottom line and your brand, whether you make corn or cosmetics, seafood or soda.



What can we do for **YOU?**

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 7,800 members strong.

Ecolab operates directly in 40 countries in North America, Asia Pacific, Latin America and Africa, employing more than 14,000 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 nearly 4,800 associates. Its direct sales-and-service force exceeds 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.

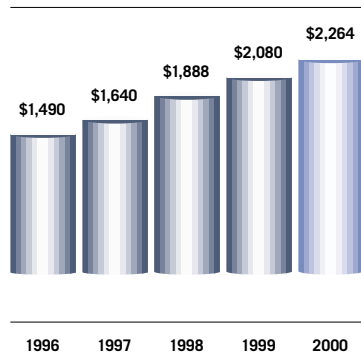
Forward-Looking Statements

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," which is located on page 24 of this Annual Report, 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.

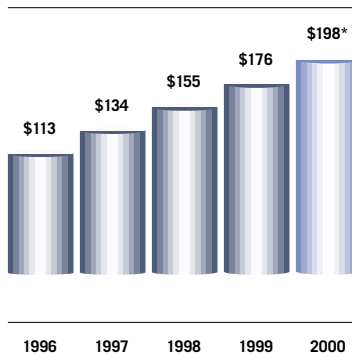
Financial highlights

(thousands, except per share)	Percent Change				
	2000	1999	1998	2000	1999
Net Sales	\$2,264,313	\$2,080,012	\$1,888,226	9%	10%
Income from Continuing Operations Before Unusual Items	197,878*	175,786	154,506	13	14
Percent of Sales	8.7%	8.5%	8.2%		
Diluted Income Per Common Share	1.50*	1.31	1.15	15	14
Diluted Weighted-Average Common Shares Outstanding	131,946	134,419	134,047	(2)	-
Cash Dividends Declared per Common Share	0.490	0.435	0.390	13	12
Cash Provided by Continuing Operating Activities	315,486	293,494	274,529	7	7
Capital Expenditures	150,009	145,622	147,631	3	(1)
Shareholders' Equity	757,007	762,016	690,541	(1)	10
Return on Beginning Equity	26.0%	25.5%	28.0%		
Total Debt	370,969	281,074	295,032	32	(5)
Total Debt to Capitalization	32.9%	26.9%	29.9%		
Total Assets	\$1,714,011	\$1,585,946	\$1,470,995	8%	8%

Net Sales (Dollars in Millions)



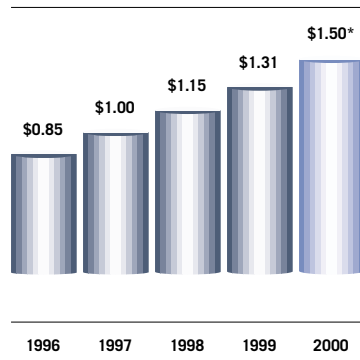
Income (Dollars in Millions)



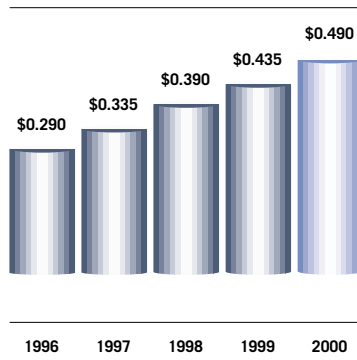
Contents

- Financial Highlights, 11**
- Shareholders Letter, 12**
- Operations Review, 16**
- Financial Report, 24**
- Board of Directors and Officers, 52**
- Shareholder Information and Services, 53**
- Business Overview, gatefold-back cover**

Diluted Income per Share (Dollars)



Dividends Declared per Share (Dollars)



*Excludes a net gain of \$8.2 million, or \$0.06 per diluted share for unusual items in 2000: gain on the sale of the Jackson business, restructuring expenses and cumulative effect of change in accounting for revenue recognition. Net income for 2000 was \$206,127, or \$1.56 per diluted share.

All product names and certain information appearing in italic type in the text of this annual report are trademarks, brand names, service marks or copyright material of Ecolab Inc., Kay Chemical Company or Henkel-Ecolab.

Now here are a few things we did for *you*...

To our shareholders

You invest your money wisely. You don't simply follow the latest trend on the Street. Instead, you seek out strong, reliable companies with a proven track record for consistent growth. That's why you chose Ecolab.

So your question is: What did we do for you in 2000?

2000 was a remarkable year for Ecolab, one that further cemented our reputation as *the world leader in cleaning, sanitation and service*. We turned in a superb financial performance. Again. We outpaced the Standard & Poor's 500 index. Again. And we not only paid dividends on our common stock – again – we raised our annual rate, giving our shareholders an even stronger return on their investment. Again.

Early in the year, investors thought so-called “old economy” stocks were passé, and that profits, assets and personal service didn't matter. We respectfully disagreed and maintained our focus. We certainly pride ourselves on our many technological innovations. After 77 years, however, our business remains rooted in the most basic human requirements: Safer food. Clean surroundings. Peace of mind. Although the business world changes on a daily basis, our proven, tested Circle the Customer – Circle the Globe strategy keeps us on the right course – and we're growing our sales and earnings every step of the way.

Here's a brief review of some of the things we did for you in 2000. I hope you'll be impressed.

We excelled financially

- Sales from wholly owned operations increased 9 percent to a record \$2.3 billion, as aggressive sales and marketing efforts, new product and service introductions, strategic acquisitions,

and sales-and-service force expansions once again contributed to the gain. Our global sales coverage, including our European joint venture, Henkel-Ecolab, reached \$3.1 billion.

- Our income from ongoing operations increased to \$198 million, up 13 percent from our 1999 income. Diluted earnings per share grew 15 percent to \$1.50 on the strength of new products, productivity gains and cost controls. 2000 was Ecolab's eighth consecutive year of double-digit earnings per share growth.
- Our stock price rebounded nicely following a downturn at the beginning of the year. We began the year at \$39.13 and ended at \$43.19, an increase of 10 percent – which widely outperformed the 10 percent decline of the Standard & Poor's 500. It was the eighth time in the last 10 years that we beat the market.
- Our return on beginning shareholders' equity was 26 percent, once again exceeding our corporate goal of 20 percent.
- In December, we raised our quarterly cash dividend 8 percent to 13 cents per common share. As a result, our indicated annual rate went up to 52 cents per share. It was the 64th consecutive year that we paid a cash dividend on our common stock, as well as our ninth consecutive annual dividend rate increase.
- Following authorization from our board of directors in May, we repurchased more than \$180 million of our common stock. This enabled us to add appropriate leverage to our balance sheet and, at the same time, improve shareholder value. Authority to repurchase up to an additional 5 million shares was approved by board members in December.



Ecolab Chairman of the Board and Chief Executive Officer Al Schuman in the Hall of Patents at the company's world-renowned Research & Development Center in Mendota Heights, Minn. The many patents displayed here have provided the foundation for Ecolab's 77-year legacy of technological innovation and world-class service.

- Our cash flow remained healthy in 2000, helping us to fund our business needs, repurchase shares of our common stock and sustain dividend growth. It also allowed us to maintain a strong “A” category balance sheet rating from the major credit rating agencies, despite our aggressive acquisition and share repurchase activity.

We expanded our offerings and field organization

- The array of innovative products and systems we successfully introduced last year include the *Digits* Hand Hygiene System, a comprehensive product line that helps customers in the foodservice and hospitality industries practice proper hand-washing throughout the day. *Out-Back* is an exterior cleaning solution that allows restaurants and other establishments to keep the outside of their buildings – especially dock areas – as clean and sanitary as the inside. Thanks to the *GroundForce* and *WingCommand* programs, commercial facilities no longer have to worry about the problems associated with ant infestations and nuisance birds. Our food processing customers are now benefiting from *PureGuard*, a complete line of preservative food-grade oils and greases for industrial food and beverage processing equipment.

These are just the tip of the iceberg. You'll read about more of our new solutions in the “Review of Operations” section of this report.

- Our expertly trained sales-and-service team remains our company's hallmark, and it grew even stronger in 2000. We added nearly 1,000 new associates to our field organization, which is now almost 8,000 members strong. Including the Henkel-Ecolab joint venture, our global sales-and-service force totals 10,280 associates, which represents a 10 percent increase over 1999.

We grew strategically

Acquisitions continued to play a critical role in our growth during 2000, and in early December we announced our largest – and most exciting – transaction ever. We agreed to assume 100 percent ownership of our Henkel-Ecolab joint venture in January 2002, an important move that will greatly strengthen our worldwide leadership position. It will also bolster our ability to grow our product and service offerings in Europe and elsewhere. Since 1991, Henkel-Ecolab has operated as a 50-50 joint venture of Ecolab and Henkel KGaA. It currently operates in 27 countries throughout Europe, one of the most fertile markets for our key businesses. We're looking forward to joining our valued European associates in bringing our global customers new and enhanced cleaning, sanitation and service solutions. We believe this transaction will lead to improved returns for our shareholders.

Our other 2000 acquisitions and strategic alliances follow, in chronological order:

- In February 2000, we purchased Southwest Sanitary Distributing Co., which immediately enlarged and diversified our reach in the United States' rapidly growing quickservice restaurant industry. The Texas-based supplier of cleaning and sanitizing products to fast-food restaurants now operates as a distinct business unit within Ecolab's Kay Division.
- We bolstered our Latin American business in February by acquiring Spartan de Chile Limitada and Spartan de Argentina S.A. Formerly licensees of Toledo, Ohio-based Spartan Chemical Co., both companies specialize in industrial and institutional cleaning and sanitation. In June, we more than doubled our institutional business in Korea by acquiring Dong Woo Deterpan Co. Ltd. Headquartered in Seoul, the company was a leading marketer of cleaning and sanitizing products that alone commanded more than a quarter of Korea's institutional marketplace.
- We formed another valuable partnership in May, when we established a strategic alliance with FreshLoc Technologies Inc. of Plano, Texas. The company develops wireless food safety technology, which monitors conditions affecting fresh food via measurement devices connected to the Internet. We provide direct sales, installation and customer support of FreshLoc equipment. We're so enthused about the potential of this technology that in September we purchased a 17 percent equity interest in FreshLoc.
- Our GCS Service Division continued to grow its commercial kitchen repair and parts network through a trio of important acquisitions. With our June purchase of ARR/CRS, a Columbus, Ohio-based company, GCS gained a broader foothold in the midwestern United States. Then in August, Stove Parts Supply joined the Ecolab family. Headquartered in Fort Worth, Texas, Stove Parts not only gave GCS a stronger presence in the Lone Star State, but provided the infrastructure necessary to establish a national parts distribution network. In November, we entered the fast-growing Salt Lake City, Utah, market with the acquisition of Peterson's Commercial Parts & Service.
- Our acquisition of Elgin, Ill.-based Facilitec Corp. in September allowed us to expand the range of products and services we can provide our institutional customers. Facilitec is the leading provider of rooftop grease filter products and kitchen exhaust cleaning services, which help keep food-service customers' rooftops and exhaust systems grease-free and fire-safe.

- In September we also strengthened our presence in the Middle East by entering into a joint venture agreement with Israel's largest cleaning products company, the Zohar Dalia Soap and Detergent Factory. Known as Ecolab-Zohar Dalia, the new business directly serves Israel's growing institutional and food and beverage industries.
- In an action intended to help us focus more closely on our core cleaning, sanitation and service competencies, in November we exited the dishmachine manufacturing business by divesting our Jackson unit. The terms of our \$36 million sale of Jackson to Enodis Corp. of Tampa, Fla., included a long-term supply agreement under which Jackson will continue to provide high-quality dishmachines for our highly successful *Ecotemp* program.
- In early January 2001, we announced an alliance with Randall International, a manufacturer of luxury personal care items for the lodging and resort industry. The arrangement allows us to offer Randall's premium line of distinctive soaps, lotions, body washes and hair care products to our hospitality customers around the world. We also purchased an equity interest in Randall.

We strengthened our leadership team

In the service business, people are our most important resource. In 2000, we continued to focus on identifying and empowering strong people to lead our company into the future:

- Bruno Deschamps – who had served as Henkel-Ecolab's chief executive officer for the past six years – was named Ecolab's president and chief operating officer.
- John Spooner was appointed chief executive of Henkel-Ecolab, replacing Bruno. For the past three years, John led Ecolab's wholly owned International operations.
- Rick Marcantonio was promoted to executive vice president for the Industrial Sector – comprised of our Food & Beverage, Vehicle Care, Water Care and Professional Products divisions – and our newly formed Services Sector, which includes the Pest Elimination and GCS Service divisions.
- Peter D'Almada was promoted to executive vice president for Global Accounts. A 28-year Ecolab veteran, Peter most recently served as senior vice president of our Institutional Division.

■ Doug Baker became senior vice president for the Institutional Sector, with responsibility for the Institutional, Kay and Textile Care divisions. Doug most recently was our Kay Division's vice president and general manager. Steve Mosh replaces Doug as vice president and general manager of Kay. Steve had been the vice president and general manager for Textile Care.

This new leadership team is very strong and well-prepared for this point in Ecolab's history. We are better equipped than ever to make the changes and implement the strategies that will continue Ecolab's growth record.

In addition to those outlined above, several other noteworthy organizational changes took place in 2000:

■ In December, my close friend and colleague Jim McCarty announced his retirement from Ecolab after an extraordinary 38-year career with our company. He began as a junior sales associate in Atlantic City, ultimately becoming senior executive vice president for our Institutional Group. Along the way, Jim contributed significantly to Ecolab's phenomenal success, and he helped define and cultivate our unique culture. Jim's legacy will have a lasting impact on this company, and he will be greatly missed by all of us.

■ In August, our executive vice president and chief financial officer, L. White Matthews III, was elected to Ecolab's board of directors. White, who joined Ecolab in July 1999, has made a valued addition to the board.

■ The board of directors acknowledged the retirements of two longtime directors in May. We said goodbye to Richard L. Schall, who had been a board member since 1978, and Reuben F. Richards retired after 17 years on the board. Both Dick and Reuben were very well-respected and their service to Ecolab won't soon be forgotten.

We were recognized for our accomplishments

■ For the second year in a row, Ecolab was named one of the "World's Best-Managed Companies" by *Industry Week* magazine. Judged on criteria ranging from financial performance to safety to philanthropy, we were very pleased to be among just 100 global manufacturers to receive this honor.

■ We were also designated one of America's "100 Best Corporate Citizens" in the March/April issue of *Business Ethics* magazine, ranking alongside IBM, the Walt Disney Co. and other firms described as the country's "most profitable and socially responsible major public companies."

Outlook for 2001

Next question: What are we going to do for you in 2001?

We will sell more. Serve more. Earn more. Grow more. We will introduce more ways to circle our customers, and find new ways to circle the globe. Most of all, we will do what we've always done: We will work our hardest to exceed expectations, taking our business to an entirely new level.

There will be challenges along the way. For example, economic forecasters are predicting downturns in a number of key regions around the globe, including the United States and East Asia. An economic lull, in turn, may contribute to the continuing volatility of foreign currencies that are important to us, such as the yen and the euro. Those factors can affect a company's growth, but I'm confident that we'll persevere – just as we have when similar obstacles have arisen before.

Competition within our industry remains tight. When you're the world leader, as Ecolab is, your opponents are always taking shots at you. They're always trying to push you out of the top spot. We're *not* going to let that happen. We will do everything it takes to remain No. 1: Serve our customers, our shareholders and our associates. Sell harder and smarter. Focus on costs, as well as on profits. It might not always be easy. But the most rewarding things never are.

Even after 77 years in the business, after more than 1,000 patents worldwide for technological innovations, after millions of products and services sold, and literally countless customers served, there's still so much left for us to do. There are so many things we've yet to accomplish. There are so many places we've yet to go. There are so many customers out there who have yet to benefit from our extraordinarily high standard of clean.

In 2001, you have an opportunity to embark on what is certain to be an incredible journey. You'll go to a place where imagination, technology and the desire to make the world a cleaner, safer place all meet.

Who will take you there?

We will.



Allan L. Schuman

Chairman of the Board and Chief Executive Officer



Institutional
The *Digits* Hand Hygiene System provides unbeatable protection against dangerous foodborne illness. Its hand soaps, sanitizers and lotions feature gentle-yet-effective formulas that promote frequent handwashing – protecting employees and customers alike.



Institutional
Out-Back takes an up-front approach to cleaning the exteriors of restaurants and other establishments. Customers now have an easy, effective way to clean and deodorize loading docks, garbage containers, concrete floors and other outdoor areas.

Review of operations

United States

Institutional

Highlights Ecolab's Institutional Division excelled once again in 2000, posting solid, sustainable financial growth in all areas. Its primary business categories – warewashing, housekeeping and on-premise laundry – continued to prosper, while newer ancillary offerings such as the *FresH₂O* Water Filtration & Conditioning Program further penetrated the core foodservice and hospitality markets, broadening the already extensive range of customer solutions that Ecolab offers. Highlights include:

- Introduced an array of differentiated offerings, including the *Out-Back* Exterior Cleaning Program, which helps customers maintain sanitary conditions and a consistently clean exterior image from their front door to the back dock. *Out-Back* features products that fight the toughest grease, grime and odors, as well as two convenient, heavy-duty dispensing options. For customers with particularly challenging warewashing needs, Institutional added a trio of new, specially formulated products to its groundbreaking *GeoSystem 9000* line. The new *Endurance* line of warewashing detergents combine the cleaning strength of Ecolab's stalwart *Solid Power* with the many benefits of *GeoSystem*. And *R/O Free* is a rinse additive for warewashing that utilizes patented chemistry to provide clean, clear glassware, even in the toughest water conditions.
- Realized exceptional success with two food quality solutions launched during 1999: *Victory*, a wash additive that controls food-spoilage organisms on the surfaces of fresh fruit and

vegetables; and the *Digits* Hand Hygiene System, which helps provide highly effective protection against foodborne illness and promotes handwashing compliance among workers.

- The *Ecotemp* Warewashing Program continued to thrive following the late-2000 rollout of its truly state-of-the-art *Omega CS* low- and high-temperature dishmachines, which boast high-tech features such as electronic displays, solid product chemistry, automatic fill/drain, and the ability to wash nearly one rack per minute.
- *Aerolite*, the professional laundry system successfully launched in 1999, enjoyed another strong year in 2000 thanks to the performance, efficiency and improved safety that it consistently provides to customers with on-premise laundries.
- Positioned itself for further growth in the service arena by acquiring *Facilitec*, a leading provider of rooftop grease filter products, kitchen exhaust cleaning and additional services for restaurants and other foodservice operations. *Facilitec* is expected to be a significant revenue generator in coming years.
- Gave its field associates a powerful new tool, the *Edge Advisor*. A palmtop computer small enough to fit in the pocket of a service coat, the *Edge Advisor* puts a wealth of resources at associates' fingertips, including product references, spreadsheet templates and other tools to enhance sales-and-service capabilities.
- Created a specialized, new sales-and-service position designed to better meet customer needs in the steadily growing lodging industry. Ecolab's Housekeeping Solutions Specialists are experts in the areas of hotel/motel housekeeping and swimming pool maintenance, leveraging Ecolab solutions such as the *Oasis* cleaning system and *Aqua Balance* Pool & Spa Management Program – among many others – to help meet lodging customers' specific needs.



Institutional
The Edge Advisor is revolutionizing the way Institutional sales-and-service associates do their job. Small enough to fit into the pocket of a service coat, these palmtop computers give associates instant access to an array of tools and information.

Kay
Kay's 3-in-1 Cleaning System foams, rinses and sanitizes from one hand-held dispensing unit. The patent-pending device mixes water and cleaning concentrate right at the nozzle, saving time and reducing waste by eliminating the need to purge the hose of product.



- Expanded its successful distributor product lines to provide small- and medium-size independent foodservice operations an even greater array of premium product and service solutions. At the same time, internally restructured its distributor sales organization to better serve this important, expanding channel for reaching customers.

Outlook The Institutional Division is poised to embark on another year of vigorous sales and market-share increases, thanks to an unsurpassed stable of differentiated products and services, an industry-leading sales-and-service force, and strong commitment to food safety. Growth in 2001 is expected to be especially strong thanks to the many innovative solutions added to the Institutional lineup during 2000, as well as the successful integration of Facilitec and continuing expansion of *FreshH₂O*.

Kay

Highlights Ecolab's Kay Division posted record, double-digit sales and operating income growth across all of its markets in 2000. This growth was fueled by new product, service and technology offerings, along with aggressive sales efforts. Specific highlights include:

- Continued its rapid expansion into the U.S. food retail market by gaining mid-size grocery chains, several national chains, and a number of multi-year agreements. Further solidified its market leadership in the North American quickservice restaurant (QSR) market with the February acquisition of Southwest Sanitary Distributing Co., a Carrollton, Texas-based provider of cleaning and sanitizing products. Kay also more than doubled a key corporate account in Canada.
- Created a 70-member QSR field service team equipped with handheld computers that help collect, collate and disseminate information to customers quickly and efficiently.

The team's coverage extends coast to coast in the United States, providing a key competitive advantage.

- Bolstered its outstanding food safety and quality assurance offerings through an alliance with FreshLoc Technologies, a Dallas, Texas-based specialist in remote monitoring technology for refrigerators, freezers and cooking equipment.
- Broadened its product offerings with the addition of new handsoap programs and the *BioShield* drain system, which helps keep drain lines clean under soda fountains and grease areas.

Outlook Kay's excellent 2000 results set the stage for continued solid growth in 2001. The division will leverage its newly strengthened service and technology offerings to fully circle its QSR customers. Kay's expansion into the food retail market is also expected to continue at a fast clip, as the nation's top chains look to Ecolab's differentiated offerings to ensure food safety and enhance quality.

GCS Service

Highlights The GCS Service Division achieved solid sales growth as it expanded in its top markets and laid the foundation for continued future growth. The year's accomplishments include:

- Significantly increased its national service coverage by adding more than 100 service technicians and entering 12 new markets, giving the division a presence in 43 of the top 50 restaurant markets. It is the leading independent provider of commercial kitchen equipment repair services and parts in the United States.
- Acquired three companies in the U.S. commercial kitchen equipment repair industry, including Stove Parts Supply of Fort Worth, Texas. Stove Parts was a key step in GCS's plan to



GCS Service

GCS Service provides around-the-clock repair and parts service for commercial cooking, refrigeration and warewashing equipment. Thanks to aggressive acquisition and expansion efforts, the division now has a presence in more than 40 of the top 50 restaurant markets.



Pest Elimination

The *GroundForce* Ant Program keeps ants from invading commercial buildings by protecting their perimeters. Ecolab's Pest Elimination professionals survey the facility, suggest sanitation changes, recommend repairs and build a barrier to keep ants out.

establish a national parts distribution program for corporate account customers that employ their own in-house maintenance staff.

- Bolstered its growth by securing a number of contracts with regional and national chains. These efforts benefited from the expansion of GCS's corporate account sales team.
- Refocused its preventive maintenance programs, broadening its offerings to accommodate variations in frequency and scope of services provided.

Outlook GCS expects another year of good sales growth in 2001 as its geographic coverage continues to increase through acquisitions and branch openings, and as its corporate account team increases national chain account coverage. These initiatives will strengthen market leadership for GCS and position it for income growth. In addition, GCS will strengthen its information technology platform in 2001 to help streamline processes, optimize technician scheduling, improve productivity and enhance customer tracking and reporting.

Pest Elimination

Highlights Robust top- and bottom-line growth continued to propel Pest Elimination upward during 2000, a year in which the division once again posted double-digit increases in nearly all of its core market segments. Highlights include:

- On the strength of its unrivaled service and growing stable of differentiated solutions, the division effectively expanded its customer base across the board, with new contract sales hitting record levels. Growth was particularly strong in markets that provided an opportunity to cross-sell with other Ecolab divisions. Pest Elimination's targeted efforts in the food retail segment, where it teamed up with the Kay Division to win several key corporate accounts, is a prime example.

■ Made significant inroads into the healthcare and government markets. This was accomplished, in part, through a special training program designed to provide account executives with the knowledge and tools necessary to focus their efforts and productively grow sales in specialized markets.

■ Successfully added the *GroundForce* Ant Program to its expanding lineup of branded, proprietary pest elimination offerings. An integrated solution to ant infestations, *GroundForce* features a patented bait station and other proactive tools designed to intercept crawling insects before they invade a facility's perimeter.

■ Launched in late 1999, the *WingCommand* Bird Program proved a big hit in 2000. It uses innovative products such as low-visibility mechanical barriers and netting to deter pestilent birds from buildings and adjacent property.

Outlook Pest Elimination expects the momentum it has generated during the past few years to continue in 2001. With brand protection as its primary focus, and new products and technology planned for the new year, the division will continue to position its pest elimination and prevention service as a critical component of any food safety or total sanitation program.

Professional Products

Highlights Professional Products continued to implement its turnaround in 2000, bolstering its management ranks with the addition of a new general manager and other key personnel, and engineering a significant restructuring effort. Accomplishments include:

- Organized its sales and marketing forces into two distinct segments, healthcare and janitorial, enabling personnel to concentrate their skills and expertise in a specific market.

Professional Products

The Professional Products Division's *QC* cleaning system combines high-performance, ultraconcentrated products with "quick click" dispensing. Small, ergonomic product cartridges simply click in and out of the dispenser for fast, spill-free replacement.



Professional Products

QC's advanced multi-product dispensing systems are extremely versatile, with different options for central supply, mop bucket and spray bottle applications. Half the size of competitive dispensers, these wall-mountable units fit easily into tight spaces.



- Entered into a long-term prime vendor relationship with a large North American building services contractor. Ecolab's technologically advanced products and systems, extensive training and support resources, and unsurpassed global capabilities were key to securing the account.
- Introduced the Airkem-brand *QC* cleaning system to the janitorial market. *QC* offers a full range of ultraconcentrated products in small, color-coded packages that quickly click in and out of the dispenser. Also rolled out the *Revitalize* Carpet Care Program, featuring cleaners and spotters specially formulated for simple-yet-powerful daily carpet maintenance.
- The Huntington-brand line of integrated skin care products led growth in the healthcare market. Hand sanitizers such as *Endure 300*, a gel that does not require water or rinsing, proved especially popular with busy healthcare professionals.
- Further strengthened its distributor networks in both janitorial and healthcare, adding quality distributor partners nationwide.

Outlook Professional Products is committed to capitalizing on its intensive rebuilding strategies of the past two years, with improved growth expected in both core businesses during 2001. An emphasis on new product rollouts, corporate account sales and cost-saving measures is expected to have a positive impact.

Textile Care

Highlights Textile Care continued to face challenging market conditions in 2000, particularly in the commercial laundry market. In response, the division undertook a number of aggressive actions designed to provide long-term solutions to the market's degradation. The full effect of these actions will not be realized for a couple of years. Highlights include:

- Committed itself to an uncompromisingly earnings-oriented business strategy in the commercial laundry market with the decision to renegotiate or exit large, profit-challenged accounts. Management expects the forgone contract volume to be offset by new customer growth during the coming year.
- Made product and service investments to capitalize on the growth potential within the shirt laundry market. A lucrative and expanding business segment not previously served by a major supplier, shirt laundries have become an integral part of the division's top-line growth strategies. In addition to introducing *Liquid Exec 120°*, a line of low-temperature products specifically formulated for shirt laundries, a new sales-and-service position exclusively dedicated to the shirt laundry market was established.

Outlook Following the investments it made in the shirt laundry market during 2000 – as well as the difficult, yet pragmatic measures it took within the commercial laundry segment – Textile Care looks forward to improved results in 2001. The upcoming debut of a new product line that is technologically unprecedented in the commercial and shirt laundry markets is also expected to have a significant impact on the division's potential.

Food & Beverage

Highlights Successful product launches, new market segments and healthy corporate account relationships helped Food & Beverage grow sales and earnings despite continuing industry challenges such as lower milk prices and continuing customer consolidation within some core markets. Specific accomplishments include:

- Implemented several key strategic programs, including an internal transition to market-focused teams; a research and development focus on large-scale, differentiated product platforms; and an aggressive marketing campaign.



Textile Care

Textile Care's *Liquid Exec 120* is a line of patented, automatically injected formulas that liquidate dirt and grime while reducing fading – all without time-consuming prescrubbing. It also lowers use temperatures and dramatically cuts hot water costs.



Food & Beverage

PureGuard is a comprehensive line of preservative food-grade oils and greases for industrial food and beverage processing equipment. *PureGuard* lubricates and protects manufacturing systems, and helps processors maintain the highest quality standards.

- The agribusiness industry suffered from historic low milk prices in 2000. Ecolab, however, outperformed the slow market through new entries such as an udder care product that controls mastitis while offering exceptional skin care properties.
- Food & Beverage also posted good dairy growth despite slow markets, customer mergers and plant consolidations. The division introduced *Exxelerate*, a new product line designed to improve production times in dairy manufacturing operations.
- Recorded very good growth in the filtration and beverage businesses by leveraging its corporate account relationships as beverage customers expanded their product offerings.
- Entered the food irradiation market through an alliance with Oak Brook, Ill.-based Ion Beam Applications (IBA), the world's largest sterilization and ionization business and the clear market leader in electron beam and X-ray technologies. Ecolab is well-positioned to capitalize on this opportunity, which enhances its unique ability to provide start-to-finish sanitation solutions.
- Reinforced its commitment to brand protection with the introduction of *PureGuard*, a line of preserved, food-grade oils and greases for beverage and food processing equipment.

Outlook Food & Beverage expects the strategic programs implemented in 2000 to yield improved growth, especially in the food, meat and poultry markets in 2001. Important product launches in the food processing segment will further solidify the division's unmatched ability to promote brand protection and product safety. Growth is also expected to continue in the pharmaceutical, beverage and other core markets. The division will also continue to look for acquisitions that are financially attractive and supportive of its strategic objectives.

Water Care Services

Highlights By focusing on Ecolab's Circle the Customer strategy and leveraging other divisions' customer relationships, Water Care grew its core business segments at steady rates in 2000. The year's accomplishments include:

- Achieved nearly national coverage by working closely with Ecolab's Food & Beverage Division to realign water care customers and aggressively target new business.
- Posted record growth in the cruise business, where customers value Ecolab's unmatched level of expertise, service and results.
- Equipped field associates with laptop computers, increasing the efficiency of customer orders, proposals and surveys.
- Formed a strategic partnership with a California-based supplier of wastewater treatment equipment that, when coupled with Ecolab technology, dramatically reduces surcharges and operating costs for customers.

Outlook Water Care Services expects continued growth in the hospitality and food and beverage segments as it accelerates cross-selling initiatives with other Ecolab divisions. It will also capitalize on its wastewater treatment alliance and drive growth in this key market.

Vehicle Care

Highlights 2000 was a year in which Ecolab's Vehicle Care Division positioned itself for near-term and long-range growth. With the integration of previously acquired product lines – and the related marketing strategies and pricing structures – now complete, the division looked toward establishing solid footholds in its most promising market segments. Specific highlights include:

Food & Beverage

The *Exxelerate* program is a system of cleaning solutions and food-grade additives for the production of cheese, whey and lactose products. It helps increase production efficiency by reducing cleaning times from receiving to final product shipping.



Water Care Services

Offered exclusively through Ecolab, *Bubble Accelerated Flotation (BAF)* wastewater treatment systems combine state-of-the-art technology with Ecolab products. *BAF* systems remove contaminants faster than standard systems and require less space, capital and maintenance.



- Formed a national accounts team to aggressively pursue multi-unit business, particularly in the auto rental and service station/convenience store markets, and other segments where industry consolidation is a growing factor. Groundwork laid in 2000 has set the stage for better growth in 2001.
- Entered the virtually untapped truck, fleet and transit cleaning market with the launch of its *FasTrack* product line. Its superconcentrated solutions clean and protect fleet vehicles and reduce costs per wash.
- Made significant progress in adding safer chemistry to the car wash industry with the introduction of its *Powershift Overdrive* line of advanced technology presoak products.

Outlook Vehicle Care expects its performance in 2001 to reflect the benefits of strategic actions taken during 2000. With a differentiated product line established and a strengthened sales organization in place, Vehicle Care looks for accelerated growth and development in a consolidating industry that is ripe for the quality national product and service offering for which Ecolab is so well known.

International

Africa/Export

Highlights Ecolab's Africa/Export operations posted good earnings growth and an improved financial performance in 2000. Specific highlights include:

- Strengthened the business in South Africa, building its management and sales force organization, and implementing more effective programs.
- Formed a joint venture in Israel with Zohar Dalia Soap and Detergent Factory of Kibbutz Dalia, Israel. Ecolab-Zohar Dalia

provides cleaning and sanitizing products, systems and services to the institutional and food and beverage markets, utilizing Ecolab's world-class product offerings and Zohar Dalia's local expertise.

- Enjoyed growing success penetrating the brewery and soft drink industries throughout its operations, including East Africa, South Africa and its export markets of French West Africa.

Outlook Africa/Export expects to further penetrate existing markets as it expands Ecolab's Circle the Customer strategy. In addition, growth will be enhanced by Ecolab's expanded presence in the Middle East marketplace.

Asia Pacific

Highlights Ecolab's Asia Pacific operations enjoyed improved results in 2000, particularly in East Asia as tourism, business activity and investment increased in the region. The year's highlights include:

- Acquired Dong Woo Deterpan Co., a leading marketer of institutional cleaning and sanitizing products and systems based in Seoul, South Korea, significantly expanding Ecolab's presence in that country's fast-growing economy.
- Further solidified its food safety and brand protection leadership through the region-wide expansion of popular programs such as *SafeSteps*, which provides food safety training and kitchen solutions for the hospitality industry; *Tsunami*, a flume-water treatment that helps control organisms on fresh fruit, vegetables and poultry; and the *Ecotemp* dishmachine program.
- Sponsored a very successful industry-wide conference on food safety in Tokyo, Japan, featuring international experts and drawing more than 300 customers from the hospitality and food and beverage markets.



International
Ecolab's highly successful *GeoSystem 9000* program is now revolutionizing warewashing in Japan. Customers are highly impressed by *GeoSystem's* environmentally friendly packaging, as well as its enhanced safety, simplified training and sparkling results.



International
Around the globe, Ecolab sales-and-service associates partner with food and beverage manufacturers to help ensure the quality and safety of their products. By doing so, Ecolab protects manufacturers' reputations and brand names – and, of course, consumers.

- Successfully introduced *GeoSystem 9000* in Japan. The revolutionary solid warewashing system is virtually package free, a concept that appeals to Japanese customers facing expensive waste disposal costs.

Outlook Asia Pacific expects to attain above-average growth in 2001 as it capitalizes on Ecolab's role as the leader in food safety and brand protection. It will also leverage Ecolab's unique ability to utilize its significant scientific and technical resources for projects on a global scale. In addition, it will continue aggressive employee training and management development efforts in support of high growth.

Canada

Highlights A number of product launches helped boost Canada's sales and operating income to record levels in 2000, as local economies picked up. Specific accomplishments include:

- Launched a multitude of institutional programs, including *Victory*, a vegetable and produce wash for restaurant use; *Aerolite*, an innovative system for on-premise hospitality laundries; and *First Impressions*, a complete restroom sanitation program. The thriving *FreshH₂O* water filtration system was also bolstered by the addition of hot water applications.
- Successfully expanded into key new markets. A partnership with Ecolab's Kay Division helped pave the way for Canada in the quickservice restaurant segment, while geographic expansion of the Vehicle Care line continues to unfold.
- Enjoyed major Food & Beverage gains in the beverage, brewery and food processing segments while maintaining market leadership in dairy. *Tsunami* made notable inroads at the corporate account level.

Outlook Canada is poised for continued growth in 2001 as it supports recently launched programs while simultaneously rolling out new products across all of its business segments. Ongoing expansion of its vehicle care, food safety and distributor programs is also expected to drive growth.

Latin America

Highlights Ecolab's Latin America business experienced strong sales and earnings growth as its marketplaces rebounded from the region's 1999 currency crisis. Among the highlights:

- Dramatically improved its operating income while posting double-digit sales growth, led by Mexico, Central America and the Caribbean.
- Substantially expanded through the acquisition of Spartan de Chile Limitada and Spartan de Argentina S.A., the market-leading, local licensees of Toledo, Ohio-based Spartan Chemical Co., thereby gaining a significant presence in the industrial segment as well as a newly strengthened sales-and-service force.
- Achieved continued Institutional growth with the *SafeSteps* food safety program, the *EcoStar* laundry system and the *Ecotemp* dishmachine program.
- Grew its Food & Beverage business by expanding key corporate accounts, driving growth in the food processing segment, and emphasizing differentiated product offerings such as *Tsunami* and *Vortexx*, a liquid sanitizer for the beverage, brewery and food processing markets.

Outlook Robust growth is expected to continue in Ecolab's Latin America operations as it leverages the Spartan acquisition to rapidly expand its business through widespread product and system introductions. Entry into the supermarket industry, as well as aggressive initiatives in the laundry and institutional markets, will also fuel growth in 2001.

Henkel-Ecolab

Henkel-Ecolab's *P3-Topax Integral* is an innovative new foam cleaning system for food and beverage processing plants. The system – which features fully closed, low-pressure dispensing technology – is available on a rental basis and includes an integrated service package.



Henkel-Ecolab

Paste-X-Press offers a unique warewashing solution for small establishments with single-tank, hood-type dishmachines. With automatic, accurate dispensing and easy-to-handle product cartridges, it lowers use costs while improving efficiency and results.



Henkel-Ecolab

Highlights Henkel-Ecolab continued its aggressive marketing strategy and gained market share in all divisions. These gains were accomplished through an ongoing focus on the development of more innovative, system-supported programs; an increase in differentiated, proprietary systems; additional training and development of sales-and-service personnel in high-growth markets; strict cost-management measures; long-term agreements with large chain accounts; and an emphasis on the seamless relationship with Ecolab among customers on a worldwide basis. Key highlights for the year include:

- Grew sales 7 percent to DM 1.8 billion, outpacing the growth in the European market. When converted to U.S. dollars, sales were \$870 million, reflecting the decline of the Deutsche mark vs. the U.S. dollar during 2000.
- Launched patented, new lock-and-key service solutions in all four divisions. In Institutional Hygiene, continued to focus on gaining more street business with products for small- and medium-size customers. Examples include: the new *Paste-X-Press* dishwasher dispenser for single-tank machines; the introduction of the *PurDos* System for use with small on-site laundry facilities in institutional customers; the new generation of solids, *Ecoplus-Future*; the *Ecotemp* dishmachine program; and the *Clinpro* line, offering a low-cost solution for use among distributors and street business customers.
- Henkel-Ecolab continued to focus aggressive actions on the high growth-potential markets of pharmaceuticals, cosmetics and food processing in the Food & Beverage Division. An emphasis was placed on farm hygiene with the very successful *4 Aces* udder hygiene programs in the dairy industry. Also successful were the new *Clean Check* monitoring system to enhance food safety measures; *Topax Integral*, a new foam cleaning system; and *P3 Oxysan*, a clean-in-place system for dairies, breweries and bottling plants.

■ Professional Hygiene continued its success in the contract cleaning segment, increasing its focus on floor care chemicals with innovative new products such as the new *Tuklar* floor finish product; and the revolutionary new *Rasant Xpress* mopping system with *Gloss Xpress* chemical product, developed to save time for cleaning staff and thus increase productivity for customers. In the division's Hospital Hygiene business, Henkel-Ecolab expanded the foam-based range of soap disinfection products for use with hospitals and clinics for bed-ridden patients, and also focused on its *Sekusept* powder and activator for instrument disinfection, stressing its know-how in the sterilization-intensive hospital sanitation market.

- Textile Hygiene had a strong performance as well, introducing the new laundry product *Oxysan* for the disinfection of hospital and clinic textiles, critical with the new regulations established for the European Union; and focused on its water- and energy-saving, fully integrated service offering the *HERO* system.
- Grew market share in all of Europe through aggressive marketing rollouts. Henkel-Ecolab also expanded its Textile Hygiene business with an acquisition of Thors Kemiske in Norway; and grew market share in its Food & Beverage Division with the acquisition of Hispano Quimica in Spain.

Outlook Building upon the strong sales progress and infrastructure investments it made last year, Henkel-Ecolab continues to build on its core strengths. Through premium service offerings; aggressive marketing initiatives with both global accounts, as well as small- and medium-size customers; improvements in sales productivity; and differentiated, innovative research and development, Henkel-Ecolab will continue to offer the best total hygiene solutions to European customers in a seamless offering, together with Ecolab, to enhance growth and profitability.

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

Forward-Looking Statements

This financial discussion and other portions of this Annual Report to Shareholders (most particularly the "Outlook" sections of the Review of Operations) contain various "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These include expectations concerning business progress and expansion, business acquisitions, investments in the sales-and-service force, 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. These risks and uncertainties include restraints on pricing flexibility due to competitive factors and customer consolidations; cost increases due to higher oil prices or unavailability of adequate and reasonably priced raw materials; the occurrence of capacity constraints, or the loss of a key supplier, which in either case limit the production of certain products; the effect of future acquisitions or divestitures or other corporate transactions, as well as our ability to achieve plans for past acquisitions, including difficulties in rationalizing acquired businesses and in realizing related cost savings and other benefits; market or regulatory factors which could affect the company's ability to reacquire shares; the costs and effects of complying with: (i) the significant environmental laws and regulations which apply to the company's operations and facilities, (ii) government regulations relating to the manufacture, storage, distribution and, labeling of the company's products and (iii) changes in tax, fiscal, governmental and other regulatory policies; economic factors such as the worldwide economy, interest rates, currency movements, euro conversion and the development of markets; the occurrence of (i) litigation or claims, (ii) the loss or insolvency of a major customer or distributor, (iii) natural or manmade disasters and (iv) severe weather conditions affecting the food service and the hospitality industry; loss of, or changes in, executive management; the company's ability to continue product introductions and technological innovations; and other uncertainties or risks reported from time to time in the

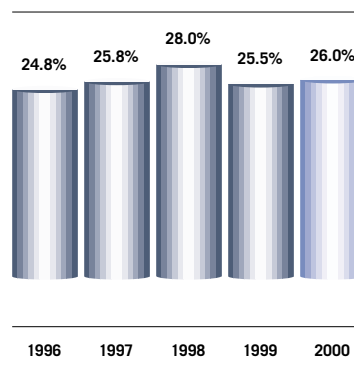
company's reports to the Securities and Exchange Commission. In addition, the company notes that its stock price can be affected by fluctuations in quarterly earnings. Despite favorable year over year quarterly comparisons in recent years, there can be no assurances that earnings will continue to increase or that the degree of improvement will meet investors' expectations.

2000 Overview

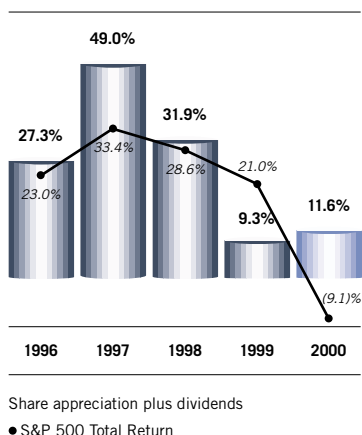
During 2000, Ecolab continued its trend of exceptionally strong financial performance. Results for the year marked a number of record performances and significant accomplishments which included:

- The company met or exceeded all three of its long-term financial objectives during 2000. This was the fourth out of the last five years the company accomplished all three of these aggressive annual goals. 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.
- Diluted net income per share rose to a record \$1.56 for 2000. Excluding the gain on the sale of the Jackson MSC, Inc. (Jackson) business, restructuring expenses recorded in 2000 and the cumulative effect of a change in accounting for revenue recognition, diluted income per share was \$1.50, an increase of 15 percent over \$1.31 per diluted share in 1999. The company reached its twenty-fourth consecutive quarter of double-digit increases in diluted income per share growth in the fourth quarter of 2000.
- Income excluding unusual items provided a return on beginning shareholders' equity of 26 percent for 2000. This was the ninth consecutive year the company exceeded this long-term financial objective.

Return on Beginning Equity (Percent)



Total Return to Shareholders (Percent)



■ The company maintained its debt rating within the “A” categories of the major rating agencies during 2000. This was the eighth consecutive year this objective was accomplished.

■ The company’s strong financial accomplishments were recognized in the marketplace as Ecolab’s stock price outperformed the Standard & Poor’s 500 index and rose 10 percent during 2000. Including cash dividends, Ecolab’s stock yielded a return to shareholders of nearly 12 percent for 2000.

■ Net sales for 2000 reached an all-time high of nearly \$2.3 billion and increased 9 percent over 1999.

■ Operating income reached a record \$343 million for 2000. Excluding the gain on the sale of the Jackson business and restructuring expenses, operating income rose 12 percent to \$324 million. This operating income level was 14.3 percent of net sales, an all-time high compared to the previous record level of 13.9 percent established in each of the last two years.

■ The company increased its annual dividend rate for the ninth consecutive year. The dividend was increased 8 percent in December 2000 to an annual rate of \$0.52 per common share.

■ There were several strategic accomplishments in 2000 which will enhance the company’s future. Management entered into an agreement with Henkel KGaA (Henkel) to acquire the remaining 50 percent of the Henkel-Ecolab joint venture that Ecolab does not own. The acquisition is scheduled to occur on January 2, 2002 and is expected to provide significant growth and leadership opportunities for the company in Europe. The company completed several other business acquisitions during 2000 in order to continue to broaden its product and service offerings in line with its Circle the Customer – Circle the Globe strategy. In the fourth quarter of 2000, the company recorded restructuring expenses as a result of management actions to improve the company’s future performance. Also in the fourth quarter of 2000, the company sold its Jackson dishmachine and manufacturing business, which was not part of its core offerings.

Operating Results

Consolidated

(thousands, except per share)	2000	1999	1998
Net sales	\$2,264,313	\$2,080,012	\$1,888,226
Operating income	\$ 343,139	\$ 289,951	\$ 261,980
Income			
Continuing operations before change in accounting	\$ 208,555	\$ 175,786	\$ 154,506
Change in accounting for revenue recognition	(2,428)		
Discontinued operations			38,000
Net income	\$ 206,127	\$ 175,786	\$ 192,506
Diluted income per common share			
Continuing operations before change in accounting	\$ 1.58	\$ 1.31	\$ 1.15
Change in accounting for revenue recognition	(0.02)		
Discontinued operations			0.28
Net income	\$ 1.56	\$ 1.31	\$ 1.44

Supplemental Consolidated Operating Results Information

(thousands, except per share)	Total	Unusual Items	Excluding Unusual Items
Operating income	\$ 343,139	\$ 18,788	\$ 324,351
Interest expense, net	(24,605)		(24,605)
Income before income taxes	318,534	18,788	299,746
Provision for income taxes	(129,495)	(8,111)	(121,384)
Equity in earnings of Henkel-Ecolab	19,516		19,516
Change in accounting	(2,428)	(2,428)	
Net income	\$ 206,127	\$ 8,249	\$ 197,878
Diluted net income per common share	\$ 1.56	\$ 0.06	\$ 1.50

Consolidated net sales reached an all-time high of nearly \$2.3 billion for 2000, an increase of 9 percent over net sales of nearly \$2.1 billion in 1999. This sales growth reflected double-digit increases in Kay’s and Pest Elimination’s operations and in sales in the Latin America region, as well as another year of solid growth in the company’s core Institutional business. Business acquisitions also contributed to the overall sales growth for 2000.

Businesses acquired in 2000 and the annualized effect of businesses acquired in 1999 accounted for approximately 40 percent of the growth in consolidated sales for 2000. Changes in currency translation had a very modest negative effect on the consolidated sales growth rate for 2000. The growth in sales also reflected new product introductions, a larger and better trained sales-and-service force, new customers and a continuation of generally good conditions in the hospitality and lodging industries, particularly in the United States.

The consolidated gross profit margin was 54.7 percent of net sales for 2000, down slightly from a gross profit margin of 54.9 percent in 1999. This modest decrease reflected the negative effects of the lower gross margin businesses the company has acquired over the last two years, higher costs of fuel and restructuring expenses. The gross profit margin for 2000 benefited from strong Institutional and International performances and sales of new products. Selling price increases for 2000 were not significant.

Selling, general and administrative expenses for 2000 were 40.5 percent of net sales, a decrease from total selling, general and administrative expenses of 41.0 percent of net sales in 1999. Selling, general and administrative expenses included approximately \$4 million of expenses related to a large distributor in both 2000 and 1999. Expenses in both years also included a significant favorable item: expenses for 2000 were reduced by \$4.1 million for reductions in probable losses related to certain environmental matters, and expenses for 1999 included a non-taxable gain of \$1.5 million related to the demutualization of an insurance company. Selling, general and administrative expense improvements for 2000 also reflected lower costs related to retirement plans, and the benefits of synergies from the effects of business acquisitions and cost controls. These benefits were partially offset by investments in the sales-and-service force and in new businesses.

During the fourth quarter of 2000, management approved various actions to improve the long-term efficiency and competitiveness of the company and to reduce costs. These actions included personnel reductions, discontinuance of certain product lines, changes to certain manufacturing and distribution operations and the closing of selected sales and administrative offices. As a result of these actions, the company recorded restructuring expenses totaling \$7.1 million (\$4.3 million after tax, or \$0.03 per diluted share). Further details related to these restructuring expenses are included in the notes to consolidated financial statements.

Also, during the fourth quarter of 2000, the company sold its Jackson dishmachine manufacturing business for cash proceeds of approximately \$36 million. The company realized a gain of \$25.9 million (\$15.0 million after tax, or \$0.11 per diluted share) on the sale.

Operating income for 2000 reached \$343 million. Excluding the gain on the sale of the Jackson business and restructuring expenses, consolidated operating income for 2000 totaled \$324 million and increased 12 percent over consolidated operating income of \$290 million in 1999. Business acquisitions contributed approximately 10 percent of the growth in operating income for 2000. As a percentage of net sales, operating income excluding the unusual items represented 14.3 percent compared with the 1999 operating income of 13.9 percent. These improvements in operating income reflected strong performance of the company's International and U.S. Institutional operations.

The company's net income for 2000 was \$206 million. Net income included \$2.4 million of net expense to reflect the cumulative effect of a change in accounting for revenue recognition. This change resulted from adopting the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." This amount was recorded to reflect changes in the company's policies from recording revenue when products are shipped to the time title transfers to the customer. Excluding this charge and the net impact of restructuring expenses and the gain on the sale of the Jackson business, after-tax income for 2000 was \$198 million, an increase of 13 percent over net income of \$176 million in 1999. This improvement reflected strong operating income growth, a lower effective income tax rate and improved equity in earnings of Henkel-Ecolab, partially offset by higher net interest expense. As a percentage of net sales, this after-tax income was 8.7 percent, up slightly from net income of 8.5 percent in 1999.

1999 Compared with 1998

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 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 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 significant 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.

Consolidated operating income increased 11 percent for 1999 and reached \$290 million compared with \$262 million in 1998. Business acquisitions accounted for approximately 10 percent of the increase. The consolidated operating income margin was unchanged from the 1998 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.

Operating Segment Performance

(thousands)	2000	1999	1998
Net sales			
United States			
Cleaning & Sanitizing	\$1,532,033	\$1,424,037	\$1,296,797
Other Services	248,317	211,562	160,063
Total	1,780,350	1,635,599	1,456,860
International Cleaning & Sanitizing	500,322	452,892	433,109
Total	2,280,672	2,088,491	1,889,969
Effect of foreign currency translation	(16,359)	(8,479)	(1,743)
Consolidated	\$2,264,313	\$2,080,012	\$1,888,226
Operating income			
United States			
Cleaning & Sanitizing	\$ 249,182	\$ 230,520	\$ 218,500
Other Services	25,515	25,114	19,084
Total	274,697	255,634	237,584
International Cleaning & Sanitizing	51,978	40,422	31,168
Total	326,675	296,056	268,572
Corporate	18,491	(4,570)	(4,347)
Effect of foreign currency translation	(2,027)	(1,535)	(2,425)
Consolidated	\$ 343,139	\$ 289,951	\$ 261,980
Operating income as a percent of net sales			
United States			
Cleaning & Sanitizing	16.3%	16.2%	16.8%
Other Services	10.3	11.9	11.9
Total	15.4	15.6	16.3
International Cleaning & Sanitizing	10.4%	8.9%	7.2%

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

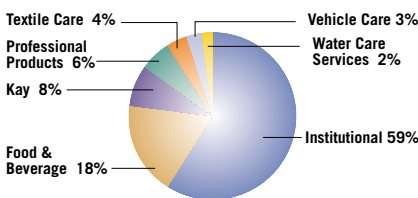
U.S. dollars at the fixed currency exchange rates used by management for 2000. All other accounting policies of the reportable segments are consistent with accounting principles generally accepted in the United States of America and the accounting policies of the company described in Note 2 of the notes to consolidated financial statements. Additional information about the company's reportable segments is included in Note 16 of the notes to consolidated financial statements.

Sales of the company's United States Cleaning & Sanitizing operations exceeded \$1.5 billion in 2000 and increased 8 percent over net sales of \$1.4 billion in 1999. Business acquisitions accounted for approximately 25 percent of the growth in sales for 2000. Sales reflected double-digit growth in sales of Kay's operations and solid growth in the core Institutional operations. The sales improvement also reflected sales of new products and services, a larger and better trained sales-and-service force, aggressive sales efforts and programs and generally good conditions in the hospitality and lodging industries. Selling price increases during 2000 were not significant. Sales of U.S. Institutional operations increased 8 percent for 2000 with good growth in its specialty, housekeeping and *Ecotemp* programs, and modest growth in warewashing and laundry sales. Business acquisitions were not significant to Institutional's sales growth. Kay's U.S. operations reported sales growth of 36 percent for 2000. Excluding the acquisition of Southwest Sanitary Distributing Company, Kay's U.S. sales increased 14 percent over the prior year with good growth in sales to the quickservice market and continued growth and expansion of its food retail business. Textile Care sales decreased 5 percent for 2000. Textile Care markets remained very price competitive and management has increased the emphasis on improved service and product performance.

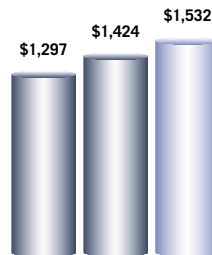
Sales of Professional Products decreased 4 percent for 2000 reflecting lower sales to the private label and government markets, partially offset by higher sales of specialty healthcare products. The company is focusing on growing Professional Product's distributor and building service contractor businesses. Water Care Services sales increased 6 percent with good growth in sales to the hospitality and food and beverage markets. Sales of the company's Vehicle Care operations were up 5 percent for 2000. Excluding the annualized effect of the Blue Coral business acquired in February 1999, Vehicle Care sales decreased 1 percent for 2000 reflecting the loss of some customers during the integration of the Blue Coral business which included sales force reorganizations and product consolidation. Food & Beverage U.S. sales increased 4 percent for 2000. Strong growth in sales to the dairy, filtration and beverage markets was offset by declines in meat and poultry.

Sales of United States Other Services operations increased 17 percent to \$248 million in 2000, from \$212 million in 1999. Excluding the effects of businesses acquired, sales increased 10 percent for 2000. Pest Elimination reported sales growth of 12 percent for 2000 with high growth in new contract sales and a continuation of solid growth across all of its business lines. Sales of the GCS commercial kitchen equipment parts and repair operations rose 36 percent for 2000 as the company continued to expand operations through business acquisitions. Excluding the effects of businesses acquired, GCS sales increased 9 percent for 2000. In the fourth quarter of 2000, the company sold its Jackson dishmachine manufacturing business. Jackson's sales in 2000, prior to its divestiture, were flat compared with the full year sales for 1999.

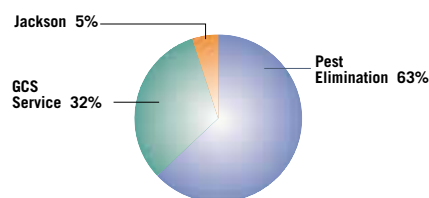
United States Cleaning & Sanitizing Business Mix



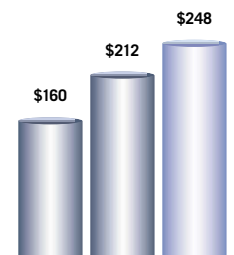
Sales
(Dollars in Millions)



United States Other Services Business Mix



Sales
(Dollars in Millions)



Management rate-based sales of the company's International Cleaning & Sanitizing operations reached \$500 million for 2000, an increase of 10 percent over sales of \$453 million in 1999. Business acquisitions accounted for approximately 50 percent of the increase in International Cleaning & Sanitizing sales for 2000. Sales in Asia Pacific, International's largest region of operation, increased 4 percent for 2000. Excluding business acquisitions, Asia Pacific sales increased 3 percent with double-digit growth in East Asia, good growth in New Zealand and Japan and lower sales in Australia. Asia Pacific sales reflected growth in sales to both the institutional and food and beverage markets. Latin America reported sales growth of 36 percent for 2000. Excluding businesses acquired, Latin America sales increased 10 percent with continued significant growth in Mexico and modest growth in Brazil. Sales in Canada rose 7 percent for 2000 with solid growth in sales to institutional markets and improved sales to the food and beverage, textile care and professional products markets. Sales of Africa/Export operations increased 12 percent for 2000 due to an additional business acquired and good growth in sales of Africa's operations.

Operating income of the company's United States Cleaning & Sanitizing operations reached \$249 million in 2000 and increased 8 percent over operating income of \$231 million in 1999. Business acquisitions accounted for approximately 10 percent of the growth in operating income for 2000. Operating income included good growth in Kay, Institutional and Water Care operations and modest growth in Food & Beverage. Operating income of Professional Products, Vehicle Care and Textile Care was lower than the prior year. As a percentage of net sales, operating income increased slightly to 16.3 percent in 2000, from 16.2 percent in 1999. This margin improvement reflected strong results of the core Institutional operations, growth in sales of new products, synergies from the integration of businesses acquired, modest increases in raw material costs and tight cost controls. These benefits were substantially offset by poor results of Professional Product's operations, investments in the sales-and-service force, lower margins of businesses acquired and higher fuel costs. The company added 280 sales-and-service associates to its United States Cleaning & Sanitizing operations during 2000.

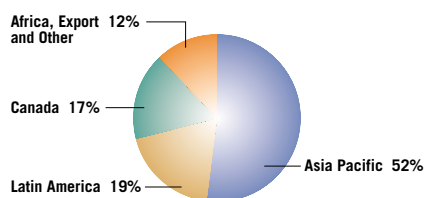
Operating income of United States Other Services operations rose 2 percent to \$26 million in 2000. Excluding operating income of businesses acquired in 2000 and the annualized effect of 1999 acquisitions, operating income for 2000 was virtually unchanged from the prior year. Near double-digit growth in Pest Elimination operating income was offset by lower operating

income of GCS operations. Growth in the operating income of the divested Jackson business was not significant. The operating income margin of United States Other Services operations was 10.3 percent of net sales for 2000, down from 11.9 percent of net sales in 1999. This decrease reflected higher GCS operational expenses including fuel surcharges, rising service labor rates and insurance losses, partially offset by growth in the sales of new Pest Elimination service offerings and cost controls. During 2000 the company added 225 sales-and-service associates to its United States Other Services operations.

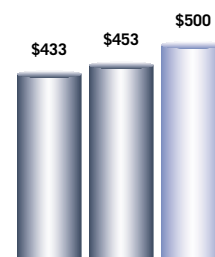
Operating income of International Cleaning & Sanitizing operations was \$52 million in 2000 and increased 29 percent over operating income of \$40 million in 1999. The effects of businesses acquired accounted for approximately 20 percent of this operating income growth. The International operating income margin improved to 10.4 percent of net sales in 2000 from 8.9 percent in 1999. All of the company's international regions of operations reported double-digit growth in operating income and improved operating margins for 2000. These improvements reflected sales growth from new customers, including sales of new products, and tight cost controls. The company added 395 sales-and-service associates to its International Cleaning & Sanitizing operations during 2000.

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 higher costs of importing raw materials and finished goods, increased investments in dispensing equipment and 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.

International Cleaning & Sanitizing Business Mix



Sales (Dollars in Millions)



2000

1998 1999 2000

1999 Compared with 1998

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 25 percent 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. 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. 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 Grace-Lee business to form the company's 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 commercial kitchen equipment parts and repair business continued to report solid growth. The company began focusing on coordinating GCS 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 \$453 million in 1999 and were up 5 percent over sales of \$433 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. These business changes had a modest negative effect on the sales growth rate of International Cleaning & Sanitizing operations for 1999. Sales for the Asia Pacific region 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 8 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 21 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 20 percent 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 operation's 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.

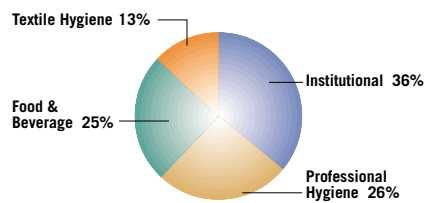
Operating income for the company's International Cleaning & Sanitizing operations was \$40 million, an increase of 30 percent over operating income of \$31 million in 1998. The operating income margin for International operations rose to 8.9 percent of net sales in 1999 from 7.2 percent in 1998. Operating 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.

Henkel-Ecolab

The company operates cleaning and sanitizing businesses in Europe through a 50 percent economic interest in Henkel-Ecolab. The company includes 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 deduction of intangible amortization, was \$20 million in 2000, an increase of 7 percent over \$18 million in 1999. When measured in Deutsche marks, net income of Henkel-Ecolab for 2000 increased 18 percent and reflected good sales growth, improved income margins, a lower effective income tax rate and cost controls, partially offset by investments in the sales-and-service force.

Henkel-Ecolab sales, although not consolidated in Ecolab's financial statements, increased 7 percent when measured in Deutsche marks. All major business lines contributed to the overall sales growth for 2000. Sales continued to benefit from expansion of global contracts, new product introductions and acquisitions. When measured in U.S. dollars, Henkel-Ecolab sales decreased 7 percent due to the negative effects of a stronger U.S. dollar.

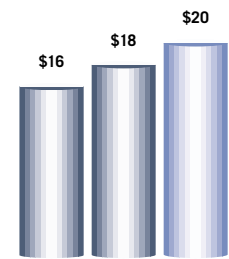
Henkel-Ecolab Business Mix



2000

Ecolab's Equity in Earnings

(Dollars in Millions)



1998 1999 2000

During the fourth quarter of 2000, the company entered into an agreement with Henkel to acquire the remaining 50 percent of the Henkel-Ecolab joint venture the company does not own. This acquisition is scheduled to occur on January 2, 2002. Additional details related to this agreement are included in Note 10 of the notes to consolidated financial statements.

1999 compared with 1998

The company's equity in earnings of Henkel-Ecolab 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.

Sales of Henkel-Ecolab increased 7 percent for 1999 when measured in Deutsche marks. Excluding the effects of business acquisitions and a business sold during 1999, sales increased 6 percent. 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.

Corporate

Corporate operating income totaled \$18 million in 2000, compared with corporate operating expense of \$5 million in 1999 and \$4 million in 1998. Historically, corporate operating expense included overhead costs directly related to the Henkel-Ecolab joint venture. However, in 2000, corporate operating income also included the \$25.9 million gain on the sale of the Jackson business, restructuring expenses of \$7.1 million and income of \$4.1 million for net reductions in probable losses related to certain environmental matters.

Interest and Income Taxes

Net interest expense for 2000 was \$25 million, an increase of 8 percent over net interest expense of \$23 million in 1999. This increase reflected higher average debt levels during 2000 incurred to fund stock repurchases and business acquisitions.

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.

The company's effective income tax rate was 40.7 percent for 2000. Excluding the effects of the sale of Jackson and restructuring expenses the effective income tax rate for 2000 was 40.5 percent, a decrease from the effective income tax rates in 1999 and 1998 of 41.1 percent and 42.4 percent, respectively. These decreases were principally due to lower overall effective rates 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.

Financial Position, Cash Flows and Liquidity

Financial Position

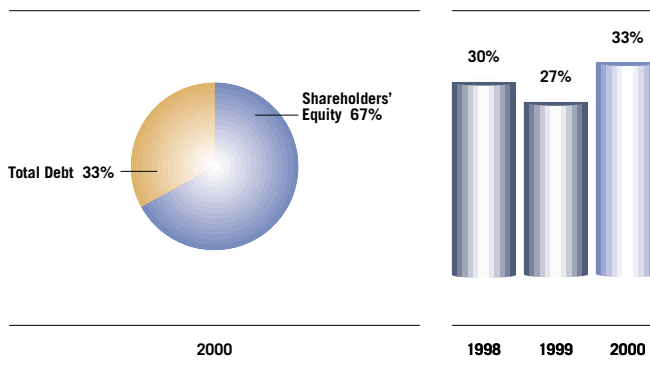
The company has maintained its long-term financial objective of an investment-grade balance sheet since 1993. The company's debt continued to be rated within the "A" categories by the major rating agencies during 2000. Significant changes in the company's financial position during 2000 and 1999 included the following:

- Total assets reached \$1.7 billion at December 31, 2000, an increase of 8 percent over total assets of \$1.6 billion at year-end 1999. During 1999, total assets increased from \$1.5 billion at year-end 1998. These increases reflect 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 Spartan, Southwest Sanitary Distributing Company and Facilitec acquisitions in 2000 and the Blue Coral acquisition in 1999. Accounts receivable, inventories and property, plant and equipment were also added during 2000 and in 1999 as a result of these acquisitions.

- Working capital levels declined to \$69 million at December 31, 2000 from \$107 million at year-end 1999 and \$104 million at year-end 1998 reflecting higher levels of short-term debt, accounts payable and other current liabilities.

- The decrease in the company's investment in Henkel-Ecolab over the last two years was principally due to the effects of currency translation.

Total Debt to Capitalization (Percent)

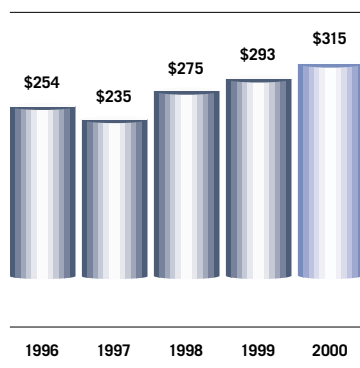


- Total debt was \$371 million at December 31, 2000 and increased from total debt of \$281 million at year-end 1999 and \$295 million at year-end 1998. Additional commercial paper borrowings were incurred during 2000 to fund the stock repurchased under the company's share repurchase program, and to a lesser extent, to fund business acquisitions. At December 31, 2000, the company had \$145.8 million of commercial paper borrowings which were classified as long-term debt. In January 2001, the company refinanced the commercial paper borrowings through the issuance of \$150 million of 6.875 percent Notes, due in 2011. The company has reduced debt under its 9.68 percent Senior Notes through scheduled debt repayments during both 2000 and 1999. As of December 31, 2000 the ratio of total debt to capitalization rose to 33 percent, from 27 percent at year-end 1999 and 30 percent at year-end 1998. The higher debt to capitalization ratio for 2000 was due to funding for the company's share repurchase program. The improvement in the total debt to capitalization ratio for 1999 reflected increased shareholders' equity which resulted from strong earnings performances and the 1998 gain from discontinued operations in addition to the lower year-end 1999 debt level.

Cash Flows

Cash provided by continuing operating activities reached a new all-time high of \$315 million for 2000, an increase from \$293 million in 1999 and \$275 million in 1998. Operating cash flow increases over the last two years have benefited from strong earnings growth, including additional earnings and cash flows from businesses acquired. Changes in net operating asset levels negatively affected the operating cash flow by approximately \$2 million in 2000 and \$16 million in 1999 and added approximately \$4 million to operating cash flow in 1998. Operating cash flows for 1999 included higher dividends from Henkel-Ecolab compared with the prior year.

Cash from Continuing Operating Activities (Dollars in Millions)



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 \$150 million in 2000, \$146 million in 1999 and \$148 million in 1998. 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 Spartan and Facilitec in 2000 and Blue Coral in 1999. Investing activities cash flows also include the proceeds from the sale of the Jackson business in 2000 and the sale of certain Gibson businesses and duplicate facilities in 1999 and 1998 which the company chose not to retain.

Cash used for financing activities included cash used to reacquire shares, pay dividends and cash provided and used through the company's debt arrangements. In May 2000, the company announced a program to repurchase up to \$200 million of its common stock. Actual share repurchases for 2000 totaled \$187 million, significantly higher than repurchases of \$42 million in 1999 and \$53 million in 1998. These repurchases were funded with operating cash flows and additional debt. In December 2000, the company announced a new authorization to repurchase up to 5.0 million additional shares of common stock.

In 2000, the company increased its annual dividend rate for the ninth consecutive year. The company has paid dividends on its common stock for 64 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
2000	\$0.12	\$0.12	\$0.12	\$0.13	\$0.49
1999	0.105	0.105	0.105	0.12	0.435
1998	0.095	0.095	0.095	0.105	0.39

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 \$50 million remaining on its 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 adequate to fund all of the requirements which are reasonably foreseeable for 2001 for growth, possible acquisitions, share repurchases, new program investments, scheduled debt repayments and dividend payments.

Market Risk

The company enters into contractual arrangements (derivatives) in the ordinary course of business to manage foreign currency exposure and interest rate risks. The company does not enter into derivatives for trading purposes. The company's use of derivatives is subject to internal policies which provide guidelines for control, counterparty risk and ongoing monitoring and reporting.

The company enters into forward contracts, swaps, and foreign currency options to hedge certain intercompany financial arrangements, and to hedge against the effect of exchange rate fluctuations on transactions related to cash flows denominated in currencies other than U.S. dollars.

The company manages interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, the company may enter into interest rate swaps. Under these arrangements, the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

Based on a sensitivity analysis (assuming a 10 percent adverse change in market rates) of the company's foreign exchange and interest rate derivatives and other financial instruments outstanding at December 31, 2000, changes in exchange rates or interest rates would not materially affect the company's results of operations, financial position or liquidity.

consolidated statement of Income

Year ended December 31 (thousands, except per share)	2000	1999	1998
Net sales	\$2,264,313	\$2,080,012	\$1,888,226
Operating expenses (income)			
Cost of sales (including restructuring expenses of \$1,948 in 2000)	1,025,906	937,612	851,173
Selling, general and administrative expenses	916,004	852,449	775,073
Gain on sale of Jackson business	(25,925)		
Restructuring expenses – other	5,189		
Operating income	343,139	289,951	261,980
Interest expense, net	24,605	22,713	21,742
Income from continuing operations before income taxes and equity in earnings of Henkel-Ecolab	318,534	267,238	240,238
Provision for income taxes	129,495	109,769	101,782
Equity in earnings of Henkel-Ecolab	19,516	18,317	16,050
Income from continuing operations before cumulative effect of change in accounting	208,555	175,786	154,506
Cumulative effect of change in accounting for revenue recognition	(2,428)		
Gain from discontinued operations			38,000
Net income	\$ 206,127	\$ 175,786	\$ 192,506
Basic income per common share			
Income from continuing operations before change in accounting	\$ 1.63	\$ 1.36	\$ 1.20
Change in accounting	(0.02)		
Gain from discontinued operations			0.29
Net income	\$ 1.61	\$ 1.36	\$ 1.49
Diluted income per common share			
Income from continuing operations before change in accounting	\$ 1.58	\$ 1.31	\$ 1.15
Change in accounting	(0.02)		
Gain from discontinued operations			0.28
Net income	\$ 1.56	\$ 1.31	\$ 1.44
Weighted-average common shares outstanding			
Basic	127,753	129,550	129,157
Diluted	131,946	134,419	134,047

consolidated Balance Sheet

December 31 (thousands, except per share)	2000	1999	1998
Assets			
Current assets			
Cash and cash equivalents	\$ 43,965	\$ 47,748	\$ 28,425
Accounts receivable, net	326,937	299,751	246,695
Inventories	168,220	176,369	165,627
Deferred income taxes	50,709	41,701	36,256
Other current assets	10,737	11,752	26,511
Total current assets	600,568	577,321	503,514
Property, plant and equipment, net	501,640	448,116	420,205
Investment in Henkel-Ecolab	199,642	219,003	253,646
Other assets	412,161	341,506	293,630
Total assets	\$1,714,011	\$1,585,946	\$1,470,995
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term debt	\$ 136,592	\$ 112,060	\$ 67,991
Accounts payable	146,428	122,701	124,646
Compensation and benefits	88,330	90,618	79,431
Income taxes		5,743	244
Other current liabilities	160,684	139,552	127,479
Total current liabilities	532,034	470,674	399,791
Long-term debt	234,377	169,014	227,041
Postretirement health care and pension benefits	117,790	97,527	85,793
Other liabilities	72,803	86,715	67,829
Shareholders' equity (common stock, par value \$1.00 per share; shares outstanding: 2000 – 127,161; 1999 – 129,416; 1998 – 129,479)	757,007	762,016	690,541
Total liabilities and shareholders' equity	\$1,714,011	\$1,585,946	\$1,470,995

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

consolidated statement of Cash Flows

Year ended December 31 (thousands)	2000	1999	1998
Operating Activities			
Net income	\$ 206,127	\$ 175,786	\$ 192,506
Adjustments to reconcile net income to cash provided by continuing operations:			
Cumulative effect of change in accounting	2,428		
Gain from discontinued operations			(38,000)
Depreciation	119,072	109,946	99,276
Amortization	29,364	24,584	22,695
Deferred income taxes	(11,604)	(3,903)	(2,012)
Equity in earnings of Henkel-Ecolab	(19,516)	(18,317)	(16,050)
Henkel-Ecolab royalties and dividends	15,914	21,826	10,451
Restructuring expenses – asset disposals	2,786		
Gain on sale of Jackson business	(25,925)		
Other, net	(913)	(303)	1,526
Changes in operating assets and liabilities:			
Accounts receivable	(30,635)	(44,643)	1,352
Inventories	(22,585)	(8,913)	(11,667)
Other assets	(7,332)	(23,842)	(7,631)
Accounts payable	16,626	(4,512)	(7,794)
Other liabilities	41,679	65,785	29,877
Cash provided by continuing operations	315,486	293,494	274,529
Cash used for discontinued operations			(38,887)
Cash provided by operating activities	315,486	293,494	235,642
Investing Activities			
Capital expenditures	(150,009)	(145,622)	(147,631)
Property disposals	2,092	6,293	7,060
Businesses acquired and investments in affiliates	(90,603)	(45,991)	(40,206)
Sale of businesses and assets	35,803	12,090	14,226
Other, net		(1,246)	4,766
Cash used for investing activities	(202,717)	(174,476)	(161,785)
Financing Activities			
Net issuances of notes payable	124,080	43,896	24,820
Long-term debt borrowings		62,552	117,740
Long-term debt repayments	(21,777)	(122,096)	(151,143)
Reacquired shares	(186,516)	(42,395)	(52,984)
Cash dividends on common stock	(61,644)	(54,333)	(49,000)
Other, net	30,622	13,263	5,679
Cash used for financing activities	(115,235)	(99,113)	(104,888)
Effect of exchange rate changes on cash	(1,317)	(582)	(1,713)
Increase (Decrease) in Cash and Cash Equivalents	(3,783)	19,323	(32,744)
Cash and cash equivalents, beginning of year	47,748	28,425	61,169
Cash and cash equivalents, end of year	\$ 43,965	\$ 47,748	\$ 28,425

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, 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 declared			(50,309)				(50,309)
Stock options	1,059	16,047					17,106
Stock awards, net issuances		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 declared			(56,332)				(56,332)
Stock options	850	15,211					16,061
Stock awards, net issuances		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
Net income			206,127				206,127
Foreign currency translation					(29,712)		(29,712)
Comprehensive income							176,415
Cash dividends declared			(62,769)				(62,769)
Stock options	2,190	44,633					46,823
Stock awards, net issuances		1,949		595		(704)	1,840
Business acquisitions	424	13,715				(165)	13,974
Reacquired shares						(186,516)	(186,516)
Amortization				5,224			5,224
Balance December 31, 2000	\$ 148,170	\$ 283,587	\$899,959	\$ (7,895)	\$(89,075)	\$(477,739)	\$ 757,007

Common Stock Activity

Year ended December 31 (shares)	2000		1999		1998	
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Common Stock	Treasury Stock
Shares, beginning of year	145,556,459	(16,140,244)	144,705,783	(15,227,043)	142,796,652	(13,669,624)
Stock options	2,189,360		850,676		1,058,686	
Stock awards, net issuances		7,009		196,546		206,366
Business acquisitions	424,111	(4,395)		(5,976)	850,445	33,083
Reacquired shares		(4,871,565)		(1,103,771)		(1,796,868)
Shares, end of year	148,169,930	(21,009,195)	145,556,459	(16,140,244)	144,705,783	(15,227,043)

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

Notes to consolidated financial statements

Note 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.

Note 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 47 percent, 41 percent and 45 percent of consolidated inventories at year-end 2000, 1999 and 1998, 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 ranging from 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 less accumulated amortization. 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.

Revenue Recognition

The company has historically recognized revenue as services were performed or products were shipped to customers. During 2000, the company completed an analysis of the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." As a result of this analysis, the company changed certain policies to recognize revenue on product sales at the time title transfers to the customer. The cumulative effect of this change on periods prior to 2000 was \$2,428,000 (net of income tax benefits of \$1,592,000), or \$0.02 per diluted share, and has been included in the company's consolidated statement of income for 2000.

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)	2000	1999	1998
Income from continuing operations before change in accounting	\$208,555	\$175,786	\$154,506
Weighted-average common shares outstanding			
Basic	127,753	129,550	129,157
Effect of dilutive stock options and awards	4,193	4,869	4,890
Diluted	131,946	134,419	134,047
Income from continuing operations before change in accounting per common share			
Basic	\$ 1.63	\$ 1.36	\$ 1.20
Diluted	\$ 1.58	\$ 1.31	\$ 1.15

Stock options to purchase approximately 6.3 million shares for 2000, 3.6 million shares for 1999 and 2.2 million shares for 1998 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.

Note 3. Restructuring Expenses

During the fourth quarter of 2000, management approved various actions to improve the long-term efficiency and competitiveness of the company and to reduce costs. These actions included personnel reductions, discontinuance of certain product lines, changes to certain manufacturing and distribution operations and the closing of selected sales and administrative offices. As a result of these actions the company recorded restructuring expenses of \$7,137,000 (\$4,311,000 after tax), or \$0.03 per diluted share. These restructuring expenses included the following:

(thousands)	Employee Termination Benefits	Asset Disposals	Other	Total
Initial expense and accrual	\$2,938	\$ 2,786	\$1,413	\$ 7,137
Cash payments	(175)		(123)	(298)
Non-cash charges		(2,786)		(2,786)
Restructuring liability, December 31, 2000	\$2,763	\$ 0	\$1,290	\$ 4,053

Restructuring expenses have been shown separately on the consolidated statement of income, with a portion of the expenses classified as cost of sales. The expenses have been included in the company's corporate operating income for segment reporting purposes. Restructuring liabilities for employee termination benefits are classified in compensation and benefits in current liabilities and restructuring liabilities for other costs are classified in other current liabilities.

Employee termination benefit expenses included 86 personnel reductions through voluntary and involuntary terminations primarily in the sales, marketing and corporate administrative functions of the company. Cash payments for these benefits will be substantially completed during 2001.

Asset disposals include inventory and property, plant and equipment write-downs. Inventory write-downs totaled \$1,948,000 and reflect the discontinuance of product lines which are not consistent with the company's long-term strategies. Property, plant and equipment write-downs of \$838,000 reflect the closing of sales and administrative offices and changes to certain manufacturing and distribution operations.

Other restructuring expenses include lease termination and other facility exit costs related to the closing of sales and administrative offices.

Note 4. 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.

Note 5. Business Acquisitions and Divestitures

Business Acquisitions

Businesses acquired by the company during the year ended December 31, 2000 were as follows:

Business Acquired	Date of Acquisition	Ecolab Operating Segment – Type of Business	Estimated Annual Sales Prior to Acquisition (millions) (unaudited)
Southwest Sanitary Distributing Co. (SSDC)	Feb. 2000	Kay	\$24
Spartan	Feb. 2000	Latin America	20
ARR/CRS	June 2000	GCS	4
Dong Woo Deterpan Co. Ltd.	June 2000	Asia Pacific	6
Stove Parts Supply Co.	Aug. 2000	GCS	19
Facilitec Corp.	Sept. 2000	Institutional	14
Zohar Dalia Soap and Detergent Factory (Israel) – 51% interest	Sept. 2000	Africa/Export	15
Peterson's Commercial Parts & Service	Nov. 2000	GCS	4

In addition, in September 2000, Ecolab purchased a 17 percent equity interest in FreshLoc Technologies, Inc. FreshLoc is a privately held developer of wireless food safety technology, and is being accounted for using the cost method.

Note 5. Business Acquisitions and Divestitures (continued)

The total consideration paid by the company for the above acquisitions included cash of \$90,603,000 and 424,111 shares of common stock with a market value of \$14,139,000 issued in the SSDC acquisition.

During 1999, the company acquired substantially all of the assets of Blue Coral Systems. Blue Coral had annual sales of approximately \$30 million and was combined with the company's existing Vehicle Care operations. The company also added to its GCS and South Africa operations through small business acquisitions.

During 1998, the company issued approximately 850,000 shares of common stock to purchase GCS Service, Inc., a provider of commercial kitchen equipment parts and repair services with annual sales of approximately \$48 million. The company also added small businesses to its U.S. Institutional and Food & Beverage operations and to operations in Japan through small acquisitions.

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.

Gain on Sale of Jackson Business

In November 2000, the company sold its Jackson dishmachine manufacturing business for cash proceeds of approximately \$36 million. The company realized a gain of \$25,925,000 (\$14,988,000 after tax), or \$0.11 per diluted share. The gain has been included in corporate operating income for segment reporting purposes. Jackson's total annual sales are approximately \$40 million with approximately one-half of its sales representing intercompany sales to Ecolab. Jackson will continue to supply dishmachines to the company under a long-term supply agreement.

Note 6. Balance Sheet Information

December 31 (thousands)	2000	1999	1998
Accounts Receivable, Net			
Accounts receivable	\$ 342,267	\$ 320,720	\$ 259,588
Allowance for doubtful accounts	(15,330)	(20,969)	(12,893)
Total	\$ 326,937	\$ 299,751	\$ 246,695
Inventories			
Finished goods	\$ 74,392	\$ 71,395	\$ 73,983
Raw materials and parts	96,430	106,239	93,862
Excess of fifo cost over lifo cost	(2,602)	(1,265)	(2,218)
Total	\$ 168,220	\$ 176,369	\$ 165,627
Property, Plant and Equipment, Net			
Land	\$ 12,436	\$ 13,516	\$ 12,584
Buildings and leaseholds	174,651	162,955	157,302
Machinery and equipment	290,017	273,101	258,107
Merchandising equipment	556,205	492,160	435,998
Construction in progress	22,235	15,522	11,038
	1,055,544	957,254	875,029
Accumulated depreciation and amortization	(553,904)	(509,138)	(454,824)
Total	\$ 501,640	\$ 448,116	\$ 420,205
Other Assets			
Intangible assets, net	\$ 307,056	\$ 249,756	\$ 236,659
Deferred income taxes	26,768	24,591	27,256
Other	78,337	67,159	29,715
Total	\$ 412,161	\$ 341,506	\$ 293,630
Short-Term Debt			
Notes payable	\$ 68,644	\$ 96,992	\$ 52,441
Long-term debt, current maturities	67,948	15,068	15,550
Total	\$ 136,592	\$ 112,060	\$ 67,991
Long-Term Debt			
7.19% senior notes, due 2006	\$ 75,000	\$ 75,000	\$ 75,000
9.68% senior notes, due 1995-2001	14,286	28,571	42,857
6.00% medium-term notes, due 2001	52,800	63,500	62,761
Commercial paper	145,800		
Multicurrency Credit Agreement, due 2005			44,000
Other	14,439	17,011	17,973
	302,325	184,082	242,591
Long-term debt, current maturities	(67,948)	(15,068)	(15,550)
Total	\$ 234,377	\$ 169,014	\$ 227,041

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 or 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. No amounts were outstanding under the agreement at year-end 2000 and 1999. 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.

The Multicurrency Credit Agreement supports the company's \$225 million U.S. commercial paper program. At December 31, 2000, the company had \$145.8 million in outstanding commercial paper with an average annual interest rate of 6.7 percent. In January 2001, the company issued \$150 million of 6.875 percent notes, due 2011. The proceeds from this debt issuance were used to repay outstanding commercial paper. Therefore, commercial paper outstanding at year-end 2000 has been classified as long-term debt. The \$44 million of borrowings outstanding at year-end 1998 under the Multicurrency Credit Agreement were also classified as long-term debt.

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.

As of December 31, 2000, the weighted-average interest rate on notes payable was 7.7 percent for 2000, 7.2 percent for 1999 and 7.4 percent for 1998.

As of December 31, 2000, the aggregate annual maturities of long-term debt for the next five years were: 2001 - \$67,948,000; 2002 - \$943,000; 2003 - \$10,509,000; 2004 - \$445,000 and 2005 - \$467,000.

Interest expense was \$26,707,000 in 2000, \$25,053,000 in 1999 and \$25,012,000 in 1998. Total interest paid was \$27,497,000 in 2000, \$24,451,000 in 1999 and \$25,198,000 in 1998.

Note 7. 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 \$65 million at December 31, 2000, \$77 million at December 31, 1999 and \$71 million at December 31, 1998. 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-ends 2000, 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)	2000	1999	1998
Carrying amount			
Cash and cash equivalents	\$ 43,965	\$ 47,748	\$ 28,425
Short-term debt	136,592	112,060	67,991
Long-term debt	234,377	169,014	227,041
Fair value			
Long-term debt	\$236,014	\$167,203	\$235,131

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 debt instruments.

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 adopted the new standard effective January 1, 2001. The company's use of derivative and hedging financial instruments is limited and, therefore, the impact of the new standard was not significant.

Note 8. Shareholders' Equity

Authorized common stock, par value \$1.00 per share, was 200 million shares in 2000, 1999 and 1998. Treasury stock is stated at cost. Dividends declared per share of common stock were \$0.49 for 2000, \$0.435 for 1999 and \$0.39 for 1998.

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

Note 8. Shareholders' Equity (continued)

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

The company reacquired 4,781,500 shares of its common stock in 2000, 998,200 shares in 1999 and 1,626,900 shares in 1998 through open and private market purchases under prior board authorizations. In December 2000, the company announced a new authorization to repurchase up to 5.0 million shares of Ecolab common stock for the purpose of offsetting the dilutive effect of shares issued for stock incentive plans and for general corporate purposes. As of December 31, 2000 virtually all 5.0 million shares remained available to be purchased under this program.

Note 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 3,501,782 for 2000, 6,291,653 for 1999 and 1,835,714 for 1998. 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:

	2000	1999	1998
Shares			
Granted	2,768,975	1,688,190	3,342,555
Exercised	(2,189,360)	(850,676)	(1,058,686)
Canceled	(142,090)	(381,844)	(174,800)
December 31:			
Outstanding	11,882,686	11,445,161	10,989,491
Exercisable	5,531,858	6,619,361	6,134,840

Average exercise price per share	2000	1999	1998
Granted	\$39.04	\$40.06	\$43.33
Exercised	10.56	9.92	8.05
Canceled	33.66	44.26	37.47
December 31:			
Outstanding	30.35	24.28	21.44
Exercisable	\$17.73	\$13.83	\$11.01

Information related to stock options outstanding and stock options exercisable as of December 31, 2000 is as follows:

Options Outstanding			
Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$ 5.69 - \$11.59	2,238,150	2.9 years	\$10.49
\$13.41 - \$21.89	2,469,961	5.7 years	17.78
\$26.91 - \$35.81	896,231	7.6 years	30.00
\$38.53 - \$41.60	3,958,344	9.3 years	39.21
\$49.00	2,320,000	2.4 years	\$49.00

Options Exercisable		
Range of Exercise Prices	Options Exercisable	Weighted-Average Exercise Price
\$ 5.69 - \$11.59	2,238,150	\$10.49
\$13.41 - \$21.89	2,266,005	17.32
\$26.91 - \$35.81	489,873	30.04
\$38.53 - \$41.60	407,830	40.29
\$49.00	130,000	\$49.00

Stock awards are generally subject to restrictions, including forfeiture in the event of termination of employment. The value of a stock award at 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 2000, 1999 and 1998 would have been reduced to the following pro forma amounts:

(thousands, except per share)	2000	1999	1998
Income from continuing operations			
As reported	\$206,127	\$175,786	\$154,506
Pro forma	198,442	170,654	150,773
Diluted income from continuing operations per common share			
As reported	1.56	1.31	1.15
Pro forma	\$ 1.50	\$ 1.27	\$ 1.12

The weighted-average grant-date fair value of options granted in 2000, 1999 and 1998, 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:

	2000	1999	1998
Weighted-average grant-date fair value of options granted			
Granted at market prices	\$11.50	\$11.32	\$7.65
Granted at prices exceeding market	\$ 3.38	\$ 8.25	\$1.78
Assumptions			
Risk-free interest rate	6.2%	6.2%	5.5%
Expected life	6 years	6 years	6 years
Expected volatility	19.6%	17.8%	17.8%
Expected dividend yield	1.1%	1.2%	1.5%

Note 10. Henkel-Ecolab

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

(thousands)	2000	1999	1998
Henkel-Ecolab			
Net sales	\$869,824	\$937,817	\$904,217
Gross profit	487,716	526,486	500,107
Income before income taxes	82,652	82,529	65,946
Net income	\$ 47,659	\$ 46,643	\$ 38,540
Ecolab equity in earnings			
Ecolab equity in net income	\$ 23,829	\$ 23,322	\$ 19,270
Ecolab royalty income from Henkel-Ecolab, net of income taxes	2,240	2,570	4,550
Amortization expense for the excess of cost over the underlying net assets of Henkel-Ecolab	(6,553)	(7,575)	(7,770)
Equity in earnings of Henkel-Ecolab	\$ 19,516	\$ 18,317	\$ 16,050

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 \$96 million at December 31, 2000, 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)	2000	1999	1998
Current assets	\$335,944	\$351,189	\$368,604
Noncurrent assets	151,161	177,855	179,188
Current liabilities	213,597	246,411	242,630
Noncurrent liabilities	\$ 65,614	\$ 73,807	\$ 82,097

In December 2000, the company entered into an agreement with Henkel to acquire the remaining 50 percent of Henkel-Ecolab that Ecolab does not own. The transaction is scheduled to close January 2, 2002 and is subject to regulatory approvals in various jurisdictions.

Under the agreement, the company will pay Henkel approximately 11 times Henkel's 50 percent share of the joint venture's average operating income before interest and taxes for the years 2000 and 2001. The transaction will be effected in either cash or the company's stock, at Henkel's option. Based on estimates as of the date of the agreement, the consideration would be approximately 520 million euros to 560 million euros, equal to \$460 million to \$490 million at exchange rates at the date of the agreement. The actual consideration ultimately paid may be less than, or more than, these amounts due to Henkel-Ecolab's operating performance or changes in exchange rates. If Henkel chooses to receive the company's stock, the shares will be valued at \$41.06 per share, but the actual number of shares Henkel receives will not exceed approximately 13.2 million shares or be less than approximately 9.3 million shares. Henkel owned 32.2 million shares, or approximately 25 percent, of the company's outstanding common stock in December 2000.

As part of the contemplated transaction, the stockholder agreement between the company and Henkel will be amended and extended. The amended stockholder agreement will provide, among other things, that Henkel is permitted to increase its ownership in the company to 35 percent. Henkel will remain entitled to proportionate representation on the company's board of directors.

Note 11. Income Taxes

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

(thousands)	2000	1999	1998
Domestic	\$275,754	\$232,684	\$213,781
Foreign	42,780	34,554	26,457
Total	\$318,534	\$267,238	\$240,238

The provision for income taxes consisted of:

(thousands)	2000	1999	1998
Federal and state	\$120,318	\$106,582	\$ 92,094
Foreign	20,781	7,090	11,700
Currently payable	141,099	113,672	103,794
Federal and state	(8,930)	(10,229)	(3,596)
Foreign	(2,674)	6,326	1,584
Deferred	(11,604)	(3,903)	(2,012)
Provision for income taxes	\$129,495	\$109,769	\$101,782

Note 11. Income Taxes (continued)

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

December 31 (thousands)	2000	1999	1998
Deferred tax assets			
Postretirement health care and pension benefits	\$ 43,089	\$ 36,664	\$ 34,940
Other accrued liabilities	55,608	46,024	47,601
Loss carryforwards	4,337	2,145	3,999
Other, net	10,923	14,401	9,821
Valuation allowance	(1,462)	(1,462)	(1,462)
Total	112,495	97,772	94,899
Deferred tax liabilities			
Property, plant and equipment basis differences	31,183	27,001	26,605
Other, net	3,835	4,479	4,782
Total	35,018	31,480	31,387
Net deferred tax assets	\$ 77,477	\$ 66,292	\$ 63,512

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

	2000	1999	1998
Statutory U.S. rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.9	4.2	4.3
Foreign operations	0.1	0.6	1.4
Other, net	1.7	1.3	1.7
Effective income tax rate	40.7%	41.1%	42.4%

Cash paid for income taxes was approximately \$128 million in 2000, \$94 million in 1999 and \$122 million in 1998. 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, 2000, undistributed earnings of international subsidiaries and Henkel-Ecolab of approximately \$44 million and \$56 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.

Note 12. 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 \$55,910,000 in 2000, \$49,164,000 in 1999 and \$42,076,000 in 1998. As of December 31, 2000, future minimum payments under operating leases with non-cancelable terms in excess of one year were:

(thousands)	
2001	\$10,560
2002	6,553
2003	4,690
2004	2,930
2005	2,308
Thereafter	11,966
Total	\$39,007

Note 13. Research Expenditures

Research expenditures that related to the development of new products and processes, including significant improvements and refinements to existing products, were \$35,504,000 in 2000, \$34,983,000 in 1999 and \$32,815,000 in 1998.

Note 14. 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 cash flows.

Note 15. Retirement Plans

Pension and Postretirement Health Care Benefits Plans

The company has a noncontributory defined benefit pension plan covering most 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 most 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 expense and obligation 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:

(thousands)	Pension Benefits			Postretirement Health Care Benefits		
	2000	1999	1998	2000	1999	1998
Benefit obligation, beginning of year	\$307,977	\$343,825	\$287,027	\$ 95,497	\$106,677	\$ 91,121
Service cost	16,589	20,049	16,336	6,123	6,999	5,668
Interest cost	24,238	22,926	20,563	7,738	7,062	6,382
Participant contributions				856	1,029	741
Changes in assumptions	12,854	(67,573)	27,194	4,196	(20,939)	9,768
Actuarial loss (gain)	(3,376)	(1,586)	732	245	(1,562)	(4,431)
Benefits paid	(10,852)	(9,664)	(8,027)	(4,653)	(3,769)	(2,572)
Benefit obligation, end of year	\$347,430	\$307,977	\$343,825	\$110,002	\$ 95,497	\$106,677
Fair value of plan assets, beginning of year	\$337,226	\$278,921	\$237,304	\$ 27,116	\$ 20,433	\$ 16,764
Actual return on plan assets	(16,587)	53,586	32,256	(1,179)	4,114	2,261
Company contributions	7,240	14,383	17,388	4,988	5,309	3,239
Participant contributions				856	1,029	741
Benefits paid	(10,852)	(9,664)	(8,027)	(4,653)	(3,769)	(2,572)
Fair value of plan assets, end of year	\$317,027	\$337,226	\$278,921	\$ 27,128	\$ 27,116	\$ 20,433

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

(thousands)	Pension Benefits			Postretirement Health Care Benefits		
	2000	1999	1998	2000	1999	1998
Funded status	\$ (30,403)	\$ 29,249	\$ (64,904)	\$ (82,874)	\$ (68,381)	\$ (86,244)
Unrecognized actuarial loss (gain)	9,748	(42,972)	59,647	4,122	(3,866)	21,468
Unrecognized prior service cost (benefit)	12,413	14,294	16,175	(7,444)	(7,995)	(8,546)
Unrecognized net transition asset	(6,314)	(7,717)	(9,120)			
Prepaid (accrued) benefit costs	\$ (14,556)	\$ (7,146)	\$ 1,798	\$ (86,196)	\$ (80,242)	\$ (73,322)
Weighted-average actuarial assumptions						
Discount rate for service and interest cost, at beginning of year	8.00%	6.75%	7.25%	8.00%	6.75%	7.25%
Projected salary increases	5.10	5.10	5.10			
Expected return on assets	9.00	9.00	9.00	9.00	9.00	9.00
Discount rate for year-end benefit obligation	7.75%	8.00%	6.75%	7.75%	8.00%	6.75%

For postretirement benefit measurement purposes, 6.5 percent (for pre-age 65 retirees) and 5.5 percent (for post-age 65 retirees) annual rates of increase in the per capita cost of covered health care were assumed for 2001 and will 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.

Note 15. Retirement Plans (continued)

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

(thousands)	Pension Benefits			Postretirement Health Care Benefits		
	2000	1999	1998	2000	1999	1998
Service cost – employee benefits earned during the year	\$ 16,589	\$ 20,049	\$ 16,336	\$ 6,123	\$ 6,999	\$ 5,668
Interest cost on benefit obligation	24,238	22,926	20,563	7,738	7,062	6,382
Expected return on plan assets	(26,655)	(23,247)	(20,128)	(2,366)	(1,786)	(1,463)
Recognition of net actuarial loss (gain)		3,120	2,179	(2)	505	351
Amortization of prior service cost (benefit)	1,881	1,881	1,881	(551)	(551)	(551)
Amortization of net transition asset	(1,403)	(1,403)	(1,403)			
Total U.S. expense	14,650	23,326	19,428	10,942	12,229	10,387
International expense	909	1,390	1,251			
Total expense	\$ 15,559	\$ 24,716	\$ 20,679	\$ 10,942	\$ 12,229	\$ 10,387

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, 2000. The annual expense for these plans was approximately \$4 million in 2000 and \$3 million in 1999 and 1998.

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:

(thousands)	1 Percentage Point	
	Increase	Decrease
Effect on total of postretirement service and interest cost components	\$ 382	\$ (353)
Effect on postretirement benefit obligation	5,013	(4,596)

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 \$9,036,000 in 2000, \$8,475,000 in 1999 and \$7,383,000 in 1998.

Note 16. 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 Services and Food & Beverage operations.

The "United States Other Services" segment includes all other U.S. operations of the company. This segment provides pest elimination, kitchen equipment repair and maintenance, and commercial dishwashing services through its Pest Elimination, GCS and Jackson operations, prior to its sale in November 2000.

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 types of 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 accounting principles generally accepted in the United States of America 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:

(thousands)	United States			Other			
	Cleaning & Sanitizing	Other Services	Total United States	International Cleaning & Sanitizing	Foreign Currency Translation	Corporate	Consolidated
Net sales							
2000	\$1,532,033	\$248,317	\$1,780,350	\$500,322	\$(16,359)		\$2,264,313
1999	1,424,037	211,562	1,635,599	452,892	(8,479)		2,080,012
1998	1,296,797	160,063	1,456,860	433,109	(1,743)		1,888,226
Operating income							
2000	249,182	25,515	274,697	51,978	(2,027)	\$ 18,491	343,139
1999	230,520	25,114	255,634	40,422	(1,535)	(4,570)	289,951
1998	218,500	19,084	237,584	31,168	(2,425)	(4,347)	261,980
Depreciation & amortization							
2000	107,537	5,124	112,661	27,208	2,105	6,462	148,436
1999	96,346	4,442	100,788	26,513	916	6,313	134,530
1998	87,456	3,145	90,601	24,732	1,049	5,589	121,971
Total assets							
2000	953,534	103,182	1,056,716	428,846	(38,519)	266,968	1,714,011
1999	831,494	85,617	917,111	365,020	(6,697)	310,512	1,585,946
1998	701,341	77,491	778,832	348,484	(7,129)	350,808	1,470,995
Capital expenditures							
2000	116,666	3,381	120,047	29,435	(287)	814	150,009
1999	109,889	4,182	114,071	27,328	3,578	645	145,622
1998	\$ 109,976	\$ 4,383	\$ 114,359	\$ 31,930	\$ 645	\$ 697	\$ 147,631

Corporate operating income generally includes only overhead costs directly related to Henkel-Ecolab. However, consistent with the company's internal management reporting, for 2000 the gain on sale of the Jackson business (\$25.9 million), restructuring expenses (\$7.1 million) and income related to net reductions in probable losses related to certain environmental matters (\$4.1 million) have been included in the corporate operating income segment. Corporate depreciation and amortization is principally amortization of deferred compensation related to restricted stock awards. 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 26 percent, 27 percent and 28 percent of consolidated net sales in 2000, 1999 and 1998, respectively. Sales of laundry products and services on a worldwide basis were approximately 11 percent, 12 percent and 13 percent of consolidated net sales in 2000, 1999 and 1998, respectively.

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

December 31 (thousands)	2000	1999	1998
United States	\$401,671	\$360,541	\$ 332,072
International	103,244	86,051	83,852
Corporate	4,715	2,047	3,931
Effect of foreign currency translation	(7,990)	(523)	350
Consolidated	\$501,640	\$448,116	\$ 420,205

Note 17. Quarterly Financial Data (Unaudited)

(thousands, except per share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2000					
Net sales					
United States					
Cleaning & Sanitizing	\$ 360,387	\$ 388,443	\$ 407,521	\$ 375,682	\$ 1,532,033
Other Services	54,548	61,774	67,596	64,399	248,317
International Cleaning & Sanitizing	111,708	123,199	130,117	135,298	500,322
Effect of foreign currency translation	(383)	(2,705)	(4,568)	(8,703)	(16,359)
Total	526,260	570,711	600,666	566,676	2,264,313
Cost of sales (including restructuring expenses of \$1,948 in fourth quarter)	236,484	259,382	266,951	263,089	1,025,906
Selling, general and administrative expenses	217,095	232,689	235,987	230,233	916,004
Gain on sale of Jackson business				(25,925)	(25,925)
Restructuring expenses – other				5,189	5,189
Operating income					
United States					
Cleaning & Sanitizing	53,858	60,702	76,091	58,531	249,182
Other Services	5,434	7,147	8,317	4,617	25,515
International Cleaning & Sanitizing	10,858	12,177	14,804	14,139	51,978
Corporate	2,584	(1,173)	(786)	17,866	18,491
Effect of foreign currency translation	(53)	(213)	(698)	(1,063)	(2,027)
Total	72,681	78,640	97,728	94,090	343,139
Interest expense, net	5,357	5,245	6,528	7,475	24,605
Income before income taxes and equity in earnings of Henkel-Ecolab	67,324	73,395	91,200	86,615	318,534
Provision for income taxes	27,603	30,092	36,232	35,568	129,495
Equity in earnings of Henkel-Ecolab	2,891	5,106	5,370	6,149	19,516
Income before cumulative effect of change in accounting	42,612	48,409	60,338	57,196	208,555
Cumulative effect of change in accounting for revenue recognition				(2,428)	(2,428)
Net income	\$ 42,612	\$ 48,409	\$ 60,338	\$ 54,768	\$ 206,127
Diluted net income per common share	\$ 0.32	\$ 0.36	\$ 0.46	\$ 0.42	\$ 1.56
Weighted-average common shares outstanding					
Basic	128,944	128,346	127,112	126,609	127,753
Diluted	133,330	132,990	131,167	130,331	131,946
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	106,067	112,035	115,463	119,327	452,892
Effect of foreign currency translation	(913)	(3,204)	(2,927)	(1,435)	(8,479)
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	8,151	9,844	10,766	11,661	40,422
Corporate	(1,099)	(1,234)	(1,111)	(1,126)	(4,570)
Effect of foreign currency translation	(203)	(575)	(486)	(271)	(1,535)
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

Corporate operating income for the fourth quarter of 2000 includes the gain on the sale of the Jackson business and restructuring expenses. Corporate operating income also includes income related to net reductions in probable losses related to environmental matters in the first quarter (\$3.8 million) and third quarter (\$0.3 million) of 2000. The quarterly financial data was not adjusted to reflect the adoption of Staff Accounting Bulletin No. 101 as the impact was not significant.

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 accounting principles generally accepted in the United States of America 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
Chairman of the Board 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, of comprehensive income and shareholders' equity and of cash flows present fairly, in all material respects, the consolidated financial position of Ecolab Inc. as of December 31, 2000, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. 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 of America 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 our opinion.



Minneapolis, Minnesota
February 14, 2001

summary operating and Financial Data

December 31 (thousands, except per share)	2000	1999	1998	1997
Operations				
Net sales				
United States	\$ 1,780,350	\$ 1,635,599	\$ 1,456,860	\$ 1,275,828
International (at average rates of currency exchange during the year)	483,963	444,413	431,366	364,524
Europe (at average rates of currency exchange during the year)				
Total	2,264,313	2,080,012	1,888,226	1,640,352
Cost of sales (including restructuring expenses of \$1,948 in 2000)	1,025,906	937,612	851,173	722,084
Selling, general and administrative expenses	916,004	852,449	775,073	699,764
Restructuring expenses, sale of business and merger expenses	(20,736)			
Operating income	343,139	289,951	261,980	218,504
Interest expense, net	24,605	22,713	21,742	12,637
Income from continuing operations before income taxes and equity in earnings of Henkel-Ecolab	318,534	267,238	240,238	205,867
Provision for income taxes	129,495	109,769	101,782	85,345
Equity in earnings of Henkel-Ecolab	19,516	18,317	16,050	13,433
Income from continuing operations	208,555	175,786	154,506	133,955
Income (loss) from discontinued operations			38,000	
Extraordinary loss and changes in accounting principles	(2,428)			
Net income (loss)	206,127	175,786	192,506	133,955
Preferred stock dividends				
Net income (loss) to common shareholders, as reported	206,127	175,786	192,506	133,955
Pro forma adjustments				
Pro forma net income (loss) to common shareholders	\$ 206,127	\$ 175,786	\$ 192,506	\$ 133,955
Income (loss) per common share, as reported				
Basic – continuing operations	\$ 1.63	\$ 1.36	\$ 1.20	\$ 1.03
Basic – net income (loss)	1.61	1.36	1.49	1.03
Diluted – continuing operations	1.58	1.31	1.15	1.00
Diluted – net income (loss)	1.56	1.31	1.44	1.00
Pro forma income (loss) per common share				
Basic – continuing operations	1.63	1.36	1.20	1.03
Basic – net income (loss)	1.61	1.36	1.49	1.03
Diluted – continuing operations	1.58	1.31	1.15	1.00
Diluted – net income (loss)	\$ 1.56	\$ 1.31	\$ 1.44	\$ 1.00
Weighted-average common shares outstanding – basic	127,753	129,550	129,157	129,446
Weighted-average common shares outstanding – diluted	131,946	134,419	134,047	133,822
Selected Income Statement Ratios				
Gross profit	54.7%	54.9%	54.9%	56.0%
Selling, general and administrative expenses	40.5	41.0	41.0	42.7
Operating income	15.2	13.9	13.9	13.3
Income from continuing operations before income taxes	14.1	12.8	12.7	12.6
Income from continuing operations	9.2	8.5	8.2	8.2
Effective income tax rate	40.7%	41.1%	42.4%	41.5%
Financial Position				
Current assets	\$ 600,568	\$ 577,321	\$ 503,514	\$ 509,501
Property, plant and equipment, net	501,640	448,116	420,205	395,562
Investment in Henkel-Ecolab	199,642	219,003	253,646	239,879
Other assets	412,161	341,506	293,630	271,357
Total assets	\$ 1,714,011	\$ 1,585,946	\$ 1,470,995	\$ 1,416,299
Current liabilities	\$ 532,034	\$ 470,674	\$ 399,791	\$ 404,464
Long-term debt	234,377	169,014	227,041	259,384
Postretirement health care and pension benefits	117,790	97,527	85,793	76,109
Other liabilities	72,803	86,715	67,829	124,641
Shareholders' equity	757,007	762,016	690,541	551,701
Total liabilities and shareholders' equity	\$ 1,714,011	\$ 1,585,946	\$ 1,470,995	\$ 1,416,299
Selected Cash Flow Information				
Cash provided by operating activities	\$ 315,486	\$ 293,494	\$ 235,642	\$ 235,098
Depreciation and amortization	148,436	134,530	121,971	100,879
Capital expenditures	150,009	145,622	147,631	121,667
EBITDA from continuing operations	491,575	424,481	383,951	319,383
Cash dividends declared per common share	\$ 0.49	\$ 0.435	\$ 0.39	\$ 0.335
Selected Financial Measures/Other				
Total debt and preferred stock	\$ 370,969	\$ 281,074	\$ 295,032	\$ 308,268
Total debt and preferred stock to capitalization	32.9%	26.9%	29.9%	35.8%
Book value per common share	\$ 5.95	\$ 5.89	\$ 5.33	\$ 4.27
Return on beginning equity	26.0%	25.5%	28.0%	25.8%
Dividends/diluted net income per common share	32.7%	33.2%	33.9%	33.5%
Annual common stock price range	\$45.69-28.00	\$44.44-31.69	\$38.00-26.13	\$28.00-18.13
Number of employees	14,250	12,870	12,007	10,210

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 1990. The ratios of return on beginning equity and dividends/diluted net income per common

	1996	1995	1994	1993	1992	1991	1990
	\$ 1,148,778 341,231	\$ 1,030,126 310,755	\$ 942,070 265,544	\$ 867,415 234,981	\$ 816,405 241,229	\$ 757,564 201,738	\$ 712,579 184,220 150,809
	1,490,009 674,953 629,739	1,340,881 603,167 575,028	1,207,614 533,143 529,507 8,000	1,102,396 491,306 481,639	1,057,634 485,206 446,814	959,302 447,356 393,700	1,047,608 495,086 425,983
	185,317 14,372	162,686 11,505	136,964 12,909	129,451 21,384	125,614 35,334	118,246 30,489	126,539 28,321
	170,945 70,771 13,011	151,181 59,694 7,702	124,055 50,444 10,951	108,067 33,422 8,127	90,280 27,392 8,600	87,757 29,091 4,573	98,218 32,494
	113,185	99,189	84,562	82,772	71,488	63,239 (274,693) (24,560)	65,724 (4,408)
	113,185	99,189	84,562	83,487	71,488	(236,014) (4,064)	61,316 (7,700)
	113,185	99,189	84,562 5,902	83,487 (2,667)	71,488 (2,797)	(240,078) (2,933)	53,616 (2,956)
	\$ 113,185	\$ 99,189	\$ 90,464	\$ 80,820	\$ 68,691	\$ (243,011)	\$ 50,660
	\$ 0.88 0.88 0.85 0.85	\$ 0.75 0.75 0.73 0.73	\$ 0.63 0.63 0.62 0.62	\$ 0.61 0.62 0.60 0.61	\$ 0.53 0.53 0.52 0.52	\$ 0.51 (2.05) 0.50 (2.05)	\$ 0.56 0.52 0.56 0.51
	0.88 0.88 0.85	0.75 0.75 0.73	0.67 0.67 0.66	0.59 0.60 0.58	0.51 0.51 0.50	0.48 (2.08) 0.48	0.53 0.49 0.53
	\$ 0.85 128,991 132,817	\$ 0.73 132,193 134,956	\$ 0.66 135,100 137,306	\$ 0.59 135,056 137,421	\$ 0.50 134,408 136,227	\$ (2.08) 117,050 118,178	\$ 0.49 103,298 104,258
	54.7% 42.3 12.4 11.5 7.6 41.4%	55.0% 42.9 11.3 11.3 7.4 39.5%	55.9% 44.6 11.3 10.3 7.0 40.7%	55.4% 43.7 11.7 9.8 7.5 30.9%	54.1% 42.2 11.9 8.5 6.8 30.3%	53.4% 41.1 12.3 9.1 6.6 33.1%	52.7% 40.6 12.1 9.4 6.3 33.1%
	\$ 435,507 332,314 285,237 155,351	\$ 358,072 292,937 302,298 107,573	\$ 401,179 246,191 284,570 88,416	\$ 311,051 219,268 255,804 105,607	\$ 264,512 207,183 289,034 98,135	\$ 293,053 198,086 296,292 152,857	\$ 216,612 187,735 480,911
	\$ 1,208,409	\$ 1,060,880	\$ 1,020,356	\$ 891,730	\$ 858,864	\$ 940,288	\$ 885,258
	\$ 327,771 148,683 73,577 138,415 519,963	\$ 310,538 89,402 70,666 133,616 456,658	\$ 253,665 105,393 70,882 128,608 461,808	\$ 201,498 131,861 72,647 93,917 391,807	\$ 192,023 215,963 63,393 29,179 358,306	\$ 240,219 325,492 56,427 11,002 307,148	\$ 177,643 208,147 8,742 138,792 351,934
	\$ 1,208,409	\$ 1,060,880	\$ 1,020,356	\$ 891,730	\$ 858,864	\$ 940,288	\$ 885,258
	\$ 254,269 89,523 111,518 274,840	\$ 166,463 76,279 109,894 238,965	\$ 169,346 66,869 88,457 203,833	\$ 175,674 60,609 68,321 190,060	\$ 120,217 60,443 59,904 186,057	\$ 128,999 55,653 53,752 173,899	\$ 154,208 61,024 58,069 187,563
	\$ 0.29	\$ 0.2575	\$ 0.2275	\$ 0.1975	\$ 0.17875	\$ 0.175	\$ 0.1675
	\$ 176,292 25.3%	\$ 161,049 26.1%	\$ 147,213 24.2%	\$ 151,281 27.9%	\$ 236,695 39.8%	\$ 407,221 57.0%	\$ 353,886 50.1%
	\$ 4.01 24.8% 34.1%	\$ 3.53 21.5% 35.3%	\$ 3.41 21.6% 36.7%	\$ 2.90 23.3% 32.4%	\$ 2.66 23.3% 34.4%	\$ 2.30 13.6% 42.7%	\$ 3.41 12.9% 32.8%
	\$19.75-14.56 9,573	\$15.88-10.00 9,026	\$11.75-9.63 8,206	\$11.91-9.07 7,822	\$9.57-6.66 7,601	\$8.38-4.88 7,428	\$7.78-4.16 8,106

share exclude the gain on sale of the Jackson business, restructuring expenses and change in accounting for revenue recognition in 2000 and 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 Vice Chairman and Chief Operating Officer, 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, Audit and Finance* Committees

Jerry A. Grundhofer President and Chief Executive Officer, U.S. Bancorp (financial services holding company), Director since 1999, Compensation and Governance Committees

Stefan Hamelmann Member of the Shareholders' Committee, Henkel KGaA (chemicals, household and personal care products and adhesives), Director since 2001, Finance and Governance Committees

James J. Howard Chairman of the Board, Xcel Energy Inc. (electric and natural gas energy company), Director since 1991, Audit* and Finance 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, Audit and Compensation Committees

Ulrich Lehner President and Chief Executive Officer, Henkel KGaA (chemicals, household and personal care products and adhesives), Director since 2001, Finance and Governance Committees

Jerry W. Levin Chairman 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

L. White Matthews III Executive Vice President and Chief Financial Officer, Ecolab Inc., Director since 2000, Finance Committee

Allan L. Schuman Chairman of the Board 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 Compensation Committees

*Committee Chair

Officers

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

Bruno Deschamps
President and Chief Operating Officer

Douglas M. Baker Jr.
Senior Vice President – Institutional Sector

Lawrence T. Bell
Senior Vice President – Law and General Counsel

Alan P. Blumenfeld
Vice President and Chief Information Officer

Peter D'Almada
Executive Vice President – Global Accounts

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
Senior Vice President – Human Resources

Richard L. Marcantonio
Executive Vice President – Industrial and Service Sectors

William A. Mathison
Senior Vice President – Global Industrial Accounts

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

Douglas A. Milroy
Vice President and General Manager – Food & Beverage North America

Maurizio Nisita
Senior Vice President – Global Operations

Daniel J. Schmechel
Vice President and Treasurer

Mary J. Schumacher
Senior Vice President and Chief Technical Officer

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

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 February 23, 2001, Ecolab had 5,388 shareholders of record. The closing stock price on February 23, 2001, was \$41.27 per share.

Dividend Policy Ecolab has paid common stock dividends for 64 consecutive years.

- Quarterly cash dividends are usually paid on the 15th of January, April, July and October.
- Dividends of \$0.105 per share were declared in February, May and August 1999. Dividends of \$0.12 per share were declared in December 1999, and February, May and August 2000. A dividend of \$0.13 per share was declared in December 2000.

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 (703) 797-0222.
- 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
External Relations, vice president
Telephone: (651) 293-2809

♻️ Reduce, Re-use, Recycle. Printed on recycled paper.

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 11, 2001, at 10 a.m. in The McKnight Theater at the Ordway Music Theater, 345 Washington Street, St. Paul, Minn. 55102.

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 Online Resources Call 1-800-FACT-ECL (800-322-8325); Alaska, Hawaii and international callers dial (703) 797-0222.

- 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:

- ABN / AMRO; Bank of America Securities; Credit Suisse First Boston; Goldman Sachs; Ingalls & Snyder; Merrill Lynch; Morgan Stanley Dean Witter; New Vernon Associates; Salomon Smith Barney; Standard & Poor’s; U.S. Bancorp Piper Jaffray; UBS Warburg; 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 Company c/o EquiServe

- 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

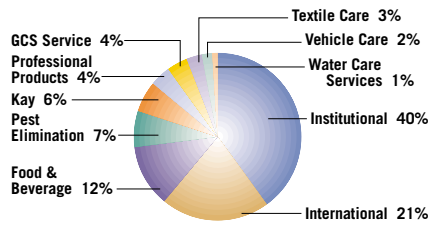
The Transfer Agent provides telephone assistance Monday-Friday 8:30 a.m. to 7 p.m. (Eastern Time). Round-the-clock service is also available online and to callers using touch-tone telephones.

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

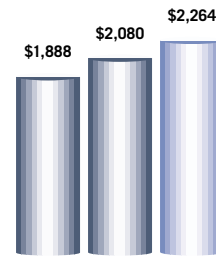
Serving the hospitality, institutional and industrial markets in more than 140 countries, Ecolab develops and markets products and programs that meet a comprehensive array of cleaning, sanitation and service needs. In the United States, the company circles its customers with solutions through nine complementary business units: Institutional, Food & Beverage, Pest Elimination, Kay, Professional Products, GCS Service, Textile Care, Vehicle Care and Water Care. Internationally, Ecolab circles the globe, reaching customers in Asia Pacific, Canada, Latin America and Africa via direct subsidiaries, export operations, joint ventures, distributors and licensees. The company's Circle the Customer – Circle the Globe strategy conveys its ever-expanding ability to surround customers with products and services, no matter where or when they do business, around the world.

Business Mix



2000

Sales (Millions)



1998 1999 2000

Customers/Markets

Customers:

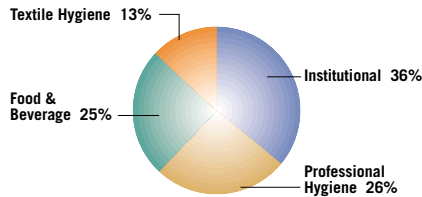
- Restaurants
- Hotels
- Quickservice operations
- Food retail (grocery)
- Schools
- Laundries
- Healthcare facilities
- Dairy farms and plants
- Food, beverage and brewery processing plants
- Pharmaceutical and cosmetic facilities
- Office buildings
- Shopping malls
- Light industry
- Fleet and vehicle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

Markets:

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

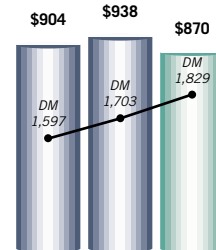
Henkel-Ecolab, a joint venture based in Düsseldorf, Germany, allows Ecolab to extend its Circle the Customer – Circle the Globe strategy to Europe. Henkel-Ecolab's business parallels that of Ecolab's by offering the same premium products and services to independent customers and to global chains requiring world-wide cleaning and sanitation consistency.

Business Mix



2000

Sales (Millions)



1998 1999 2000

● Deutsche marks

Customers/Markets

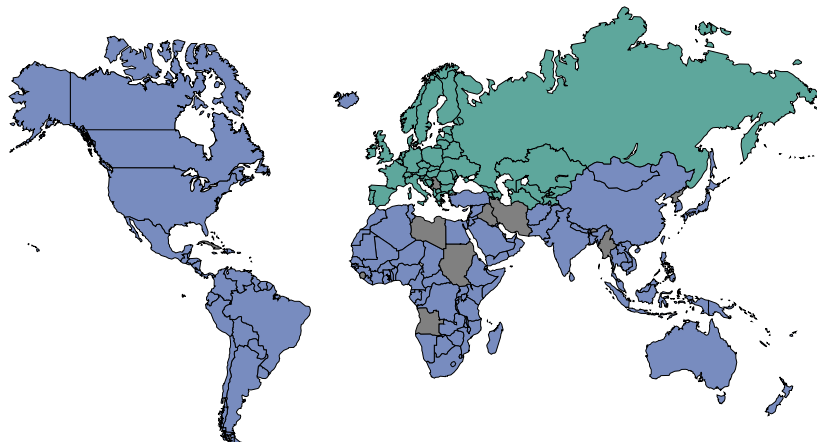
Customers:

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

Markets:

- Europe

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



Services/Products

Institutional:

Innovative warewashing, on-premise laundry, house-keeping, 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 elimination programs.

Key:

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, pharmaceutical, 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:

Cleaning and appearance products and programs for vehicle rental, commercial and retail car washes.

GCS Service:

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

Sales-and-Service Associates

December 31	1998	1999	2000
Institutional	2,445	2,705	2,975
Key	120	150	180
Textile Care	125	130	125
GCS Service	220	285	415
Vehicle Care	25	100	95
Food & Beverage	420	420	410
Pest Elimination	1,260	1,380	1,475
Professional Products	190	195	195
Water Care Services	95	90	90
Canada	300	280	300
Asia Pacific	750	775	955
Latin America	330	310	480
Africa/Export	85	100	125
Total	6,365	6,920	7,820

Services/Products

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:

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

Textile Hygiene:

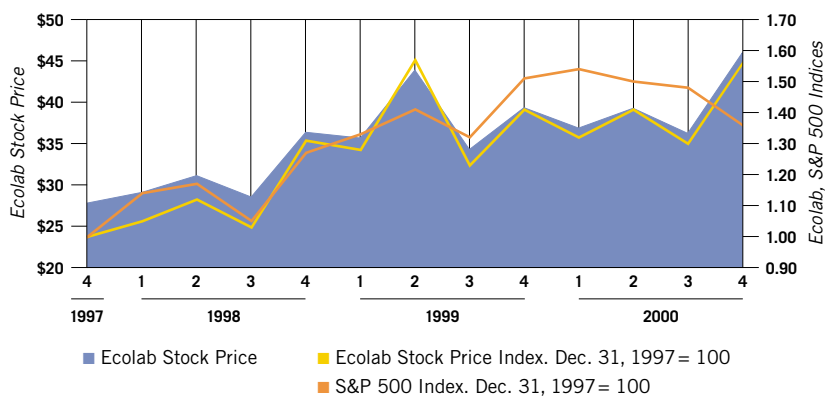
Cleaning and sanitizing products and services for large commercial, on-premise and small independent laundries.

Sales-and-Service Associates

December 31	1998	1999	2000
Henkel-Ecolab	2,365	2,400	2,460

Ecolab stock performance

Quarter	2000		1999	
	High	Low	High	Low
First	\$40.75	\$28.00	\$41.25	\$34.63
Second	41.25	34.94	44.44	34.69
Third	40.00	33.25	43.88	31.69
Fourth	45.69	34.06	39.25	32.50



Ecolab Inc.
370 Wabasha Street North
St. Paul, Minnesota
55102-1390
(651) 293-2233
www.ecolab.com

31649/0800/0101

©2001 Ecolab Inc.

