INSPIRING CONFIDENCE

2006 ANNUAL REPORT

DESCRIPTION OF BUSINESS

Ecolab is the global leader in cleaning, sanitizing, food safety and infection control products and services. Founded in 1923 and headquartered in St. Paul, Minn., Ecolab has been partnering with customers for more than 80 years. Ecolab reaches customers in more than 160 countries across North America, Europe, Asia Pacific, Latin America, the Middle East and Africa, and employs more than 23,000 associates worldwide. Ecolab delivers comprehensive programs and services to the foodservice, food and beverage processing, hospitality, healthcare, government and education, retail, textile care, commercial facilities, and vehicle wash industries.

Ecolab is committed to assisting customers worldwide with their unique needs by providing them with comprehensive, value-added solutions and professional, personal service. With more than 13,000 sales-and-service experts, Ecolab employs the industry's largest and best-trained direct sales-and-service force, which advises and assists customers in meeting a full range of cleaning, sanitation and service needs. For more information, visit www.ecolab.com or call 1-800-35-CLEAN.

Ecolab common stock is traded on the New York Stock Exchange under the symbol ECL. Ecolab news releases and other selected investor information are available at www.ecolab.com.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

We refer readers to the company's disclosure, entitled "Forward-Looking Statements and Risk Factors," which is located on page 26 of this Annual Report.

CUSTOMER SEGMENTS

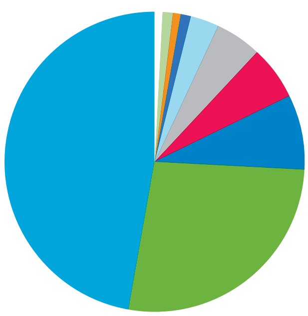
Full-service restaurants
Quickservice restaurants
Hotels
Food retail
Schools
Colleges and universities
Laundries and textile rental
Hospitals
Nursing homes
Other healthcare facilities
Dairy farms and plants
Food, beverage and brewery plants
Pharmaceutical and cosmetic facilities
Office buildings
Shopping malls
Retail facilities
Movie theaters
Recreational facilities
Amusement parks
Building service contractors
Cruise lines
Correctional facilities
Government facilities
Airlines
Light manufacturing industries
Vehicle wash and detailing

MARKETS SERVED

United States
Europe/Middle East/Africa
Asia Pacific
Canada
Latin America

BUSINESS MIX 2006

PERCENT OF TOTAL SALES



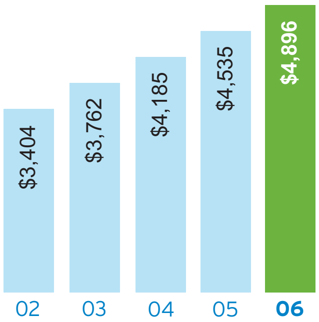
UNITED STATES 53%
- Institutional 27%
- Food & Beverage 8%
- Pest Elimination 6%
- Kay 5%
- GCS Service 3%
- Healthcare 1%
- Vehicle Care 1%
- Textile Care 1%
- Water Care Services 1%

INTERNATIONAL 47%
- Europe/Middle East/Africa 32%
- Asia Pacific 7%
- Latin America 4%
- Canada 3%
- Other 1%

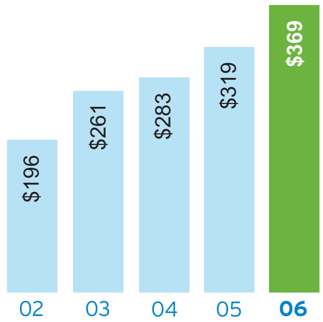
SALES-AND-SERVICE ASSOCIATES

DECEMBER 31	2004	2005	2006
Institutional	3,150	3,245	**3,490**
Kay	325	350	**355**
Pest Elimination	1,725	1,830	**1,900**
Healthcare	70	80	**80**
GCS Service	470	470	**465**
Textile Care	75	75	**80**
Food & Beverage	450	425	**435**
Water Care Services	95	125	**115**
Vehicle Care	100	100	**105**
Europe/Middle East/Africa	3,915	4,150	**4,225**
Asia Pacific	960	995	**1,070**
Canada	355	375	**395**
Latin America	590	690	**715**
TOTAL	12,280	12,910	**13,430**

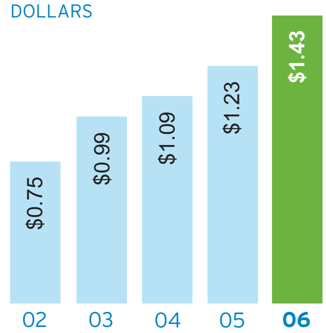
NET SALES
DOLLARS IN MILLIONS



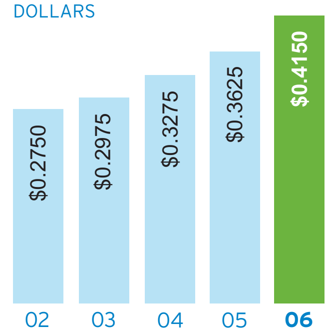
NET INCOME
DOLLARS IN MILLIONS



DILUTED NET INCOME PER SHARE
DOLLARS



DIVIDENDS DECLARED PER SHARE
DOLLARS



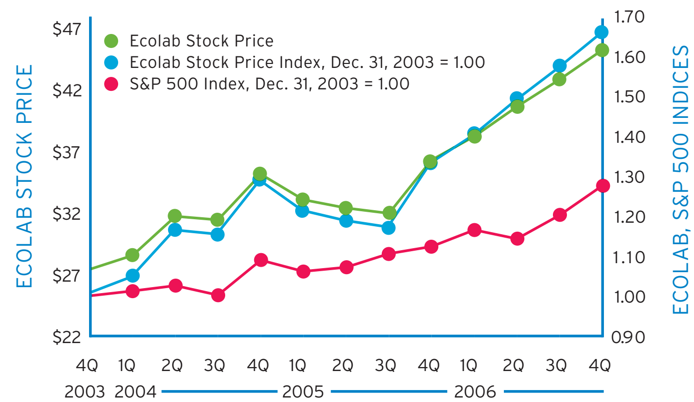
FINANCIAL HIGHLIGHTS
THOUSANDS, EXCEPT PER SHARE

				PERCENT CHANGE	
	2006	2005	2004	**2006**	2005
Net Sales	**$4,895,814**	$4,534,832	$4,184,933	**8%**	8%
Net Income	**368,615**	319,481	282,693	**15**	13
Percent of Sales	**7.5%**	7.0%	6.8%		
Diluted Net Income Per Common Share	**1.43**	1.23	1.09	**16**	13
Diluted Weighted-Average Common Shares Outstanding	**257,144**	260,098	260,407	**(1)**	–
Dividends Declared Per Common Share	**0.4150**	0.3625	0.3275	**14**	11
Cash Provided by Operating Activities	**627,564**	590,136	570,908	**6**	3
Capital Expenditures	**287,885**	268,783	275,871	**7**	(3)
Shareholders' Equity	**1,680,230**	1,649,210	1,598,141	**2**	3
Return on Beginning Equity	**22.4%**	20.0%	21.4%		
Total Debt	**1,066,036**	746,301	701,577	**43**	6
Total Debt to Capitalization	**38.8%**	31.2%	30.5%		
Total Assets	**$4,419,365**	$3,796,628	$3,716,174	**16%**	2%

ECOLAB STOCK PERFORMANCE

	2004		2005		**2006**	
QUARTER	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**
First	$26.12	$28.61	$31.20	$35.08	**$33.64**	**$40.50**
Second	27.95	31.77	30.68	34.23	**37.00**	**41.20**
Third	29.04	31.80	30.75	34.14	**39.57**	**45.43**
Fourth	31.32	35.59	30.93	37.15	**43.81**	**46.40**

ECOLAB STOCK PERFORMANCE COMPARISON



All financial information for all periods reflects the company's adoption of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" in the fourth quarter of 2005. All prior periods have been restated.

COVER: Inspiring Confidence is all about expertise. And that's exactly what Ecolab provides to our customers around the globe. Our experts provide the most professional, timely service. The most creative, thoughtful problem-solving. The most thorough, knowledgeable research. In fact, there are more than 23,000 experts hard at work every day at Ecolab to help our customers run smoother, more efficient and more successful operations. For us, Inspiring Confidence isn't something to aspire to – it's a job requirement. And we wouldn't have it any other way.

DOUGLAS M. BAKER, JR.
Chairman of the Board, President and Chief Executive Officer

WE'RE INSPIRING CONFIDENCE EVERY DAY – WITH THE BEST PRODUCTS, PROGRAMS AND PEOPLE ON THE PLANET

TO OUR SHAREHOLDERS:

Every day, we work to build our customers' confidence in our ability to protect and serve them better than anyone else. How? By providing effective and innovative solutions. By offering comprehensive and superior protection. And most importantly, by delivering the industry's broadest and best personal service – anytime, anywhere.

We have a strong bias for action – and for results. When our customers have a need, we solve it. When we say we'll do something, we do it. Ecolab is made up of a diverse group of talented, dedicated associates who thrive on making customers happy – and winning. It's our team that makes us successful and the leader in our industry.

This team has enabled us to develop the most innovative, advanced product and program solutions to assist our customers and exceed their expectations. We invest millions in research and development to make sure we're creating the best solutions for our customers at the best value, which allows them to turn their focus to other areas of their businesses.

But even companies with great people and great products can only go so far without a great growth strategy. Fortunately, at Ecolab, we have a proven strategy that has helped us achieve strong, steady growth in the past, and continues to generate new opportunities for the future. Our Circle the Customer – Circle the Globe strategy charts a clear course for our future as we work to help customers achieve the highest levels of safety and sanitation throughout their operations.

Our formula is straightforward. We take care of our people, help our customers prosper and grow, maintain a disciplined financial approach – and we succeed.

Looking for additional inspiration? Read on for our 2006 accomplishments:

FINANCIAL PERFORMANCE

- We are proud to report that our net sales rose 8% to $4.9 billion in 2006, fueled by double-digit growth in the U.S. and Latin America, and solid growth in the rest of the regions.
- Operating income was $612 million in 2006, up 13% from $542 million in 2005. Operating income increased to 12.5% of net sales, compared to last year's 12.0%, driven by strong sales gains and effective productivity initiatives.
- Diluted net income per share was $1.43 for 2006, up 16% from $1.23 in 2005.
- Our return on beginning shareholders' equity rose to 22% in 2006, the 15th consecutive year in which the company achieved its long-term financial objective of a 20% return on beginning shareholders' equity.
- We achieved record cash flow from operating activities of $628 million, and our total debt to capitalization ratio was 39%. These results enabled us to retain our debt rating within the "A" categories of the major rating agencies during 2006.
- We increased our quarterly dividend rate for the 15th consecutive year, as it rose 15% in December to an indicated annual rate of $0.46 per common share.
- Our share price rose 25% in 2006 – widely outperforming the Standard & Poor's 500 14% increase. Our share performance has exceeded that of the S&P 500 in 13 of the past 16 years.

NEW PRODUCTS AND SERVICES

In 2006, we continued our tradition of excellence in new product innovation to provide superior cleaning, food safety and health protection. For example, we built upon our strong antimicrobial platform with the introduction of Octa-Gone®, the protein (meat and poultry) industry's only fatty-acid based antimicrobial treatment that reduces microbial contamination on ready-to-eat meat and poultry products, making them safer and contributing to a longer shelf life. In addition, we further bolstered our food safety portfolio when Tsunami® 100 became the first EPA-registered antimicrobial product that reduces pathogens in fruit and vegetable process water, thereby helping to reduce the risk of foodborne illness.

In addition, we built upon our proven solutions and systems that maximize performance while minimizing total environmental impact. We expanded our highly successful 360º of Protection™ program into the long-term care market, creating a customized product and service offering that saves time, labor, energy and water to increase operational efficiencies. By combining a wide-range of products, systems, training and service, the 360º of Protection™ program represents the industry's most comprehensive solution for foodservice, hospitality and long-term care customers.

We also added PERformance™, a low-temperature, proprietary oxygen bleach that reduces energy consumption and increases textile life, to our successful full cycle solutions™ suite for laundry customers. This addition is another way to help commercial laundries reduce total operating and environmental costs through a combination of chemistry, service, engineering, technology and water care solutions.

Continuing our efforts to customize solutions to meet specific customer needs, we created a unique pest elimination program for limited-service hotels. It has seen significant customer success and is helping to drive continued strong growth in our Pest Elimination business.

These examples are just a few of the many launched last year. You can find more of our latest product, program and service offerings in the "Review of Operations" section of this report.

Of course, beyond products and programs, our legendary customer service is Ecolab's key differentiator and No. 1 priority. In 2006, we continued to invest in our sales-and-service organization, adding more than 500 new associates to our global field organization, which is now more than 13,000 strong and by far the industry's best and largest. This commitment to personal service continues to inspire confidence among our customers that Ecolab is a dedicated partner in the ongoing success of their businesses.

ACQUISITIONS

We continued to make targeted acquisitions, following our disciplined approach to ensure strong strategic and business fit, as well as attractive economics.

- In June, we acquired Shield Medicare Ltd., based in Farnham, UK. With annual sales of $19 million, Shield is a leading provider of contamination control products for pharmaceutical, medical device and hospital clean rooms.
- In September, we purchased Powles Hunt & Sons International Ltd's UK commercial laundry business, with $5 million in annual sales, from the Quill International Group. This acquisition will bolster our textile care business in the UK, adding scale to the business.
- Also in September, we acquired DuChem Industries, Inc., a manufacturer and marketer of cleaning and sanitizing products for the food and beverage processing market based in Newnan, Ga. DuChem's core focus is the protein (meat and poultry) market segment, with annual sales of $10 million.

LEADERSHIP DEVELOPMENT

As previously announced, I was elected to the additional post of Chairman of the Board in May 2006 upon Al Schuman's retirement from the Ecolab board of directors. On behalf of the entire Ecolab family, I want to thank Al again for his 49 years of inspired service and many contributions to Ecolab. I'm honored that the board selected me for this additional responsibility, and I'm excited to lead Ecolab as we continue to grow and leverage our many opportunities.

Additional important leadership developments include:

- In February, Jim Howard retired from Ecolab's board of directors. Jim had served on Ecolab's board for 15 years, providing strong leadership and wise counsel. We thank Jim for his outstanding service to Ecolab, and wish him all the best.
- In May, John Zillmer was elected to the Ecolab board of directors. John is the chairman of the board and chief executive officer of Allied Waste Industries, Inc., a solid waste management company. In addition, John has extensive experience in the managed services industry, an important Ecolab market. We welcome John to our board.
- In November, we regretfully accepted the resignation of Luciano Iannuzzi. Luciano had served as executive vice president of the Ecolab Europe/Middle East/Africa organization for the past four years. We thank him for his dedicated service and wish him the best in his future endeavors.
- In February 2007, Ulrich Lehner retired from the Ecolab board of directors. Ulrich had served on Ecolab's board since 2001 as a member of the Finance Committee. We thank him for his valued service to our company, and wish him well.
- Also in February 2007, Ecolab's board of directors appointed Hans Van Bylen to fill the vacancy left by Ulrich Lehner's retirement. Hans is executive vice president of Cosmetics/Toiletries of Henkel KGaA of Düsseldorf, Germany. We welcome Hans to the board.

ACHIEVEMENT & RECOGNITION

- For the seventh consecutive year, Ecolab was honored to be named one of the "100 Best Corporate Citizens" by *Business Ethics* magazine. Ecolab is one of only 16 companies to receive this recognition every year since the list's inception. We are committed to operating under the highest standards of corporate behavior, and this award is a terrific acknowledgement of our work.
- Ecolab also earned seventh place on "America's Best Big Companies Honor Roll." The honor roll recognizes 29 companies that have consistently appeared on *Forbes* magazine's annual list of the 400 best big companies in America – also known as the *Forbes* Platinum 400. This recognition underscores our focus on consistently achieving strong financial results in the right way.
- In recognition of our global commitment to innovation and food safety, the International Association for Food Protection selected Ecolab as the 2006 recipient of the Black Pearl Award of Corporate Excellence in Food Safety and Quality. This prestigious honor is given annually to one company for its efforts in advancing food safety and quality through consumer programs, employee relations, educational activities, adherence to standards, and support of the goals and objectives of the IAFP. We are honored to be chosen for this important recognition.
- Finally, Ecolab was again named to *Selling Power's* list of "The 50 Best Companies to Sell For" among the largest sales forces in the United States. Ecolab was ranked third on the list, which uses key metrics including compensation, training and career mobility. At Ecolab, we believe that our sales force is at the heart of our success, and we believe the best way to serve our customers is to have the best people serving them. We're proud that *Selling Power* has again acknowledged our investments in our incredible team.

OUTLOOK FOR 2007

We expect 2007 to be another year of growth and achievement for Ecolab and our associates. Our major end markets in foodservice, hospitality and healthcare appear to be in solid shape as we enter 2007, and the ongoing need for improved and more effective cleaning and sanitation solutions in the global food supply and foodservice system continues to present new opportunities for us to better serve our customers.

In 2007, we'll leverage these trends and continue to inspire confidence in Ecolab by doing the same things that have made us successful for the past eight decades. This includes investing in our people, our product portfolio, and our Circle the Customer – Circle the Globe strategy.

First, our people. We start here because it's our people that set us apart. They bring the spirit, pride, determination, commitment, passion and integrity of our Ecolab Culture to life. We invest in our people by giving them the right tools, technology and training they need to get their jobs done more quickly and efficiently. This ranges from wireless handheld technology for our field representatives to robust IT systems for administrative functions to streamlined processes for our supply chain operations to online and face-to-face training programs. It also includes fostering a workplace defined by opportunities for personal growth and professional advancement, and training to support that growth.

Next, our products. We create solutions that really work for our customers – by focusing on ways to lower their use of natural resources and drive costs out of their operations. Because it's not just the safety and effectiveness of the product that's important, it's also the ease of use and the ability to enhance their operational efficiency by providing solutions to better manage time, labor, water and utility costs. Every year, we introduce exciting advancements to help our customers achieve even better results and promote safer workplaces for our customers and their employees. And 2007 will bring our customers effective new solutions to help them meet their challenges.

Finally, our strategy. Our investments in our people and our products fuel our Circle the Customer – Circle the Globe strategy. But ultimately, Circle the Customer – Circle the Globe is successful because it's driven by our customers. They tell us what they want and need to improve their operations, and we listen and deliver. Whether it's food safety, employee safety, operating efficiency or training, we provide best practices and programs to help them succeed. And we back it all up with personal service that has allowed us to deliver results to our customers, unit by unit, around the world.

We work hard to help all of our stakeholders succeed. We work hard so our customers have the best solutions for all of their needs. We work hard to provide our associates meaningful work opportunities that promote personal development and reward exceptional performance. And we work hard to provide our shareholders with long-term superior value. Because for Ecolab, this is what inspiring confidence is all about.

Douglas M. Baker, Jr.
Chairman of the Board,
President and Chief Executive Officer

SOLUTIONS

Only Ecolab provides total solutions for our customers. It's not just about products, or technology, or service, or people – it's about all of these things, all of the time. It's about ensuring that customers have what they need to succeed – no matter what their business, no matter where they're located around the globe. Because of this, we're confident that we'll always provide the best solutions for our customers, and that's what inspires us to keep getting even better.

INNOVATION

Through industry-leading innovation, we inspire confidence by discovering new and better ways to tackle customers' biggest issues. Ways to lower costs through operational efficiencies, such as time and labor savings, lower water and energy use, and reduced packaging and waste. Our research and development team figures in all of this for our latest formulas – and our customers can be confident that this knowledge and know-how is all built right in.

SERVICE

Nothing inspires confidence more than professional, timely service that addresses the unique needs of our customers. We seek out, train and develop the best people to provide personal service and pay special attention to the challenges our customers face. Our brand of service is all about listening, understanding and helping customers make their operations better. Their success is our first priority – and that's why we've been able to build relationships with customers that have lasted decades.

INSPIRING CONFIDENCE

2006 REVIEW OF OPERATIONS

How do we inspire confidence every day with customers around the globe? It's simple. Through personal service. Innovative products. And consistently superior results. Our people across all business units continually provide customers with the best products, programs and services they need to make their operations run smoothly and efficiently.

The following is a detailed summary of 2006 and outlook for 2007 from each of our core businesses.

UNITED STATES: INSTITUTIONAL

Institutional drove record 11% sales growth and increased profits in 2006, thanks to significant new account gains and comprehensive, differentiated programs. The division also achieved greater operating efficiency, successfully offset increases in raw materials and fuel costs, and further penetrated key customer segments with additional solutions.

HIGHLIGHTS

- Accomplished continued, strong success with its proven 360° of Protection™ program, a comprehensive suite of solutions for foodservice, hospitality and long-term care customers that significantly increases food safety, guest satisfaction, operating efficiency and employee safety.
- Achieved substantial competitive gains with new corporate accounts and independent (street) customers.
- Integrated the Professional Products line into the Institutional range of solutions, leveraging the breadth and expertise of the Institutional sales force to deliver value-added floor care and janitorial products to customers in hospitality, healthcare and commercial facilities.
- Drove accelerated growth in the water care solutions market, thanks in part to a newly designed FresH_2O™ water filtration system, which is used by restaurants and hospitality customers to purify tap water used in beverages and food.
- Increased its sales force productivity with the completed national rollout of portable 360° Advisor™ tablet computers, which gather critical service reporting information in real time and enhance operational data, helping customers increase food safety and operational efficiencies.
- Continued to make significant investments in its field sales-and-service organization through hiring additional sales-and-service associates, training and new technology.

OUTLOOK

Institutional expects to once again achieve strong growth in 2007. The division will invest in additional sales-and-service associates, technology, training and R&D to ensure it continues to deliver the highest level of exceptional service to customers. The water solutions segment offers particularly good growth potential, and new product launches will also enhance the division's 360° value proposition.

PEST ELIMINATION

Pest Elimination enjoyed strong, 13% sales growth in 2006 driven by new contract sales, Circle the Customer and penetration of existing accounts in core segments. The division also significantly improved its operating income, and earned the highest level of customer retention in its history.

HIGHLIGHTS

- Attained significant growth in sales of its Innspect Bed Bug Service™ for the hospitality market and its Wing Command℠ bird program in the retail and government segments.
- Created a new, limited-service hotel program in response to customer need for bundled services, which has achieved considerable sales and is driving growth with franchises.
- Expanded its proven EcoPro℠ FS program to the quickservice restaurant segment, where it provides exceptional protection against pests such as fruit flies, cockroaches, mice, rats and ants.
- Achieved outstanding double-digit growth in the EcoSure food safety and quality assurance business, driven by Circle the Customer relationships and focus on operational efficiencies.
- Invested in a number of strategies to reduce work-related injuries, increase driver safety, attract and recruit top talent, and more efficiently manage its routes, all to further enhance its high service levels and customer satisfaction.

OUTLOOK

In 2007, Pest Elimination expects continued strong growth as it drives new contract sales and additional service solutions in its core segments. The division also plans to introduce an improved food and beverage segment program, including new programs for the education and healthcare sectors.

KAY

By focusing on large new customer gains in its core quickservice and food retail markets, Kay accomplished another year of strong double-digit growth, with record sales increasing 11%. Kay also expanded its reach in all of its markets through aggressive penetration of new and existing customer accounts, while benefiting from continued growth and success of its global chain customers.

HIGHLIGHTS

- Enjoyed good gains across the board in the quickservice food industry, as new accounts, new programs, new products and improved product penetration all contributed to the gain.
- Continued to drive Circle the Customer – Circle the Globe success through the MarketGuard™ food retail program, which combines best-of-industry solutions for food safety, pest elimination and floor care.
- Introduced the Formula Foam™ Cleaning System, a portable, self-contained, high-foaming system designed for cleaning fresh foods departments in food retail locations more quickly and thoroughly.
- Launched Polar Blue™, a high-performance pot-and-pan detergent designed specifically for cold temperatures found in certain areas of the food retail environment.

OUTLOOK

Kay expects continued aggressive growth in 2007 in all of its market segments, fueled by a healthy mix of corporate account gains and new product innovations. Kay will also help develop additional solutions for its customers, and further growth for Ecolab, through application of the Circle the Customer – Circle the Globe strategy in its core markets of quickservice and food retail.

HEALTHCARE

Healthcare achieved record sales and improved market share in its instrument care and rinseless hand hygiene segments in 2006. Nonetheless, comparing against a strong year-ago period, sales grew 4%. The division invested in new training programs for sales, leadership and key technical roles in order to further strengthen the field organization and drive sales.

HIGHLIGHTS

- Made significant new account gains and successfully renewed key GPO (group purchasing organization) contracts.
- Expanded its highly successful Asepti-Solid™ program with additional solutions that further solidify its presence as the market leader in central sterile.
- Upgraded its hand hygiene dispensing systems, offering superior, touchless technology while preventing drips and clogs.
- Partnered with industry experts to develop programs to promote hand hygiene compliance and reduce healthcare-associated infections.

OUTLOOK

Healthcare expects strong growth in 2007 as it continues to make further investments in field sales-and-service personnel and their capabilities, invest in R&D, and pursue strategic acquisition opportunities. The division plans further expansion into the gastrointestinal market with a broad cleaning and disinfection portfolio. Its growth is also expected to come from its core product portfolio for instrument care and hand hygiene, as well as from its strong base of contract sales.

GCS SERVICE

In 2006, GCS Service focused on developing systems and processes that will drive competitive advantage, business scalability and profitable long-term growth. Reflecting that focus on infrastructure development, sales grew only modestly, while substantial progress was made in achieving important strategic priorities.

HIGHLIGHTS

- Invested in a major systems conversion to remove inefficient systems, enhance speed and service quality, and become better positioned to meet customer challenges.
- Retooled its business model, including strengthening the management team and increasing associate retention.
- Sharpened the focus on the parts business, including establishing a courier program to replenish parts daily, thereby increasing technician efficiency, improving first-time fix results and reducing customer equipment downtime, improving customer satisfaction.
- Achieved continued success with Unit-Trax™, an asset tracking system that supplies customers with important information about their kitchen equipment, related repair history and costs.

OUTLOOK

By investing heavily in its service model in 2006, GCS Service has made essential progress in building the right infrastructure to drive long-term growth. GCS expects to benefit from these investments in 2007 as infrastructure work is completed. Long-term, the need for a national independent kitchen equipment repair service remains important for leading chain accounts, and GCS will meet that demand as it leverages its efficient systems and national footprint.

TEXTILE CARE

Textile Care showed a strong improvement in 2006, with sales rising 10% to record levels and significantly improved operating income. The division continued to invest in field sales-and-service associates and training. Its full cycle solutions™ program, an application of Ecolab's Circle the Customer strategy, continued to perform well and helped drive growth.

HIGHLIGHTS

- Leveraged tunnel washer technology from its sister division in Europe for the U.S. launch of PERformance™, a low-temperature, proprietary oxygen bleach that reduces energy and increases textile life.
- Continued to build on the success of the Aquamiser water reuse system and Energy Optimiser heat exchange system to provide customers with substantial water and energy savings.
- Made important account wins and better account penetration, including gains in the growing healthcare linen market.
- Drove continued success with its full cycle solutions™, a complete program encompassing chemistry, service, water care, engineering and technology that helps commercial laundries lower costs and optimize their operations.

OUTLOOK

Textile Care expects solid sales growth in 2007. The division foresees accelerated growth in the healthcare and workwear markets, driven by its unique lineup of superior solutions. Textile Care will also further develop its information management systems, and plans to make strategic investments in R&D aimed at helping customers reduce operating costs.

FOOD & BEVERAGE

Food & Beverage achieved solid growth and record sales in 2006, fueled by double-digit gains in its meat and poultry business and steady gains in the dairy and soft drink segments. Ecolab's Circle the Customer strategy led the 8% sales growth, as the division expanded its antimicrobial platforms, upgraded its field training and bolstered its market position through an acquisition.

HIGHLIGHTS

- Introduced Octa-Gone®, a revolutionary, fatty acid-based antimicrobial product that reduces microbial contamination on ready-to-eat meat and poultry product surfaces – the first of its kind on the market.
- Tsunami® 100 became the first EPA-registered antimicrobial product that reduces pathogens in fruit and vegetable process water. Tsunami® 100 also controls spoilage-causing organisms, enhances shelf life, and requires no rinsing.
- Acquired Georgia-based DuChem Industries, further solidifying Ecolab's leadership position in the meat and poultry segment, improving service coverage, and enhancing growth.
- Launched DryExx™, a dry lube for beverage plants that increases productivity by reducing soil buildup and eliminating drips and associated hazards.

OUTLOOK

In 2007, Food & Beverage expects continued strong growth in its protein and antimicrobial segments. Tsunami® 100 is expected to show good strength thanks to its unique process water pathogen claims. The division will also invest in training and service management tools to further enhance its successful value proposition, and will pursue strategic acquisitions that benefit the business.

WATER CARE SERVICES

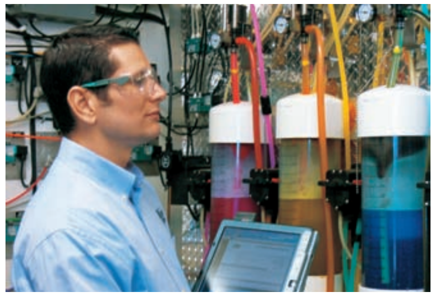
Water Care Services improved its performance in 2006 through aggressive Circle the Customer partnerships with Food & Beverage and Institutional, growing sales 8% to record levels.

HIGHLIGHTS

- Leveraged Ecolab's expertise in solids technology to introduce a solid product solution for boiler and cooling towers that replaces large liquid drums of product with compact, easy-to-use solid capsules and state-of-the-art dispensing systems.
- Achieved record growth in the marine market, including cruise lines, and strong double-digit growth in the food and beverage market, by partnering with other Ecolab divisions to provide solutions to their core customer base.
- Introduced its indoor air quality program that helps reduce indoor air quality issues that arise from mold, dust, allergens and other contaminants.
- Made investments in talent and field technology to strengthen its field team and provide excellent service to customers.

OUTLOOK

Water Care Services expects to see further growth in 2007 through a continued focus on Circle the Customer opportunities aided by new innovation. Water Care plans to further invest in its infrastructure by attracting, developing and retaining top talent and building its field service capabilities through the introduction of new service reporting tools.



VEHICLE CARE

Vehicle Care posted record sales with growth of 5% in 2006, led by the development of new product innovations, new account gains, and the addition of sales-and-service associates. The division also achieved improved profitability through increased efficiency, reduced costs and an improved operations network.

HIGHLIGHTS

- Built momentum as the industry's innovation leader with its highly successful Rain-X® Online Protectant, a complete surface protectant, which was named Most Innovative New Product of 2006 by the International Car Wash Association.
- Extended its expertise to new markets and customers with the launch of its Blue Coral® Solid Power program, which includes an alkaline detergent and a powerful presoak that require less space, less labor and reduced storage requirements compared to traditional liquids.
- Made significant new account gains through its focus on advanced technology, superior service and powerful marketing.
- Strengthened its current business through increased direct sales and distributor partnerships.

OUTLOOK

Vehicle Care anticipates further growth in 2007 as it aggressively drives new platforms to create additional, value-added products to meet customer needs and drive sales. The division expects strong performances from its full-service, convenience store and fleet segments. Vehicle Care will also leverage its dispensing systems and presoaks technology, and will add field sales-and-service staff.

TURN THE PAGE FOR MORE 2006 HIGHLIGHTS...

INTERNATIONAL: EUROPE/MIDDLE EAST/AFRICA

Market-leading innovations and increasing solutions with existing customers served to offset continuing widespread unfavorable market conditions in Europe, yielding 4% growth in fixed currency exchange rates for the region. Europe also realized geographic growth through further expansion in Eastern Europe, including Russia, Romania and Bulgaria. In the Middle East and Africa, Turkey and South Africa are creating solid foundations for continued growth.

HIGHLIGHTS

- Institutional made important gains in the retail segment, using the MarketGuard™ program to secure new corporate accounts. Institutional also introduced comprehensive programs that provide a complete suite of products and services for its varied markets, including the 360º of Protection™ program for foodservice customers, the HotelGuard program for hospitality customers, and the HealthGuard program for hospitals and long-term care facilities.
- Textile Care achieved solid growth through the ongoing success of its water and energy saving systems, as well as the introduction of new services and products, such as the extensions to its successful Turbo line and special oxygen bleaching agent. The business also expanded its presence in the UK market through the acquisition of Powles Hunt, which has annual sales of $5 million.
- Healthcare strengthened its market leadership in endoscope reprocessing with Sekumatic Multi-clean, a new formula for cleaning surgical instruments, and sterile disinfectants fueled record growth in the pharmaceutical and long-term care markets. In addition, Healthcare entered the clean room contamination control products market through the acquisition of Shield Medicare Ltd., a UK-based firm with sales of $19 million.

- Food & Beverage introduced a new innovation in low-pressure foaming with Chameleon™, which uses frequency-controlled pumps to reduce energy and water required to clean food processing plants. F&B also leveraged the successful global DryExx™ dry lubricant technology to help customers achieve water and energy savings while improving workplace safety with the elimination of wet, slippery floors.
- Pest Elimination drove new account sales through investments in its corporate accounts team, including establishing an expanded sales team in France and accelerating corporate account growth in the UK. In addition, Pest Elimination introduced new solutions for high-potential markets in Europe, and increased customer retention through its Service Excellence program.
- Middle East and Africa achieved a strong sales performance led by excellent growth in South Africa. Notably, Food & Beverage and Pest Elimination secured solid gains through the acquisition of new customers.

OUTLOOK

Europe plans to build on the success of the 360º of Protection™ program and on its strengthened distributor network, in addition to investing in its field teams, new technology and new products in 2007. By focusing on customer segments and strengthening corporate account teams across the region, Europe also expects to expand its customer portfolio with gains in hospitality, retail, building services contractors, and food and beverage.

ASIA PACIFIC

In 2006, Asia Pacific achieved a 6% sales increase with sales reaching record levels. The region enjoyed strong growth in China and Southeast Asia, particularly in Thailand and Indochina, as it expanded its Professional Products and Pest Elimination programs, added field associates and launched new offerings.

HIGHLIGHTS

- Drove improved growth in its Australia business, where innovation, including the launch of Aquamiser, a highly efficient water reuse system, has led to solid business growth and new account gains.
- Successfully introduced Exelerate™ HS, which penetrates dairy soils and speeds up the cleaning process for dairy pasteurizers and other heated process equipment, while also offering savings in water usage and effluent surcharges.
- Strengthened the China business infrastructure and added new capacity to supply our rapid growth with a new, state-of-the-art manufacturing plant in Guangzhou.
- Launched proven North American programs, including the successful 360º of Protection™ program, a comprehensive program for foodservice, hospitality and long-term care customers.

OUTLOOK

Asia Pacific expects strong growth in 2007, led by gains in Southeast Asia, China and Hong Kong. The region plans to launch a slate of new products, and will expand its Pest Elimination program into new markets. It also intends to increase efficiency in Japan and Australia through automated service reporting, and will strengthen functional support in areas such as IT, marketing, R&D and human resources.

CANADA

Canada delivered solid sales growth of 8% in 2006, driven by strong performances in its core markets and large hospitality customer gains. Investments in the field team, as well as continued focus on Circle the Customer efforts, created additional synergies across the region.

HIGHLIGHTS

- Experienced success with Oasis® 146 Multi-Quat Sanitizer, a food contact hard surface antimicrobial registered for sanitizing and disinfecting uses, gaining sales with independent restaurants and chain customers.
- Increased its business with independent restaurant customers with the addition of dedicated sales personnel and by working with key distributor partners.
- Leveraged the PERformance™ product line, which offers low-temperature, chlorine-free bleaching, as well as the Aquamiser water and energy reuse system to save customers significant operating costs.
- Introduced the Sanova® antimicrobial food surface treatment to the protein market, secured several new poultry customers and made additional inroads in the market.
- Drove growth in the healthcare market with a strong performance in the instrument cleaning segment, as well as expansion into the surgical scrub segment for operating rooms.

OUTLOOK

In 2007, Canada expects to leverage additional investments in field service tools to drive continued customer gains. New products should provide Canada vehicles for further growth, as well as offer robust opportunities for Circle the Customer collaboration.

LATIN AMERICA

Latin America turned in another solid year of double-digit growth and record sales, increasing sales by 14% in fixed currency exchange rates. Key investments in its field team and the introduction of proven programs from other regions helped Latin America make significant customer gains and achieve strong growth.

HIGHLIGHTS

- Launched a new sales automation tool, which creates specialized, easy-to-use reports to assist in customer business reviews by recording information such as the quality of results, operational efficiency, customer satisfaction, training of employees and service work performed.
- Successfully introduced the 360º of Protection™ program for foodservice and hospitality customers, providing customers with one complete cleaning and sanitation program.
- Achieved continued success with DryExx™ dry lube for beverage bottling plants, a dry lubricant that eliminates the need to use water to dilute the lubricant, and accelerated its success with Exelerate™ CIP, a premium liquid detergent for milk processing facilities that removes tough soils and rinses faster than traditional detergents.
- Improved its supply chain efficiencies with the opening of a state-of-the-art manufacturing facility in São Paulo, Brazil.

OUTLOOK

In 2007, Latin America expects further strong growth as it drives organic sales through Circle the Customer – Circle the Globe partnerships. Investments in sales force automation, sales training and supply chain efficiencies should further spur growth across the region.

Sustainable financial performance is only part of our responsibility as a company. To continuously earn the trust of our customers, shareholders and associates, we know we must uphold the highest standards of integrity. While we value and expect good business results, we also place great value on how we achieve those results.

ENVIRONMENTAL SUSTAINABILITY

Ecolab strives to use resources efficiently in our manufacturing operations to reduce waste and improve our environmental performance. It's good for the environment, and its good for business. We make every effort to use environmentally responsible and sustainable raw materials to meet our needs, and invest in improving energy efficiency and conservation in our operations.

Sustainability is a growing area of interest to our customers. We meet demand with a systematic approach to creating products, programs and services that reduce environmental impact. Our superior technology, global knowledge base and commitment to research and development allow us to continue investing in innovative solutions. Our products and services provide superior performance while preserving our environment, and at the same time, provide us important differentiation in the marketplace.

The financial portion of this report was printed on 100% post-consumer recycled paper.

ENVIRONMENTAL SAVINGS

Number of trees saved	459
Water (gallons)	78,329
Energy (000 BTUs)	107,501
Solid Waste (lbs.)	8,416
Water-borne wastes (lbs.)	539
Atmospheric emissions (lbs.)	16,322

SOCIAL RESPONSIBILITY

We also take a passionate approach in our commitment to our communities. Ecolab promotes the well-being of associates, customers and shareholders by contributing to the quality of life in our communities through charitable giving and volunteerism.

The Ecolab Foundation celebrated its 20th anniversary this year, and over the years has contributed more than $35 million to our communities. Through the Foundation, we continued to sustain this strong giving tradition in 2006 by contributing $4 million – approximately 1.2 percent of U.S. pretax earnings. We also helped strengthen our communities by supporting our associates in volunteering thousands of hours to charitable organizations and by providing over $1 million of in-kind cleaning and sanitizing products.

FINANCIAL DISCUSSION

EXECUTIVE SUMMARY

This Financial Discussion should be read in conjunction with the information on Forward-Looking Statements and Risk Factors found at the end of the Financial Discussion.

2006 was an outstanding year for Ecolab. We achieved a strong financial performance including record net sales of $4.9 billion and improved operating income margins which drove 16 percent diluted earnings per share growth. We realized major competitive gains, made significant investments in our people and business, and further improved our long-term growth potential.

We exceeded all three of our long-term financial objectives:

	2006 RESULTS	LONG-TERM OBJECTIVE
EPS Growth	**16.3%**	15%
ROBE	**22.4%**	20%
Balance Sheet	**A**	Investment Grade

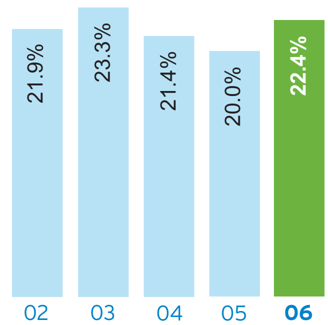
OPERATING HIGHLIGHTS

- We made important competitive gains in our market during 2006, creating enhanced global opportunities to pursue our Circle the Customer – Circle the Globe growth strategy as we believe Ecolab alone can offer consistent service around the globe.
- We enjoyed double-digit sales and profit growth in the United States and improved sales and profit growth from our International operations.
- In 2006 we continued our tradition of new product innovation building on our core product platforms. We introduced a product in our antimicrobial platform that reduces microbial contamination in ready-to-eat meat and poultry products, making them safer and contributing to a longer shelf life. To help reduce the risk of foodborne illness, we introduced the first EPA-registered antimicrobial product that reduces pathogens in fruit and vegetable process water at food processing plants. We also continued our efforts to customize solutions to meet specific customer needs through new programs.
- We continued to make business acquisitions in order to broaden our product and service offerings in line with our Circle the Customer – Circle the Globe strategy. Details of these acquisitions are shown below.
- We grew our industry-leading sales and service force by more than 500 people, to more than 13,400 strong, and made key investments in tools, training and technology to improve their sales productivity and effectiveness.
- We made significant investments in our business systems that will drive competitive advantage in the future.
- We continue to work to simplify and streamline our business processes, bolstering our ability to deliver growth more efficiently in the future.

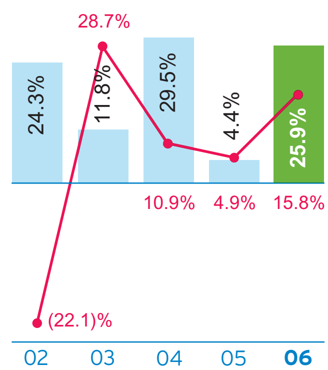
FINANCIAL PERFORMANCE

- Consolidated net sales reached a record of $4.9 billion for 2006, an increase of 8 percent over net sales of $4.5 billion in 2005.
- Our operating income for 2006 increased 13 percent to a record $612 million.
- Diluted net income per share increased 16 percent to $1.43 per share for 2006, compared to $1.23 per share in 2005.
- Cash flow from operating activities reached a record $628 million in 2006 and allowed us to fund investments in our business operations, make business acquisitions, reacquire $283 million of our common stock and make a voluntary contribution of $45 million to our U.S. pension plan.
- We increased our quarterly dividend rate for the fifteenth consecutive year. The dividend was increased 15 percent in December 2006 to an indicated annual rate of $0.46 per common share.
- Our return on beginning shareholders' equity (net income divided by beginning shareholders' equity) rose to 22.4 percent in 2006, the fifteenth consecutive year in which we achieved our long-term financial objective of a 20 percent return on beginning shareholders' equity.
- Our balance sheet remained strong, maintaining our debt rating within the "A" categories of the major rating agencies during 2006. We also strengthened and solidified our capital structure, successfully refinancing a maturing debt instrument and lowering our future financing cost.
- We adopted the provisions of Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158") effective as of our 2006 year end. The impact of adopting SFAS 158 is reflected as a reduction in net assets on our balance sheet of $168 million, with no impact to the statements of income and cash flows. See Note 15 for more information on this adoption.

RETURN ON BEGINNING EQUITY



TOTAL RETURN TO SHAREHOLDERS



Share appreciation plus dividends
S&P 500 total return

ACQUISITIONS

- In June, we acquired Shield Medicare Ltd., based in the UK. With annual sales of $19 million, Shield is a leading provider of contamination control products for pharmaceutical, medical device and hospital clean rooms.
- In September, we acquired DuChem Industries, Inc., a U.S. manufacturer and marketer of cleaning and sanitizing products for the food and beverage market. DuChem's core focus is the protein (meat & poultry) market segment, and has annual sales of $10 million.
- In September, we acquired Powles Hunt & Sons International Ltd's UK commercial laundry business. With annual sales of $5 million, this acquisition will add scale to our textile care business in the UK.

2007 EXPECTATIONS

- We look for continued momentum from our existing business, investments in our key growth drivers and from competitive gains achieved in 2006 to drive growth and market share opportunities in 2007.

- We will continue to leverage our Circle the Customer – Circle the Globe growth strategy through cross-selling and enhanced marketing of our many product and service solutions under the Ecolab brand.
- We will continue to invest in new product, system and service development in order to deliver improved value to our customers and thereby earn more of their business.
- We plan to seek strategic business acquisitions which complement our growth strategy.
- We will continue to work on streamlining our business processes in order to reduce costs and improve sustainability.
- We intend to make significant investments in our business systems to drive growth in the future.
- We will continue to work to deliver superior results to our customers, returns to shareholders and opportunity to our valued associates.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). We have adopted various accounting policies to prepare the consolidated financial statements in accordance with U.S. GAAP. Our most significant accounting policies are disclosed in Note 2 of the notes to the consolidated financial statements.

Preparation of our consolidated financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions to be made about matters that are highly uncertain at the time the accounting estimate is made, and (2) different estimates that the company reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, have a material impact on the presentation of the company's financial condition, changes in financial condition or results of operations.

Besides estimates that meet the "critical" estimate criteria, we make many other accounting estimates in preparing our financial statements and related disclosures. All estimates, whether or not deemed critical, affect reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingent assets and liabilities. Estimates are based on experience and other information available prior to the issuance of the financial statements. Materially different results can occur as circumstances change and additional information becomes known, even from estimates not deemed critical. Our critical accounting estimates include the following:

REVENUE RECOGNITION

We recognize revenue on product sales at the time title to the product and risk of loss transfers to the customer. We recognize revenue on services as they are performed. Our sales policies do not provide for general rights of return and do not contain customer acceptance clauses. We record estimated reductions to revenue for customer programs and incentive offerings including pricing arrangements, promotions and other volume-based incentives at the time the sale is recorded. Depending on market conditions, we may increase customer incentive offerings, which could reduce gross profit margins at the time the incentive is offered.

VALUATION ALLOWANCES AND ACCRUED LIABILITIES

We estimate sales returns and allowances by analyzing historical returns and credits, and apply these trend rates to the most recent 12 months' sales data to calculate estimated reserves for future credits. We estimate the allowance for doubtful accounts by analyzing accounts receivable balances by age, applying historical write-off trend rates to the most recent 12 months' sales, less actual write-offs to date. In addition, our estimates also include separately providing for 100 percent of specific customer balances when it is deemed probable that the balance is uncollectible. Actual results could differ from these estimates under different assumptions.

Estimates used to record liabilities related to pending litigation and environmental claims are based on our best estimate of probable future costs. Estimated future legal costs are expensed as incurred. We record the amounts that represent the points in the range of estimates that we believe are most probable or the minimum amounts when no amount within the range is a better estimate than any other amount. Potential insurance reimbursements are not anticipated in our accruals for environmental liabilities. While the final resolution of litigation and environmental contingencies could result in amounts different than current accruals, and therefore have an impact on our consolidated financial results in a future reporting period, we believe the ultimate outcome will not have a significant effect on our consolidated results of operations, financial position or cash flows.

ACTUARIALLY DETERMINED LIABILITIES

The measurement of our pension and postretirement benefit obligations are dependent on a variety of assumptions determined by management and used by our actuaries. These assumptions affect the amount and timing of future contributions and expenses.

The assumptions used in developing the required estimates include, among others, discount rate, projected salary and health care cost increases and expected return or earnings on assets. Beginning in 2005, the discount rate assumption for the U.S. Plans is calculated using a bond yield curve constructed from a large population of high-quality, non-callable, corporate bond issues with maturity dates of six months to thirty years. Bond issues in the population are rated no less than Aa by Moody's Investor Services or AA by Standard & Poors. The discount rate is calculated by matching of the plan liability cash flows to the yield curve. Prior to 2005, the discount rate assumption was based on the investment yields available at year-end on corporate long-term bonds rated AA. Projected salary and health care cost increases are based on our long-term actual experience, the near-term outlook and assumed inflation. The expected return on plan assets reflects asset allocations, investment strategies and the views of investment advisors. The effects of actual results differing from our assumptions, as well as changes in assumptions, are reflected in the unrecognized actuarial loss and amortized over future periods and, therefore, generally affect our recognized expense in future periods. Our unrecognized actuarial loss on our U.S. qualified and nonqualified pension plans decreased to $189 million (before tax) due primarily to a better than expected return on plan assets and an increase in the discount rate at the end of 2006. As of December 31, 2006, this unrecognized loss is included on our balance sheet as a component of Accumulated Other Comprehensive Income due to the adoption of SFAS 158. Significant differences in actual experience or significant changes in assumptions may materially affect pension and other post-retirement obligations.

In determining our U.S. pension and postretirement obligations for 2006, our discount rate increased to 5.79 percent from 5.57 percent at year-end 2005. Our projected salary increase was unchanged at 4.32 percent and our expected return on plan assets used for determining 2006 expense remained unchanged at 8.75 percent.

The effect on 2007 expense of a decrease in the discount rate or expected return on assets assumption as of December 31, 2006 is shown below assuming no changes in benefit levels and no amortization of gains or losses for our major plans:

MILLIONS	EFFECT ON U.S. PENSION PLAN		
ASSUMPTION	ASSUMPTION CHANGE	INCREASE IN RECORDED OBLIGATION	HIGHER 2007 EXPENSE
Discount rate	-0.25 pts	$30.8	$4.2
Expected return on assets	-0.25 pts	N/A	$1.9

MILLIONS	EFFECT ON U.S. POSTRETIREMENT HEALTH CARE BENEFITS PLAN		
ASSUMPTION	ASSUMPTION CHANGE	INCREASE IN RECORDED OBLIGATION	HIGHER 2007 EXPENSE
Discount rate	-0.25 pts	$4.8	$0.7
Expected return on assets	-0.25 pts	N/A	$0.1

See Note 15 for further discussion concerning our accounting policies, estimates, funded status, planned contributions and overall financial positions of our pension and post-retirement plan obligations.

We are self-insured in North America for most workers compensation, general liability and automotive liability losses, subject to per occurrence and aggregate annual liability limitations. We are insured for losses in excess of these limitations. We have recorded both a liability and an offsetting receivable for amounts in excess of these limitations. We are also self-insured for health care claims for eligible participating employees, subject to certain deductibles and limitations. We determine our liabilities for claims incurred but not reported on an actuarial basis. A change in these assumptions would cause reported results to differ.

SHARE-BASED COMPENSATION

Effective October 1, 2005 we adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R") under the modified retrospective application method. All prior period financial statements were restated to recognize share-based compensation historically reported in the notes to the consolidated financial statements. As required by SFAS 123R, we measure compensation expense for share-based awards at fair value at the date of grant and recognize compensation expense over the service period for awards expected to vest. Upon adoption of SFAS 123R in the fourth quarter of 2005 we began using a lattice-based binomial model for valuing new stock option grants. We believe this model considers appropriate probabilities of option exercise and post-vesting termination which are more consistent with actual and projected experience, and therefore support more accurate valuation of a stock option. We also started using a forfeiture estimate for all share-based awards in the amount of compensation expense being recognized. This change from our historical practice of recognizing forfeitures as they occur did not result in the recognition of any cumulative adjustment to income.

Determining the fair value of share-based awards at the grant date requires judgment, including estimating expected volatility, exercise and post-vesting termination behavior, expected dividends and risk-free rates of return. Additionally, the expense that is recorded is dependent on the amount of share-based awards that is expected to be forfeited. If actual forfeiture results differ significantly from these estimates, share-based compensation expense and our results of operations could be impacted. For additional information on our stock incentive and option plans, including significant assumptions used in determining fair value, see Note 10.

INCOME TAXES

Judgment is required to determine the annual effective income tax rate, deferred tax assets and liabilities and any valuation allowances recorded against net deferred tax assets. Our effective income tax rate is based on annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. We establish liabilities or reserves when we believe that certain positions are likely to be challenged by authorities and we may not succeed, despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances. Our annual effective income tax rate includes the impact of reserve provisions and changes to reserves that we consider appropriate. During interim periods, this annual rate is then applied to our year-to-date operating results. In the event that there is a significant one-time item recognized in our interim operating results, the tax attributable to that item would be separately calculated and recorded in the same period as the one-time item.

Tax regulations require items to be included in our tax returns at different times than the items are reflected in our financial statements. As a result, the effective income tax rate reflected in our financial statements differs from that reported in our tax returns. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our income statement. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the utilization of the deduction or credit. Deferred tax liabilities generally represent items for which we have already taken a deduction in our tax return, but have not yet recognized that tax benefit in our financial statements. Undistributed earnings of foreign subsidiaries are considered to have been reinvested indefinitely or available for distribution with foreign tax credits available to offset the amount of applicable income tax and foreign withholding taxes that might be payable on earnings. It is impractical to determine the amount of incremental taxes that might arise if all undistributed earnings were distributed.

A number of years may elapse before a particular tax matter, for which we have established a reserve, is audited and finally resolved. The number of tax years with open tax audits varies depending on the tax jurisdiction. In the United States, during 2004, the Internal Revenue Service completed their field work examination of our tax returns for 1999 through 2001. We expect the final resolution for these returns by 2008. We also expect the Internal Revenue Service to complete their field work examination of our tax returns for 2002 through 2004 in 2007.

While it is often difficult to predict the final outcome or the timing of resolution of any tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue could result in additional tax expense and would require the use of cash. Favorable resolution could result in reduced income tax expense reported in the financial statements in the future. Our tax reserves are presented in the balance sheet within other non-current liabilities.

LONG-LIVED AND INTANGIBLE ASSETS

We periodically review our long-lived and intangible assets for impairment and assess whether significant events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. This could occur when the carrying amount of an asset exceeds the anticipated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded, if any, is calculated as the excess of the asset's carrying value over its estimated fair value. We also periodically reassess the estimated remaining useful lives of our long-lived assets. Changes to estimated useful lives would impact the amount of depreciation and amortization expense recorded in earnings. We have experienced no significant changes in the carrying value or estimated remaining useful lives of our long-lived assets.

We review our goodwill for impairment on an annual basis for all reporting units. If circumstances change significantly within a reporting unit, we would test for impairment prior to the annual test.

Goodwill and certain intangible assets are assessed for impairment using fair value measurement techniques. Specifically, goodwill impairment is determined using a two-step process. Both the first step of determining the fair value of a reporting unit and the second step of determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) are judgmental in nature and often involve the use of significant estimates and assumptions. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These valuation methodologies use significant estimates and assumptions, which include projected future cash flows (including timing), discount rate reflecting the risk inherent in future cash flows, perpetual growth rate, and determination of appropriate market comparables. No impairments were recorded in 2006, 2005 or 2004 as a result of the tests performed. Of the total goodwill included in our consolidated balance sheet, 19 percent is recorded in our United States Cleaning & Sanitizing reportable segment, 5 percent in our United States Other Services segment and 76 percent in our International segment.

FUNCTIONAL CURRENCIES

In preparing the consolidated financial statements, we are required to translate the financial statements of our foreign subsidiaries from the currency in which they keep their accounting records, generally the local currency, into United States dollars. Assets and liabilities of these operations are translated at the exchange rates in effect at each fiscal year end. The translation adjustments related to assets and liabilities that arise from the use of differing exchange rates from period to period are included in accumulated other comprehensive income in shareholders' equity. Income statement accounts are translated at average rates of exchange prevailing during the year. We evaluate our International operations based on fixed rates of exchange; however, the different exchange rates from period to period impact the amount of reported income from our consolidated operations.

RESULTS OF OPERATIONS

CONSOLIDATED

MILLIONS, EXCEPT PER SHARE	2006	2005	2004
Net sales	$ 4,896	$ 4,535	$ 4,185
Operating income	612	542	490
Net income	369	319	283
Diluted net income per common share	$ 1.43	$ 1.23	$ 1.09

Our consolidated net sales for 2006 increased 8 percent over 2005. The components include 6 percent volume growth and 2 percent favorable effect from price changes. Acquisitions and divestitures and changes in currency translation did not have a significant impact on the consolidated sales growth rate.

	2006	2005	2004
Gross profit as a percent of net sales	50.7%	50.4%	51.4%
Selling, general & administrative expenses as a percent of net sales	38.2%	38.4%	39.6%

Our consolidated gross profit margin (defined as gross profit divided by net sales) for 2006 increased from 2005, primarily driven by pricing and cost savings initiatives which more than offset higher delivered product costs during the year.

Selling, general and administrative expenses as a percentage of sales continued to improve in 2006. The improvement in the 2006 expense ratio is primarily due to increased sales leverage and cost saving programs which more than offset investments in the business.

	2006	2005	2004
Operating income as a percent of net sales	12.5%	12.0%	11.7%

Operating income increased 13 percent in 2006 over 2005. As a percent of sales, operating income also increased from 2005. The increase in operating income in 2006 is due to pricing, sales volume and cost reduction initiatives partially offset by higher delivered product costs as well as investments in the business.

Our net income was $369 million in 2006, an increase of 15 percent compared to $319 million in 2005. Net income in both years included items of a non-recurring nature that are not necessarily indicative of future operating results. Net income in 2006 included the benefit of a $1.8 million tax settlement for stewardship costs which was offset by a $2.8 million charge ($1.8 million net of tax benefit) in selling, general and administrative expense to recognize minimum royalties under a licensing agreement with no future benefit. Net income in 2005 included a tax charge of $3.1 million related to the repatriation of foreign earnings under the American Jobs Creation Act (AJCA). Excluding these items, net income increased 14 percent for 2006. This increase in net income reflects improved sales, gross margin and operating income growth. Currency translation positively impacted net income in 2006 by approximately $2 million. Our 2006 net income also benefited when compared to 2005 due to a lower overall effective income tax rate which was the result of international mix, lower international statutory rates and tax planning efforts.

2005 COMPARED WITH 2004

Our consolidated net sales for 2005 increased 8 percent to $4.5 billion compared to $4.2 billion in 2004. Acquisitions and divestitures increased consolidated net sales by 1 percent. Changes in currency translation also positively impacted the sales growth rate by 1 percent. Sales benefited from pricing, new account gains, new product and service offerings and investments in the sales-and-service-force.

Our consolidated gross profit margin for 2005 decreased from 2004. The decrease was primarily driven by higher delivered product costs, partially offset by pricing and cost savings programs.

Selling, general and administrative expenses as a percentage of sales improved for 2005 compared to 2004. The improvement in the 2005 expense ratio is primarily due to pricing, sales leverage and cost savings programs partially offset by investments in the sales-and-service force, research and development and technology.

Operating income for 2005 increased 11 percent over 2004. As a percent of sales, operating income also increased from 2004. The increase in operating income in 2005 is due to sales volume, pricing, cost reduction initiatives and lower share-based compensation expense, partially offset by higher delivered product costs as well as investments in the sales-and-service force, research and development and technology. Operating income also benefited from significant operating improvement at GCS Service in 2005.

Our net income was $319 million in 2005, an increase of 13 percent as compared to $283 million in 2004. Net income in both years included items of a non-recurring nature that are not necessarily indicative of future operating results. Net income in 2005 included a tax charge of $3.1 million related to the repatriation of foreign earnings under the AJCA. Net income in 2004 included benefits from a reduction in previously recorded restructuring expenses of $0.6 million (after tax) and a gain on the sale of a small international business of $0.2 million (after tax). Income tax expense and net income in 2004 also included a tax benefit of $1.9 million related to prior years. These benefits were more than offset by a charge of $1.6 million for in-process research and development as part of the acquisition of Alcide Corporation and a charge of $2.4 million (after tax) related to the disposal of a grease management product line. Excluding these items from both years, net income increased 14 percent for 2005. This increase in net income reflects improved operating income growth by most of our business units in the face of a challenging raw material cost environment. Currency translation positively impacted net income growth in 2005 by approximately $5 million. Our 2005 net income also benefited when compared to 2004 due to a lower overall effective income tax rate which was the result of a lower international rate, international mix and tax planning efforts. Excluding the items of a non-recurring nature previously mentioned, net income was 7 percent of net sales for both 2005 and 2004.

SEGMENT PERFORMANCE

Our operating segments have been aggregated into three reportable segments: United States Cleaning & Sanitizing, United States Other Services and International. We evaluate the performance of our 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 2006. The difference between actual currency exchange rates and the fixed currency exchange rates used by management is included in "Effect of Foreign Currency Translation" within our operating segment results. All other accounting policies of the reportable segments are consistent with U.S. GAAP and the accounting policies of the company described in Note 2 of the notes to consolidated financial statements. Additional information about our reportable segments is included in Note 16 of the notes to consolidated financial statements.

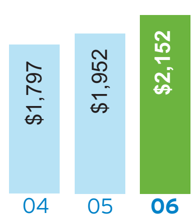
SALES BY REPORTABLE SEGMENT

MILLIONS	**2006**	2005	2004
Net sales			
United States			
Cleaning & Sanitizing	**$2,152**	$1,952	$1,797
Other Services	**411**	375	339
Total United States	**2,563**	2,327	2,136
International	**2,261**	2,137	2,038
Total	**4,824**	4,464	4,174
Effect of foreign currency translation	**72**	71	11
Consolidated	**$4,896**	$4,535	$4,185

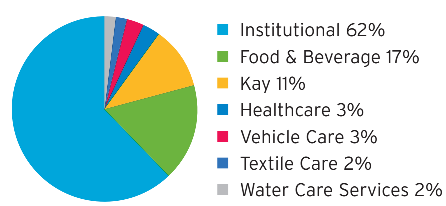
PERCENT CHANGE FROM PRIOR YEAR	**2006**	2005
Net sales		
United States		
Cleaning & Sanitizing	**10%**	9%
Other Services	**9**	11
Total United States	**10**	9
International (management rates)	**6**	5
Consolidated (management rates)	**8**	8
Consolidated (public rates)	**8%**	7%

UNITED STATES CLEANING & SANITIZING

SALES
MILLIONS



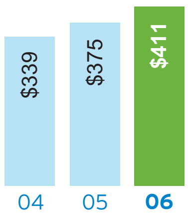
BUSINESS MIX
PERCENT



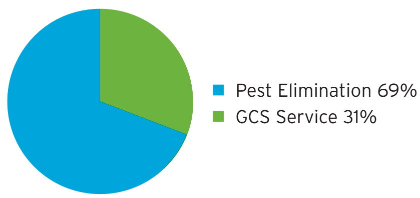
Sales of our United States Cleaning & Sanitizing operations increased 10 percent to $2.2 billion in 2006. Sales were driven by double-digit sales growth in our Institutional and Kay divisions, along with good growth from our Food & Beverage division. Institutional sales increased 11 percent in 2006, benefiting from significant new account gains during the year. Institutional results reflect sales growth into all end market segments, including double-digit growth in travel, casual dining and health care markets. Food & Beverage division sales increased 8 percent for 2006. The acquisition of DuChem added 1 percent and the remaining increase was due to double-digit gains in the meat & poultry market as well as good gains in the dairy, food and soft drink markets. Kay recorded an 11 percent sales increase in 2006 led by gains in its core quickservice and food retail markets. Kay benefited from good ongoing demand from existing customers as well as new account gains.

UNITED STATES OTHER SERVICES

SALES
MILLIONS



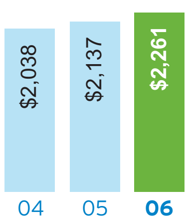
BUSINESS MIX
PERCENT



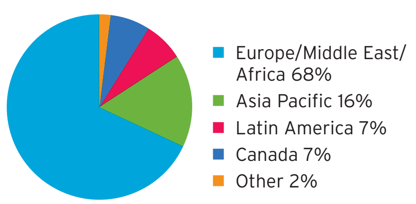
Sales of our United States Other Services operations increased 9 percent in 2006. Pest Elimination continued its double-digit sales growth as sales rose 13 percent. Sales were driven by growth in both core pest elimination contract and non-contract services. Sales also benefited from new accounts and strong customer retention. GCS Service sales grew modestly as service and installed parts sales increased over last year. GCS Service continued to focus on infrastructure and process development that will improve competitive advantage and business scalability in the future.

INTERNATIONAL

SALES
MILLIONS



BUSINESS MIX
PERCENT



Management rate sales of our International operations were $2.3 billion in 2006, an increase of 6 percent over 2005. Acquisitions and divestitures added 1 percent to the year over year sales growth in 2006. Sales in Europe increased 4 percent from 2005. Good sales growth in the United Kingdom was partially offset by slower sales growth in Germany, France and Italy. Europe also achieved geographic growth in 2006 through further expansion in eastern Europe. Asia Pacific sales grew 6 percent primarily driven by growth in China, Australia, Thailand and Hong Kong partially offset by weakness in Japan. Asia Pacific sales benefited from new corporate accounts and good results in the beverage and brewery segment. Latin America recorded strong 14 percent sales growth in 2006. The growth over last year was driven by results in Mexico, the Caribbean and Venezuela. Results were due to new account gains, growth of existing accounts and success with new programs. Sales in Canada increased 8 percent in 2006, reflecting good results from all divisions. Sales benefited from pricing, account retention and new business.

OPERATING INCOME BY REPORTABLE SEGMENT

MILLIONS	**2006**	2005	2004
Operating income			
United States			
Cleaning & Sanitizing	**$329**	$280	$266
Other Services	**39**	36	21
Total United States	**368**	316	287
International	**234**	219	209
Total	**602**	535	496
Corporate	**–**	–	(4)
Effect of foreign currency translation	**10**	7	(2)
Consolidated	**$612**	$542	$490
Operating income as a percent of net sales			
United States			
Cleaning & Sanitizing	**15.3%**	14.3%	14.8%
Other Services	**9.5**	9.6	6.0
Total United States	**14.4**	13.6	13.4
International	**10.3**	10.3	10.2
Consolidated	**12.5%**	12.0%	11.7%

Operating income of our United States Cleaning & Sanitizing operations increased 18 percent to $329 million in 2006. As a percentage of net sales, operating income increased to 15.3 percent in 2006 from 14.3 percent in 2005. Acquisitions and divestitures had no effect on the overall percentage increase in operating income. Operating income increased due to pricing, higher sales volume and improved cost efficiencies, which more than offset higher delivered product costs and investments in the business.

Operating income of our United States Other Services operations increased 8 percent to $39 million in 2006. As a percentage of net sales, operating income decreased slightly to 9.5 percent in 2006 from 9.6 percent in 2005. Double-digit operating income growth at Pest Elimination was offset by slow sales growth as well as investments in the GCS business. Operating income growth and operating income margin comparisons were also impacted by a $0.5 million regulatory expense in the second quarter of 2006 and a $0.5 million patent settlement benefit in the first quarter of 2005.

Management-rate based operating income of International operations rose 7 percent to $234 million in 2006. The International operating income margin was 10.3 percent in both 2006 and 2005. Acquisitions and divestitures occurring in 2006 and 2005 increased operating income growth by 1 percent over 2005. Operating income growth benefited from pricing, sales volume growth and cost efficiencies which more than offset higher delivered product costs and investments in the business.

Operating income margins of our International operations are generally less than those realized for our U.S. operations. The lower International margins are due to (i) the additional costs caused by the difference in scale of International operations where many operating locations are smaller in size, (ii) the additional cost of operating in numerous and diverse foreign jurisdictions and (iii) higher costs of importing raw materials and finished goods. Proportionately larger investments in sales, technical support and administrative personnel are also necessary in order to facilitate the growth of our International operations.

2005 COMPARED WITH 2004

Sales of our United States Cleaning & Sanitizing operations reached nearly $2.0 billion in 2005 and increased 9 percent over net sales of $1.8 billion in 2004. Acquisitions and divestitures increased sales by 1 percent for 2005. Sales benefited from double-digit organic growth in our Kay division, along with good growth in our Institutional and Food & Beverage divisions. This sales performance reflects increased account retention and penetration through enhanced service, new product and program initiatives and aggressive new account sales efforts. Institutional sales grew 7 percent in 2005 reflecting sales growth in all end market segments, including travel, casual dining, healthcare, and government markets. Food & Beverage sales increased 9 percent compared to 2004. Excluding the benefits of the 2004 Alcide acquisition, Food & Beverage sales increased 5 percent for 2005 primarily due to gains in the dairy, food and soft drink markets reflecting increasing penetration of existing corporate accounts as well as new business. Kay's sales increased 11 percent, led by strong gains in sales to its core quickservice customers and in its food retail services business.

Sales of our United States Other Services operations increased 11 percent to $375 million in 2005. Pest Elimination had 12 percent sales growth including double-digit sales growth in both core pest elimination contract and non-contract services, such as bird and termite work, fumigation, one-shot services and its food safety audit business. GCS Service sales grew 8 percent in 2005 as service and installed parts sales increased over 2004. GCS continued to increase technician productivity and improve customer service satisfaction.

Management rate sales of our International operations were $2.1 billion in 2005, an increase of 5 percent over sales of $2.0 billion in 2004. Acquisitions and divestitures increased sales 1 percent in 2005. Sales in Europe, excluding acquisitions and divestitures, were up 2 percent from 2004. Sales were affected by an overall weak European economy, particularly in the major central countries. Sales in Asia Pacific, excluding acquisitions and divestitures, increased 7 percent. The growth was primarily driven by East Asia, including continued growth in China. Asia Pacific growth was driven by new corporate accounts and good results in the beverage and brewery segment. Latin America continued its double-digit sales growth as sales grew 15 percent over 2004, reflecting growth in all countries with Mexico, Chile and Argentina showing the strongest growth. Results were due to new account gains, growth of existing accounts and strong equipment sales. Sales in Canada increased 8 percent in 2005, reflecting good results from all divisions.

Operating income of our United States Cleaning & Sanitizing operations was $280 million in 2005, an increase of 5 percent from operating income of $266 million in 2004. As a percentage of net sales, operating income decreased from 14.8 percent in 2004 to 14.3 percent in 2005. Acquisitions and divestitures had no effect on the overall percentage increase in operating income. The increase in operating income in 2005 reflects the benefits of higher sales, pricing and lower share-based compensation expense being partially offset by higher delivered product costs. Operating income margins declined because the negative impact of higher delivered product costs more than offset the benefits of pricing, cost savings and sales leverage.

Operating income of United States Other Services operations increased 76 percent to $36 million in 2005. The operating income margin for United States Other Services increased to 9.6 percent in 2005 from 6.0 percent in 2004. Pest Elimination had double-digit operating income growth and GCS Service results reflect sharp profitability improvement in 2005. The increase in operating income for Pest Elimination was driven by strong sales and leverage of sales and administrative teams, with pricing and productivity improvements offsetting cost increases. GCS Service narrowed its operating loss substantially in 2005 due to good sales growth and operational improvements. GCS Service operating income growth also benefited from a favorable comparison to 2004 which included a sales decline, increased marketing expenses and higher than expected costs resulting from centralizing the parts and administration activities.

Management-rate based operating income of International operations rose 5 percent to $219 million in 2005 from operating income of $209 million in 2004. The International operating income margin was 10.3 percent in 2005 and 10.2 percent 2004. Excluding the impact of acquisitions and divestitures occurring in 2005 and 2004, operating income increased 3 percent over 2004. Sales growth, pricing, lower share-based compensation expense and cost efficiencies were partially offset by higher delivered product costs, unfavorable business mix and investments.

CORPORATE

We had no operating expenses in our corporate segment in 2006 or 2005 and $4.5 million in 2004. In 2004, corporate operating expense included a charge of $1.6 million for in-process research and development as part of the acquisition of Alcide Corporation and a charge of $4.0 million related to the disposal of a grease management product line, which were partially offset by $0.8 million of income for reductions in restructuring accruals and a $0.3 million gain on the sale of a small international business.

INTEREST AND INCOME TAXES

Net interest expense was $44 million for both 2006 and 2005. An increase in interest expense during 2006 was offset by higher interest income.

Net interest expense in 2005 decreased to $44 million compared to $45 million in 2004. The decrease was caused by higher interest income during the year due to increased levels of cash and cash equivalents and short-term investments offset partially by a small increase in interest expense.

Our effective income tax rate was 35.0 percent for 2006, compared with an effective income tax rate of 35.9 percent for 2005 and 36.4 percent in 2004. Reductions in our effective income tax rates over the last three years have primarily been due to favorable international mix, lower international statutory rates and the impact of tax planning efforts. Excluding the benefit of the $1.8 million tax settlement for stewardship costs and a $0.5 million benefit related to prior years, the estimated effective income tax rate was 35.4 percent for 2006. Excluding the effects of the $3.1 million tax charge related to the repatriation of foreign earnings under the AJCA and other one-time benefits, the estimated annual effective income tax rate for 2005 was 35.6 percent. Excluding the effects of special charges mentioned above in the corporate section and a $1.9 million tax benefit related to prior years, the estimated annual effective income tax rate was 36.7 percent for 2004.

FINANCIAL POSITION & LIQUIDITY

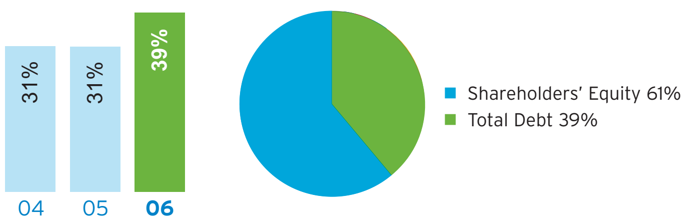
FINANCIAL POSITION

Our debt continued to be rated within the "A" categories by the major rating agencies during 2006. Significant changes in our financial position during 2006 included the following:

Total assets increased 16 percent to $4.4 billion as of December 31, 2006 from $3.8 billion at year-end 2005. Total assets increased primarily due to an increase in cash and cash equivalents resulting from $396 million of proceeds received from a new debt offering in December. Foreign currency translation added approximately $175 million to the value of non-U.S. assets on the balance sheet as the U.S. dollar weakened against foreign currencies, primarily the euro. Additionally, acquisitions added $83 million of assets.

Total liabilities increased $592 million in 2006. This included an increase in total debt discussed below and an increase of $81 million in post retirement healthcare and pension benefits due to the adoption of SFAS 158 as discussed in Note 15. Total liabilities also reflected an increase resulting from the effects of currency translation.

TOTAL DEBT TO CAPITALIZATION
PERCENT

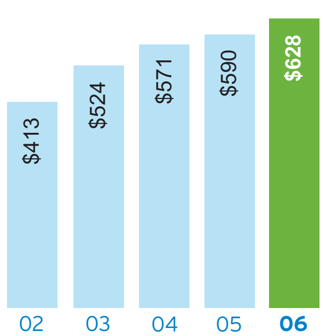


Total debt was $1.1 billion at December 31, 2006 and increased from total debt of $746 million at year-end 2005. This increase in total debt during 2006 was primarily due to the issuance of euro 300 million senior notes ($396 million as of December 31, 2006) to refinance our euronotes which became due in February 2007. The ratio of total debt to capitalization (total debt divided by the sum of shareholders' equity plus total debt) was 39 percent at year-end 2006 and 31 percent at year-end 2005. The debt to capitalization ratio increased significantly in 2006, due to the new senior notes issued as well as a decrease in our equity of $168 million for a change in accounting due to the adoption of SFAS 158. Normalizing for these items, the total debt to capitalization would have been 27 percent for 2006. We view our debt to capitalization ratio as an important indicator of our creditworthiness.

CASH FLOWS

Cash provided by operating activities was $628 million for 2006, an increase over $590 million in 2005 and $571 million in 2004. The increase in operating cash flow for 2006 over 2005 reflects our higher net income offset partially by an increase in income tax payments and accounts receivable in 2006. The increase in operating cash flow for 2005 over 2004 is due to higher net income and improved collection of accounts receivable as well as better inventory management. Historically, we have had strong operating cash flows and we anticipate this will continue. We expect to continue to use this cash flow to acquire new businesses, repurchase our common stock, pay down debt and meet our ongoing obligations and commitments.

CASH PROVIDED BY OPERATING ACTIVITIES
MILLIONS



Cash used for investing activities decreased from 2005 due primarily to the timing of purchases and sales of short-term investments offset by higher acquisition activity, capital expenditures and capitalized software expenditures. Capital software expenditures increased due to investments in business systems. We expect capital software expenditures to increase significantly in 2007 as we continue to invest in our business systems.

Financing cash flow activity included cash proceeds from new senior note borrowings of $396 million, debt repayment and dividend payments. Share repurchases were $283 million in 2006, $213 million in 2005 and $165 million in 2004. These repurchases were funded with operating cash flows and cash from the exercise of employee stock options. In December 2004, we announced an authorization to repurchase up to 10 million shares of Ecolab common stock. In October 2006, we announced an authorization to repurchase up to 10 million additional shares of Ecolab common stock. As of December 31, 2006, approximately 12.9 million shares remained to be purchased under these authorizations. Shares are repurchased for the purpose of offsetting the dilutive effect of stock options and incentives and for general corporate purposes. During 2007, we expect to repurchase at least enough shares to offset the dilutive effect of stock options. Cash proceeds from the exercises as well as the tax benefits will provide a portion of the funding for this repurchase activity.

In 2006, we increased our indicated annual dividend rate for the fifteenth consecutive year. We have paid dividends on our common stock for 70 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
2006	**$0.1000**	**$0.1000**	**$0.1000**	**$0.1150**	**$0.4150**
2005	0.0875	0.0875	0.0875	0.1000	0.3625
2004	0.0800	0.0800	0.0800	0.0875	0.3275

LIQUIDITY AND CAPITAL RESOURCES

We currently expect to fund all of the requirements which are reasonably foreseeable for 2007, including scheduled debt repayments, new investments in the business, share repurchases, dividend payments, possible business acquisitions and pension contributions from operating cash flow, cash reserves and short-term borrowings.

In December 2006, we issued and sold in a private placement euro 300 million ($396 million as of December 31, 2006) aggregate principal amount of senior notes in two series: 4.355% Series A Senior Notes due 2013 in the aggregate principal amount of euro 125 million and 4.585% Series B Senior Notes due 2016 in the aggregate principal amount of euro 175 million (the "Notes)," pursuant to a Note Purchase Agreement dated July 26, 2006, between the company and the purchasers. The Notes are not subject to prepayment except where, in certain specified instances, we consolidate or merge all or substantially all of our assets with any other Person (as defined in the Note Purchase Agreement). Upon such consolidation or merger, we will offer to prepay all of the Notes at 100 percent of the principal amount outstanding plus accrued interest. In the event of a default by the company under the Note Purchase Agreement, the Notes may become immediately due and payable for the unpaid principal amount, accrued interest and a make-whole amount determined as of the time of the default. The proceeds were used to repay our euro 300 million 5.375 percent euronotes which became due in February 2007.

While cash flows could be negatively affected by a decrease in revenues, we do not believe that our revenues are highly susceptible, in the short term, to rapid changes in technology within our industry. We have a $450 million U.S. commercial paper program and a $200 million European commercial paper program. Both programs are rated A-1 by Standard & Poor's and P-1 by Moody's. To support our commercial paper programs and other general business funding needs, we maintain a $450 million multi-year committed credit agreement which expires in June 2011 and under certain circumstances can be increased by $150 million for a total of $600 million. We can draw directly on the credit facility on a revolving credit basis. As of December 31, 2006, $30 million of this credit facility was committed to support outstanding U.S. commercial paper, leaving $420 million available for other uses. In addition, we have other committed and uncommitted credit lines of approximately $190 million with major international banks and financial institutions to support our general global funding needs. Additional details on our credit facilities are included in Note 6 of the notes to consolidated financial statements.

During 2006, we voluntarily contributed $45 million to our U.S. pension plan. In making this contribution, we considered the normal growth in accrued plan benefits, the impact of lower year-end discount rates on the plan liability and the tax deductibility of the contribution. We expect our combined U.S. qualified and nonqualified pension plan expense to decrease slightly to approximately $40 million in 2007 from $41 million in 2006, primarily due to expected returns on a higher level of plan assets and an increase in the discount rate from 5.57 percent to 5.79 percent for the 2007 expense calculation. The expected return on plan assets of 8.75 percent is consistent with 2006.

A schedule of our obligations under various notes payable, long-term debt agreements, operating leases with noncancelable terms in excess of one year, interest obligations and benefit payments are summarized in the following table:

THOUSANDS	PAYMENTS DUE BY PERIOD				
Contractual obligations	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Note payable	$ 109,100	$109,100	$ –	$ –	$ –
Long-term debt	956,936	399,878	4,475	151,988	400,595
Operating leases	142,000	44,000	57,000	28,000	13,000
Interest*	223,347	34,172	64,250	54,290	70,635
Benefit payments**	760,000	52,000	123,000	138,000	447,000
Total contractual cash obligations	$2,191,383	$639,150	$248,725	$372,278	$931,230

* Interest on variable rate debt was calculated using the interest rate at year-end 2006.

**Benefit payments are paid out of the company's pension and postretirement health care benefit plans.

We are not required to make any contributions to our U.S. pension and postretirement health care benefit plans in 2007, based on plan asset values as of December 31, 2006. Certain international pension benefit plans are required to be funded in accordance with local government requirements. We estimate contributions to be made to our international plans will approximate $20 million in 2007. These amounts have been excluded from the schedule of contractual obligations.

We lease sales and administrative office facilities, distribution center facilities, computers and other equipment under longer-term operating leases. Vehicle leases are generally shorter in duration. Vehicle leases have guaranteed residual value requirements that have historically been satisfied by the proceeds on the sale of the vehicles. No amounts have been recorded for these guarantees in the table preceding as we believe that the potential recovery of value from the vehicles when sold will be greater than the residual value guarantee.

Except for approximately $56 million of letters of credit supporting domestic and international commercial relationships and transactions, we do not have significant unconditional purchase obligations, or significant other commercial commitments, such as commitments under lines of credit, standby letters of credit, guarantees, standby repurchase obligations or other commercial commitments.

As of year-end 2006, we are in compliance with all covenants and other requirements of our credit agreements and indentures. Our $450 million multicurrency credit agreement, as amended and restated effective June 1, 2006, no longer includes a covenant regarding the ratio of total debt to capitalization. Our new euro 300 million senior notes include covenants regarding the amount of indebtedness secured by liens and subsidiary indebtedness allowed. Additionally, we do not have any rating triggers that would accelerate the maturity dates of our debt.

A downgrade in our credit rating could limit or preclude our ability to issue commercial paper under our current programs. A credit rating downgrade could also adversely affect our ability to renew existing, or negotiate new credit facilities in the future and could increase the cost of these facilities. Should this occur, we could seek additional sources of funding, including issuing term notes or bonds. In addition, we have the ability at our option to draw upon our $450 million committed credit facilities prior to their termination and, under certain conditions, can increase this amount to $600 million.

OFF-BALANCE SHEET ARRANGEMENTS

Other than operating leases, we do not have any off-balance sheet financing arrangements. See Note 12 for information on our operating leases. We do not have relationships with unconsolidated entities or financial partnerships, such as entities often referred to as "structured finance" or "special purposes entities", which are sometimes established for the purpose of facilitating off-balance sheet financial arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

NEW ACCOUNTING PRONOUNCEMENTS

We adopted the provisions of SFAS 158 effective as of our 2006 year end. The impact of adopting SFAS 158 is reflected as a reduction in net assets on our balance sheet of $168 million, with no impact to the statements of income and cash flows. See Note 15 for more information on this adoption.

FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48") is effective beginning January 1, 2007 with the cumulative effect of initially applying FIN 48 recognized as a change in accounting principle recorded as an adjustment to opening retained earnings. We do not expect the impact of adoption to be material to our consolidated financial statements.

See Note 2 for additional information on these and other new accounting pronouncements.

MARKET RISK

We enter into contractual arrangements (derivatives) in the ordinary course of business to manage foreign currency exposure and interest rate risks. We do not enter into derivatives for trading purposes. Our use of derivatives is subject to internal policies that provide guidelines for control, counterparty risk and ongoing monitoring and reporting and is designed to reduce the volatility associated with movements in foreign exchange and interest rates on our income statement and cash flows.

We enter 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 and net investments denominated in currencies other than U.S. dollars. At December 31, 2006, we had approximately $375 million notional amount of foreign currency forward exchange contracts with face amounts denominated primarily in euros.

We manage interest expense using a mix of fixed and floating rate debt. To help manage borrowing costs, we may enter into interest rate swap agreements. Under these arrangements, we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. At year-end 2006, we had an interest rate swap that converts approximately euro 78 million (approximately $103 million U.S. dollars) of our Euronote debt from a fixed interest rate to a floating or variable interest rate. This swap agreement expired in February 2007.

Based on a sensitivity analysis (assuming a 10 percent adverse change in market rates) of our foreign exchange and interest rate derivatives and other financial instruments, changes in exchange rates or interest rates would not materially affect our financial position and liquidity. The effect on our results of operations would be substantially offset by the impact of the hedged items.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This financial discussion and other portions of this Annual Report to Shareholders contain various "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning:

- business progress and expansion,
- business acquisitions,
- currency translation,
- cash flows,
- debt repayments,
- share repurchases,
- global economic conditions,
- pension expenses and potential contributions,
- income taxes
- and liquidity requirements.

Without limiting the foregoing, words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "we believe," "we expect," "estimate," "project" (including the negative or variations thereof) or similar terminology, general identify forward-looking statements. Forward-looking statements may also represent challenging goals for us. We caution that undue reliance should not be placed on such forward-looking statements, which speak only as of the date made. Some of the factors which could cause results to differ from those expressed in any forward-looking statements are set forth under Item 1A of our Form 10-K for the year ended December 31, 2006, entitled Risk Factors.

In addition, we note that our stock price can be affected by fluctuations in quarterly earnings. There can be no assurances that our earnings levels will meet investors' expectations. We undertake no duty to update our Forward-Looking Statements.

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31 (THOUSANDS, EXCEPT PER SHARE)	**2006**	2005	2004
Net sales	**$4,895,814**	$4,534,832	$4,184,933
Operating expenses			
Cost of sales (including special charges (income) of ($106) in 2004)	**2,416,058**	2,248,831	2,033,492
Selling, general and administrative expenses	**1,868,114**	1,743,581	1,657,084
Special charges			4,467
Operating income	**611,642**	542,420	489,890
Interest expense, net	**44,418**	44,238	45,344
Income before income taxes	**567,224**	498,182	444,546
Provision for income taxes	**198,609**	178,701	161,853
Net income	**$ 368,615**	$ 319,481	$ 282,693
Net income per common share			
Basic	**$ 1.46**	$ 1.25	$ 1.10
Diluted	**$ 1.43**	$ 1.23	$ 1.09
Dividends declared per common share	**$ 0.4150**	$ 0.3625	$ 0.3275
Weighted-average common shares outstanding			
Basic	**252,132**	255,741	257,575
Diluted	**257,144**	260,098	260,407

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

CONSOLIDATED BALANCE SHEET

DECEMBER 31 (THOUSANDS, EXCEPT PER SHARE)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 484,029	$ 104,378
Short-term investments		125,063
Accounts receivable, net	867,541	743,520
Inventories	364,886	325,574
Deferred income taxes	86,870	65,880
Other current assets	50,231	57,251
Total current assets	1,853,557	1,421,666
Property, plant and equipment, net	951,569	868,053
Goodwill	1,035,929	937,019
Other intangible assets, net	223,787	202,936
Other assets, net	354,523	366,954
Total assets	$4,419,365	$3,796,628
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	$ 508,978	$ 226,927
Accounts payable	330,858	277,635
Compensation and benefits	252,686	214,131
Income taxes	17,698	39,583
Other current liabilities	392,510	361,081
Total current liabilities	1,502,730	1,119,357
Long-term debt	557,058	519,374
Postretirement health care and pension benefits	420,245	302,048
Other liabilities	259,102	206,639
Shareholders' equity (a)	1,680,230	1,649,210
Total liabilities and shareholders' equity	$4,419,365	$3,796,628

(a) Common stock, 400,000 shares authorized, $1.00 par value, 251,337 shares issued and outstanding at December 31, 2006, 254,143 shares issued and outstanding at December 31, 2005.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31 (THOUSANDS)	**2006**	2005	2004
OPERATING ACTIVITIES			
Net income	**$368,615**	$319,481	$282,693
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**268,569**	256,935	246,954
Deferred income taxes	**(18,806)**	(13,021)	14,342
Share-based compensation expense	**36,326**	39,087	44,660
Excess tax benefits from share-based payment arrangements	**(19,763)**	(11,682)	(11,556)
Disposal loss, net	**387**		3,691
Charge for in-process research and development			1,600
Other, net	**1,282**	(882)	(2,507)
Changes in operating assets and liabilities:			
Accounts receivable	**(66,774)**	(44,839)	(47,217)
Inventories	**(17,987)**	2,553	(5,481)
Other assets	**(27,138)**	(21,853)	(31,723)
Accounts payable	**44,519**	18,987	34,841
Other liabilities	**58,334**	45,370	40,611
Cash provided by operating activities	**627,564**	590,136	570,908
INVESTING ACTIVITIES			
Capital expenditures	**(287,885)**	(268,783)	(275,871)
Property disposals	**25,622**	21,209	18,373
Capitalized software expenditures	**(33,054)**	(10,949)	(9,688)
Businesses acquired and investments in affiliates, net of cash acquired	**(65,532)**	(26,967)	(129,822)
Sale of businesses and assets	**1,802**	1,441	3,417
Proceeds from sales and maturities of short-term investments	**125,063**	60,625	
Purchases of short-term investments		(185,688)	
Cash used for investing activities	**(233,984)**	(409,112)	(393,591)
FINANCING ACTIVITIES			
Net borrowings (repayments) of notes payable	**(47,712)**	96,683	(17,474)
Long-term debt borrowings	**396,150**	4,664	7,325
Long-term debt repayments	**(86,287)**	(5,710)	(6,632)
Reacquired shares	**(282,764)**	(213,266)	(165,414)
Cash dividends on common stock	**(101,174)**	(89,807)	(82,419)
Exercise of employee stock options	**87,946**	49,726	59,989
Excess tax benefits from share-based payment arrangements	**19,763**	11,682	11,556
Other, net	**(2,283)**		(800)
Cash used for financing activities	**(16,361)**	(146,028)	(193,869)
Effect of exchange rate changes on cash	**2,432**	(1,849)	2,157
Increase (decrease) in cash and cash equivalents	**379,651**	33,147	(14,395)
Cash and cash equivalents, beginning of year	**104,378**	71,231	85,626
Cash and cash equivalents, end of year	**$484,029**	$104,378	$ 71,231

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND SHAREHOLDERS' EQUITY

THOUSANDS	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL
Balance December 31, 2003	$310,284	$459,974	$1,294,165	$ 4,098	$ (747,440)	$1,321,081
Net income			282,693			282,693
Foreign currency translation				71,029		71,029
Other comprehensive loss				(2,674)		(2,674)
Minimum pension liability				(293)		(293)
Comprehensive income						350,755
Cash dividends declared			(84,410)			(84,410)
Stock options and awards	3,624	115,238			118	118,980
Business acquisitions	1,835	55,314				57,149
Reacquired shares					(165,414)	(165,414)
Balance December 31, 2004	315,743	630,526	1,492,448	72,160	(912,736)	1,598,141
Net income			319,481			319,481
Foreign currency translation				(50,516)		(50,516)
Other comprehensive income				4,365		4,365
Minimum pension liability				(16,245)		(16,245)
Comprehensive income						257,085
Cash dividends declared			(92,728)			(92,728)
Stock options and awards	2,860	96,902			216	99,978
Reacquired shares					(213,266)	(213,266)
Balance December 31, 2005	318,603	727,428	1,719,201	9,764	(1,125,786)	1,649,210
Net income			**368,615**			**368,615**
Foreign currency translation				**65,776**		**65,776**
Other comprehensive income				**(3,352)**		**(3,352)**
Minimum pension liability				**(617)**		**(617)**
Comprehensive income						**430,422**
Cumulative effect adjustment for adoption of SFAS 158				**(168,083)**		**(168,083)**
Cash dividends declared			**(104,544)**			**(104,544)**
Stock options and awards	**3,975**	**140,745**			**960**	**145,680**
Reacquired shares					**(272,455)**	**(272,455)**
Balance December 31, 2006	**$322,578**	**$868,173**	**$1,983,272**	**$ (96,512)**	**$(1,397,281)**	**$1,680,230**

COMMON STOCK ACTIVITY

YEAR ENDED DECEMBER 31 (SHARES)	**2006** COMMON STOCK	**2006** TREASURY STOCK	2005 COMMON STOCK	2005 TREASURY STOCK	2004 COMMON STOCK	2004 TREASURY STOCK
Shares, beginning of year	**318,602,705**	**(64,459,800)**	315,742,759	(58,200,908)	310,284,083	(52,867,561)
Stock options	**3,975,722**	**172,665**	2,859,946	18,666	3,623,917	1,200
Stock awards, net issuances		**49,519**		34,689		24,460
Business acquisitions					1,834,759	
Reacquired shares		**(7,003,944)**		(6,312,247)		(5,359,007)
Shares, end of year	**322,578,427**	**(71,241,560)**	318,602,705	(64,459,800)	315,742,759	(58,200,908)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Ecolab Inc. (the "company") develops and markets premium products and services for the hospitality, foodservice, healthcare and industrial markets. The company provides cleaning and sanitizing products and programs, as well as pest elimination, maintenance and repair services primarily to hotels and restaurants, healthcare and educational facilities, quickservice (fast-food and convenience stores) units, grocery stores, commercial and institutional laundries, light industry, dairy plants and farms, food and beverage processors and the vehicle wash industry.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and all majority-owned subsidiaries. International subsidiaries are included in the financial statements on the basis of their November 30 fiscal year-ends to facilitate the timely inclusion of such entities in the company's consolidated financial reporting. All intercompany transactions and profits are eliminated in consolidation.

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.

FOREIGN CURRENCY TRANSLATION

Financial position and results of operations of the company's international subsidiaries 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. The translation adjustments related to assets and liabilities that arise from the use of differing exchange rates from period to period are included in accumulated other comprehensive income (loss) in shareholders' equity. The cumulative translation gain as of year-end 2006, 2005 and 2004 was $57.0 million, $8.1 million and $87.1 million, respectively. Income statement accounts are translated at the average rates of exchange prevailing during the year. The different exchange rates from period to period impact the amount of reported income from the company's international operations. Foreign currency translation positively impacted net income by approximately $2 million, $5 million and $11 million for the years ended December 31, 2006, 2005 and 2004, respectively.

RECLASSIFICATION

Capitalized software has been reclassified on the company's balance sheet from Other Assets to Property, Plant and Equipment. Prior period balance sheet amounts have also been reclassified to conform to the current year presentation. Net capitalized software was $54.7 million and $32.6 million at December 31, 2006 and 2005, respectively.

CASH AND CASH EQUIVALENTS

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

SHORT-TERM INVESTMENTS

Short-term investments at December 31, 2005 consist solely of auction-rate debt securities classified as available-for-sale, which are stated at estimated fair value. All of these securities held by the company as of December 31, 2005 have auction reset periods of 35 days or less and the carrying value approximates market value given the short reset periods. These investments were sold in the first quarter of 2006. No unrealized or realized gains or losses were recognized related to short-term investments during the years ended December 31, 2006 and 2005.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The company estimates the balance of allowance for doubtful accounts by analyzing accounts receivable balances by age and applying historical write-off trend rates to the most recent 12 months' sales, less actual write-offs to date. The company estimates include separately providing for specific customer balances when it is deemed probable that the balance is uncollectible. Account balances are charged off against the allowance when it is probable the receivable will not be recovered.

The company's allowance for doubtful accounts balance includes an allowance for the expected return of products shipped and credits related to pricing or quantities shipped of approximately $6 million and $5 million as of December 31, 2006 and 2005, respectively. This returns and credit activity is recorded directly to sales.

The following table summarizes the activity in the allowance for doubtful accounts:

THOUSANDS	**2006**	2005
Beginning balance	**$38,851**	$44,199
Bad debt expense	**12,947**	11,589
Write-offs	**(17,483)**	(14,743)
Other*	**3,304**	(2,194)
Ending balance	**$37,619**	$38,851

*Other amounts are primarily the effects of changes in currency.

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 28 percent and 32 percent of consolidated inventories at year-end 2006 and 2005, 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 the company's cleaning and sanitizing products and 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. The company capitalizes both internal and external costs of development or purchase of computer software for internal use. Costs incurred for data conversion, training and maintenance associated with capitalized software are expensed as incurred.

Depreciation is charged to operations using the straight-line method over the assets' estimated useful lives ranging from 5 to 50 years for buildings and leaseholds, 3 to 11 years for machinery and equipment and 3 to 7 years for merchandising equipment and capital software.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated.

Upon retirement or disposition of plant and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets arise principally from business acquisitions. Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. Other intangible assets primarily include customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. The weighted-average useful life of other intangible assets was 14 years as of December 31, 2006 and 2005.

The weighted-average useful life by type of asset at December 31, 2006 is as follows:

NUMBER OF YEARS	
Customer relationships	12
Intellectual property	15
Trademarks	20
Other	7

The straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained by the company in each reporting period. Total amortization expense related to other intangible assets during the years ended December 31, 2006, 2005 and 2004 was approximately $25.0 million, $23.5 million and $21.7 million, respectively. As of December 31, 2006, future estimated amortization expense related to amortizable other identifiable intangible assets will be:

THOUSANDS	
2007	$28,000
2008	28,000
2009	26,000
2010	24,000
2011	23,000

The company tests goodwill for impairment on an annual basis for all reporting units. Generally, the company's reporting units are its operating segments. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its implied fair value. Fair values of reporting units are established using a discounted cash flow method. Where available and as appropriate comparative market multiples are used to corroborate the results of the discounted cash flow method. Based on the company's testing, there has been no impairment of goodwill during the three years ended December 31, 2006. The company performs its annual goodwill impairment test during the second quarter. If circumstances change significantly within a reporting unit, the company would also test a reporting unit for impairment prior to the annual test.

LONG-LIVED ASSETS

The company periodically reviews its long-lived assets for impairment and assesses whether significant events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss may be recognized when the carrying amount of an asset exceeds the anticipated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded, if any, is calculated by the excess of the asset's carrying value over its fair value.

REVENUE RECOGNITION

The company recognizes revenue as services are performed or on product sales at the time title to the product and risk of loss transfers to the customer. The company's sales policies do not provide for general rights of return and do not contain customer acceptance clauses. Trade accounts receivable are recorded at the invoiced amount and generally do not bear interest. The company records estimated reductions to revenue for customer programs and incentive offerings, including pricing arrangements, promotions and other volume-based incentives at the time the sale is recorded. The company also records estimated reserves for anticipated uncollectible accounts and for product returns and credits at the time of sale.

INCOME PER COMMON SHARE

The computations of the basic and diluted net income per share amounts were as follows:

THOUSANDS EXCEPT PER SHARE	2006	2005	2004
Net income	$368,615	$319,481	$282,693
Weighted-average common shares outstanding			
Basic	252,132	255,741	257,575
Effect of dilutive stock options and awards	5,012	4,357	2,832
Diluted	257,144	260,098	260,407
Net income per common share			
Basic	$ 1.46	$ 1.25	$ 1.10
Diluted	$ 1.43	$ 1.23	$ 1.09

Restricted stock awards of 24,670 shares for 2006, 22,175 shares for 2005 and 62,300 shares for 2004 were excluded from the computation of basic weighted-average shares outstanding because such shares were not yet vested at those dates.

Stock options to purchase approximately 2.6 million shares for 2006, 7.1 million shares for 2005 and 4.2 million shares for 2004 were not dilutive and, therefore, were not included in the computations of diluted common shares outstanding.

SHARE-BASED COMPENSATION

Effective October 1, 2005, the company early-adopted Statement of Financial Accounting Standard No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R") under the modified retrospective application method. SFAS 123R requires the company to measure compensation expense for share-based awards at fair value at the date of grant and recognize compensation expense over the service period for awards expected to vest. As part of the transition to the new standard, all prior period financial statements were restated to recognize share-based compensation expense historically reported in the notes to the consolidated financial statements.

Effective with the company's adoption of SFAS 123R, new stock option grants to retirement eligible recipients are attributed to expense using the non-substantive vesting method and are fully expensed by the time recipients attain age 55 with at least 5 years of service. If the company had used the non-substantive vesting method during all periods, net income for 2006, 2005 and 2004 would have increased by approximately $2.7 million, $2.5 million and $5.2 million, respectively. In addition, the company previously accounted for forfeitures when they occurred. Commencing at the date of adoption, the company includes a forfeiture estimate in the amount of compensation expense being recognized. This change from the company's historical practice of recognizing forfeitures as they occur did not result in the recognition of any cumulative adjustments to income. The company has used the actual tax effects of stock options and the transition guidance prescribed within SFAS 123R for establishing the pool of excess tax benefits (APIC Pool).

COMPREHENSIVE INCOME

Comprehensive income includes net income, foreign currency translation adjustments, minimum pension liabilities, gains and losses on derivative instruments designated and effective as cash flow hedges and nonderivative instruments designated and effective as foreign currency net investment hedges that are charged or credited to the accumulated other comprehensive income (loss) account in shareholders' equity.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The company uses foreign currency forward contracts, interest rate swaps and foreign currency debt to manage risks generally associated with foreign exchange rates, interest rates and net investments in foreign operations. The company does not hold derivative financial instruments of a speculative nature. On the date that the company enters into a derivative contract, it designates the derivative as (1) a hedge of (a) the fair value of a recognized asset or liability or (b) an unrecognized firm commitment (a "fair value" hedge), (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge); or (3) a foreign-currency fair-value or cash flow hedge (a "foreign currency" hedge). The company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the company will discontinue hedge accounting prospectively. The company believes that on an ongoing basis its portfolio of derivative instruments will generally be highly effective as hedges.

All of the company's derivatives are recognized on the balance sheet at their fair value. The earnings impact resulting from the change in fair value of the derivative instruments is recorded in the same line item in the consolidated statement of income as the underlying exposure being hedged.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB statements 87, 88, 106 and 132(R)" ("SFAS 158"). SFAS 158 requires the company to recognize on its balance sheet the funded status of the company's defined benefit pension and post-retirement plans. SFAS 158 also requires that all benefit plans use the company's fiscal year-end as its measurement date. As required, the company prospectively adopted SFAS 158 beginning with its 2006 year end. The effect of initially adopting SFAS 158 is reflected as a cumulative adjustment to Accumulated Other Comprehensive Income (Loss) net of applicable taxes in the year of adoption. The impact of adopting SFAS 158 is reflected as a reduction in net assets on the company's balance sheet of $168 million, with no impact to the statement of income and cash flows. See Note 15 for additional information.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurement", which defines fair value, establishes a framework for measuring fair value and expanded disclosures about fair value measurement. Companies are required to adopt the new standard for fiscal periods beginning after November 15, 2007. The company is evaluating the impact of this standard and does not expect it will have a material impact on its consolidated financial statements.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109, "Accounting for Income Taxes". For each tax position the company will be required to recognize, in its financial statements, the largest tax benefit that is "more-likely-than-not" to be sustained on audit based solely on the technical merits of the position as of the reporting date. FIN 48 also provides guidance on new disclosure requirements, reporting and accrual of interest and penalties, accounting in interim periods, and transition. FIN 48 is effective beginning January 1, 2007 with the cumulative effect of initially applying FIN 48 recognized as a change in accounting principle recorded as an adjustment to opening retained earnings. The company does not expect the impact of adoption to be material to the company's consolidated financial statements.

No other new accounting pronouncement issued or effective has had or is expected to have a material impact on the company's consolidated financial statements.

3. SPECIAL CHARGES

Special charges in 2004 included a charge of $1.6 million for in-process research and development related to the Alcide acquisition and a charge of $4.0 million on the disposal of a grease management product line, which were partially offset by $0.8 million of income for reductions in restructuring accruals and a $0.3 million gain on the sale of a small international business. For segment reporting purposes, these items have been included in the company's corporate segment, which is consistent with the company's internal management reporting.

4. RELATED PARTY TRANSACTIONS

Henkel KGaA ("Henkel") beneficially owned 72.7 million shares, or approximately 28.9 percent, of the company's outstanding common stock on December 31, 2006. Under a stockholders' agreement between the company and Henkel, Henkel is permitted ownership in the company of up to 35 percent of the company's outstanding common stock. Henkel is also entitled to proportionate representation on the company's board of directors.

In 2006, 2005 and 2004, the company and its affiliates sold products and services in the aggregate amounts of $5.7 million, $3.6 million and $3.2 million, respectively, to Henkel or its affiliates, and purchased products and services in the amounts of $66.0 million, $65.3 million and $70.9 million, respectively, from Henkel or its affiliates. The transactions with Henkel and its affiliates were made in the ordinary course of business and were negotiated at arm's length.

5. BUSINESS ACQUISITIONS AND DISPOSITIONS

BUSINESS ACQUISITIONS

Business acquisitions made by the company during 2006, 2005 and 2004 were as follows:

BUSINESS ACQUIRED	DATE OF ACQUISITION	SEGMENT	ESTIMATED ANNUAL SALES PRIOR TO ACQUISITION (MILLIONS) (UNAUDITED)
2006			
Shield Medicare Ltd.	June 2006	International (Europe)	$19
DuChem Industries, Inc.	Sept. 2006	U.S. C&S (Food & Beverage)	10
Powles Hunt & Sons International Ltd.	Sept. 2006	International (Europe)	5
2005			
Associated Chemicals & Services, Inc. (Aka Midland Research)	Jan. 2005	U.S. C&S (Water Care)	16
YSC Chemical Company	Feb. 2005	International (Asia Pacific)	3
Kilco Chemicals Ltd.	Apr. 2005	International (Europe)	5
2004			
Nigiko	Jan. 2004	International (Europe)	55
Daydots International	Feb. 2004	U.S. C&S (Institutional)	22
Elimco	May 2004	International (Europe)	4
Restoration and Maintenance unit of VIC International	June 2004	U.S. C&S (Professional Products)	5
Alcide Corporation	July 2004	U.S. C&S (Food & Beverage)	24

The total cash consideration paid by the company for acquisitions and investments in affiliates was approximately $66 million, $27 million and $130 million for 2006, 2005 and 2004, respectively. In addition, 1,834,759 shares of common stock were issued with a market value of $57 million in the Alcide acquisition in 2004, plus $23,000 of cash in lieu of fractional shares. Total cash paid in 2004 also includes payments of restructuring costs related to the acquisition of the remaining 50 percent interest in the former Henkel-Ecolab joint venture that were accrued in 2002. The aggregate purchase price has been reduced for any cash or cash equivalents acquired with the 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 financial statements, therefore pro forma financial information is not presented.

Based upon purchase price allocations, the components of the aggregate purchase prices of the acquisitions made were as follows:

MILLIONS	2006	2005	2004
Net tangible assets acquired (liabilities assumed)	**$ (6)**	$ –	$ 14
Identifiable intangible assets	**28**	8	44
In-process research and development			2
Goodwill	**44**	19	127
Purchase price	**$66**	$ 27	$187

The allocation of purchase price includes adjustments to preliminary allocations from prior periods, if any. During 2004, the company recorded a charge of $1.6 million for in-process research and development ("IPR&D") as part of the allocation of purchase price in the Alcide acquisition. The value assigned to IPR&D is based on an independent appraiser's valuation and was determined by identifying research projects in areas for which technological feasibility had not been established and no alternative uses for the technology existed. The values were determined by estimating the discounted amount of after-tax cash flows attributable to these projects. The future cash flows were discounted to present value utilizing a risk-adjusted rate of return that considered the uncertainty surrounding the successful development of the IPR&D.

The changes in the carrying amount of goodwill for each of the company's reportable segments for the years ended December 31, 2006, 2005 and 2004 are as follows:

THOUSANDS	U.S. CLEANING & SANITIZING	U.S. OTHER SERVICES	TOTAL U.S.	INTERNATIONAL	CONSOLIDATED
Balance December 31, 2003	$122,346	$ 48,929	$171,275	$625,936	$ 797,211
Goodwill acquired during year*	54,936		54,936	72,270	127,206
Goodwill allocated to business dispositions	(69)		(69)	(25)	(94)
Foreign currency translation				67,488	67,488
Balance December 31, 2004	177,213	48,929	226,142	765,669	991,811
Goodwill acquired during year*	12,639	595	13,234	6,162	19,396
Goodwill allocated to business dispositions	(130)		(130)	(376)	(506)
Foreign currency translation				(73,682)	(73,682)
Balance December 31, 2005	189,722	49,524	239,246	697,773	937,019
Goodwill acquired during year*	7,346	990	8,336	35,713	44,049
Goodwill allocated to business dispositions				(423)	(423)
Foreign currency translation				55,284	55,284
Balance December 31, 2006	$197,068	$ 50,514	$247,582	$788,347	$1,035,929

* For 2006, 2005 and 2004, goodwill related to businesses acquired of $7.7 million, $3.5 million and $92.8 million, respectively, is expected to be tax deductible. Goodwill acquired in 2006, 2005 and 2004 also includes adjustments to prior year acquisitions.

BUSINESS DISPOSITIONS

The company had no significant business dispositions in 2006 or 2005. In April 2004, the company sold its grease management product line. This sale resulted in a loss of approximately $4.0 million ($2.4 million after tax). Sales of the grease management product line totaled approximately $20 million in 2003 and were included in the company's U.S. Cleaning & Sanitizing operations. In 2004, the company also recognized a gain of $0.3 million ($0.2 million after tax) on the sale of a small Hygiene Services business in its International operations.

6. BALANCE SHEET INFORMATION

DECEMBER 31 (THOUSANDS)	2006	2005
Accounts Receivable, Net		
Accounts receivable	$ 905,160	$ 782,371
Allowance for doubtful accounts	(37,619)	(38,851)
Total	$ 867,541	$ 743,520
Inventories		
Finished goods	$ 199,516	$ 177,574
Raw materials and parts	180,619	161,488
Excess of fifo cost over lifo cost	(15,249)	(13,488)
Total	$ 364,886	$ 325,574
Property, Plant and Equipment, Net		
Land	$ 30,851	$ 32,164
Buildings and leaseholds	306,775	283,487
Machinery and equipment	630,821	617,408
Merchandising equipment	1,204,716	1,072,853
Capitalized software	72,904	68,062
Construction in progress	72,139	42,244
	2,318,206	2,116,218
Accumulated depreciation	(1,366,637)	(1,248,165)
Total	$ 951,569	$ 868,053
Other Intangible Assets, Net		
Cost		
Customer relationships	$ 217,423	$ 176,778
Intellectual property	45,569	41,887
Trademarks	73,216	63,933
Other intangibles	11,624	7,459
	347,832	290,057
Accumulated amortization		
Customer relationships	(80,153)	(55,328)
Intellectual property	(17,254)	(9,901)
Trademarks	(23,542)	(16,523)
Other intangibles	(3,096)	(5,369)
Total	$ 223,787	$ 202,936
Other Assets, Net		
Deferred income taxes	$ 176,184	$ 42,618
Pension	37,591	201,078
Sole supply fees	67,423	61,632
Other	73,325	61,626
Total	$ 354,523	$ 366,954
Short-Term Debt		
Notes payable	$ 109,100	$ 146,725
Long-term debt, current maturities	399,878	80,202
Total	$ 508,978	$ 226,927
Other Current Liabilities		
Discounts and rebates	$ 190,434	$ 152,774
Dividends payable	28,930	25,526
Other	173,146	182,781
Total	$ 392,510	$ 361,081
Long-Term Debt		
4.355% series A senior notes, due 2013	$ 165,062	$ –
4.585% series B senior notes, due 2016	231,088	–
6.875% notes, due 2011	149,356	149,356
5.375% euronotes, due 2007	397,415	355,246
7.19% senior notes, due 2006	–	74,673
Other	14,015	20,301
	956,936	599,576
Long-term debt, current maturities	(399,878)	(80,202)
Total	$ 557,058	$ 519,374
Other Liabilities		
Deferred income taxes	$ 92,478	$ 80,760
Income taxes payable – noncurrent	66,202	43,695
Other	100,422	82,184
Total	$ 259,102	$ 206,639

The company has a $450 million multicurrency credit agreement with a consortium of banks that has a term through June 1, 2011. Under certain circumstances, this credit agreement can be increased by $150 million for a total of $600 million. The company may borrow varying amounts in different currencies from time to time on a revolving credit basis. The company has the option of borrowing based on various short-term interest rates. Effective June 1, 2006, the credit agreement was amended and restated by, among other things, deleting the financial covenant regarding total debt to capitalization, increasing the lien basket from $75 million to $100 million and extending the term of the agreement from August 2009 to June 2011. No amounts were outstanding under this agreement at year-end 2006 and 2005.

The multicurrency credit agreement supports the company's $450 million U.S. commercial paper program and its $200 million European commercial paper program. The company had $30.3 million in outstanding U.S. commercial paper at December 31, 2006, with an average annual interest rate of 5.3 percent. There was no U.S. commercial paper outstanding at December 31, 2005. The company had $88.2 million in outstanding European commercial paper at December 31, 2005, with an average annual interest rate of 2.4 percent. The company had no commercial paper outstanding under its European commercial paper program at December 31, 2006. Both programs were rated A-1 by Standard & Poor's and P-1 by Moody's as of December 31, 2006.

In December 2006, the company issued and sold in a private placement 300 million euro ($396 million as of December 31, 2006) aggregate principal amount of the company's senior notes in two series: 4.355% Series A Senior Notes due 2013 in the aggregate principal amount of 125 million euro and 4.585% Series B Senior Notes due 2016 in the aggregate principal amount of 175 million euro, pursuant to a Note Purchase Agreement dated July 26, 2006, between the company and the purchasers. The company used the proceeds to repay its euro 300 million ($396 million as of December 31, 2006) 5.375 percent euronotes which became due in February 2007.

In January 2006, the company repaid the $75 million 7.19% senior notes which were due January 2006.

As of December 31, the weighted-average interest rate on notes payable was 6.0 percent in 2006, 3.9 percent in 2005 and 5.7 percent in 2004.

As of December 31, 2006, the aggregate annual maturities of long-term debt for the next five years were:

THOUSANDS	
2007	$399,878
2008	2,830
2009	1,645
2010	1,277
2011	150,711

7. INTEREST

Interest expense was $51.3 million in 2006, $49.8 million in 2005 and $48.5 million in 2004. Interest income was $6.9 million in 2006, $5.6 million in 2005 and $3.2 million in 2004. Total interest paid was $50.6 million in 2006, $49.4 million in 2005 and $47.0 million in 2004.

8. FINANCIAL INSTRUMENTS

FOREIGN CURRENCY FORWARD CONTRACTS

The company has entered into foreign currency forward contracts to hedge transactions related to intercompany debt, subsidiary royalties, product purchases, firm commitments and other intercompany transactions. The company uses these contracts to hedge against the effect of foreign currency exchange rate fluctuations on forecasted cash flows. These contracts generally relate to the company's European operations and are denominated in euros. The company had foreign currency forward exchange contracts that totaled approximately $375 million at December 31, 2006, $395 million at December 31, 2005 and $239 million at December 31, 2004. These contracts generally expire within one year. The gains and losses related to these contracts were included as a component of other comprehensive income until the hedged item is reflected in earnings. As of December 31, 2006, other comprehensive income includes a cumulative loss of $1.3 million related to these contracts.

INTEREST RATE SWAP AGREEMENTS

The company enters into interest rate swap agreements to manage interest rate exposures and to achieve a desired proportion of variable and fixed rate debt.

In May 2006, the company entered into two forward starting interest rate swap agreements in connection with the senior note private placement offering that convert euro 250 million (euro 125 million due December 2013 and euro 125 million due December 2016) of the private placement funding from a variable interest rate to a fixed interest rate. The interest rate swap agreements were designated as, and effective as a cash flow hedge of the private placement offering. In June 2006 the company closed the swap agreements. The decline in fair value of $2.1 million, net of tax, was recorded in other comprehensive income and will be recognized in earnings as part of interest expense as the forecasted transactions occur.

During 2002, the company entered into an interest rate swap agreement in connection with the issuance of its euronotes. This agreement converts approximately euro 78 million (approximately $103 million at year-end 2006) of the euronote debt from a fixed interest rate to a floating or variable interest rate and is effective until February 2007. This interest rate swap was designated as a fair value hedge and had a value of $1.7 million, $4.0 million and $7.0 million as of December 31, 2006, 2005 and 2004, respectively. The mark to market gain on this agreement has been recorded as part of interest expense and has been offset by the loss recorded in interest expense on the mark to market on this portion of the euronotes. There is no hedge ineffectiveness on this interest rate swap.

NET INVESTMENT HEDGES

The company designated all euro 300 million euronote debt as a hedge of existing foreign currency exposures related to net investments the company has in certain European subsidiaries. Accordingly, the transaction gains and losses that are designated and effective as hedges of the company's net investments have been included as a component of the cumulative translation account within accumulated other comprehensive income (loss). Total transaction gains and losses related to the euronotes and charged to this shareholders' equity account were a loss of $44.8 million in 2006, a gain of $45.7 million for 2005 and a loss of $39.6 million for 2004.

CREDIT RISK

The company is exposed to credit loss in the event of nonperformance of counterparties for foreign currency forward exchange contracts and interest rate swap agreements. The company monitors its exposure to credit risk by using credit approvals and credit limits and selecting major international banks and financial institutions as counterparties. The company does not anticipate nonperformance by any of these counterparties.

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)	2006	2005
Carrying amount		
Cash and cash equivalents	$484,029	$104,378
Short-term investments		125,063
Accounts receivable	867,541	743,520
Notes payable	78,850	58,525
Commercial paper	30,250	88,200
Long-term debt		
(including current maturities)	956,936	599,576
Fair value		
Long-term debt		
(including current maturities)	$967,020	$623,040

The carrying amounts of cash equivalents, short-term investments, accounts receivable, notes payable and commercial paper 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.

9. SHAREHOLDERS' EQUITY

Authorized common stock, par value $1.00 per share, was 400 million shares in 2006, 2005 and 2004. Treasury stock is stated at cost. Dividends declared per share of common stock were $0.4150 for 2006, $0.3625 for 2005 and $0.3275 for 2004.

The company has 15 million shares, without par value, of authorized but unissued preferred stock. Of these 15 million shares, 0.4 million shares were designated as Series A Junior Participating Preferred Stock and 14.6 million shares were undesignated.

In February 2006, the company's Board of Directors authorized the renewal of the company's shareholder rights plan. Under the company's renewed shareholder rights plan, one preferred stock purchase right is issued for each outstanding share of the company's common stock. A right entitles the holder, upon occurrence of certain events, to buy one one-thousandth of a share of Series A Junior Participating Preferred Stock at a purchase price of $135, subject to adjustment. The rights, however, do 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 at the time of the renewal of the rights plan, 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 10, 2016.

The company reacquired 6,875,400 shares of its common stock in 2006, 5,974,300 shares in 2005 and 4,581,400 shares in 2004 through open and private market purchases. The company also reacquired 128,544 shares, 337,947 shares and 777,607 shares of its common stock in 2006, 2005 and 2004, respectively, related to the exercise of stock options and the vesting of stock awards. In December 2004, the company's Board of Directors authorized the repurchase of up to 10 million shares of the company's common stock, including shares to be repurchased under Rule 10b5-1. In October 2006, the company's Board of Directors authorized the repurchase of up to 10 million additional shares of common stock, including shares to be repurchased under Rule 10b5-1. Shares are repurchased to offset the dilutive effect of stock options and incentives and for general corporate purposes. As of December 31, 2006, 12,926,000 shares remained to be purchased under the company's repurchase authority. The company intends to repurchase all shares under this authorization, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions. The company expects to repurchase at least enough shares during 2007 to offset the dilutive effect of stock options, based on estimates of stock option exercises for 2007. Cash proceeds from the exercises as well as the tax benefits will provide a portion of the funding for this repurchase activity.

10. STOCK INCENTIVE AND OPTION PLANS

The company's stock incentive and option plans provide for grants of stock options, stock awards and other incentives. Common shares available for grant as of December 31 were 11,689,435 for 2006, 12,748,989 for 2005 and 4,216,012 for 2004. Common shares available for grant reflect 12 million shares approved by shareholders in 2005 for issuance under the plans.

Almost all of the awards granted are non-qualified stock options granted to employees that vest annually in equal amounts over a three year service period. Options are granted to purchase shares of the company's stock at the average daily share price on the date of grant. These options generally expire within ten years from the grant date. The company recognizes compensation expense for these awards on a straight-line basis over the three year vesting period, in accordance with SFAS 123R. Upon adoption of SFAS 123R, new stock option grants to retirement eligible recipients are attributed to expense using the non-substantive vesting method.

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

SHARES	2006	2005	2004
Granted	2,669,223	3,862,966	4,876,408
Exercised	(4,215,387)	(2,878,612)	(3,625,117)
Canceled	(368,984)	(148,568)	(386,512)
December 31:			
Outstanding	21,653,143	23,568,291	22,732,505
Exercisable	15,804,403	16,461,958	15,332,623

AVERAGE PRICE PER SHARE	2006	2005	2004
Granted	$ 44.93	$ 33.93	$ 33.49
Exercised	21.57	17.27	16.55
Canceled	33.36	29.03	24.81
December 31:			
Outstanding	29.74	26.61	24.20
Exercisable	26.36	23.87	21.31

The total intrinsic value of options (the amount by which the stock price exceeded the exercise price of the option on the date of exercise) that were exercised during 2006, 2005 and 2004 was $80.2 million, $45.3 million and $53.8 million, respectively.

Information related to stock options outstanding and stock options exercisable as of December 31, 2006, is as follows:

OPTIONS OUTSTANDING

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE
$10.95-19.27	3,542,308	4.0 years	$18.62
$19.72-24.90	3,880,787	5.4 years	23.67
$25.21-30.58	4,119,915	7.0 years	27.52
$31.29-34.08	4,374,642	8.7 years	33.86
$34.26-34.50	3,049,590	7.9 years	34.50
$35.26-46.05	2,685,633	9.9 years	44.92
$93.42*	268	0.8 years	93.42
	21,653,143		

* Includes 268 shares of Ecolab's common stock subject to stock options which Ecolab assumed in connection with the acquisition of Alcide Corporation in June 2004.

OPTIONS EXERCISABLE

RANGE OF EXERCISE PRICES	OPTIONS EXERCISABLE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE
$10.95-19.27	3,542,308	4.0 years	$18.62
$19.72-24.90	3,880,787	5.4 years	23.67
$25.21-30.58	4,054,239	7.0 years	27.49
$31.29-34.08	2,145,597	8.5 years	33.68
$34.26-34.50	2,031,021	7.9 years	34.50
$35.26-46.05	150,183	9.4 years	41.08
$93.42*	268	0.8 years	93.42
	15,804,403		

* Includes 268 shares of Ecolab's common stock subject to stock options which Ecolab assumed in connection with the acquisition of Alcide Corporation in June 2004.

The total aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2006 was $336.7 million and $299.1 million, respectively.

The lattice (binomial) option-pricing model was used to estimate the fair value of options at grant date beginning in the fourth quarter of 2005. The company's primary employee option grant occurs during the fourth quarter. Prior to adoption of SFAS 123R, the Black-Scholes option-pricing model was used. The weighted-average grant-date fair value of options granted in 2006, 2005 and 2004, and the significant assumptions used in determining the underlying fair value of each option grant, on the date of grant were as follows:

	2006	2005	2004
Weighted-average grant-date fair value of options granted at market prices	$12.92	$ 9.35	$ 9.45
Assumptions			
Risk-free rate of return	4.5%	4.4%	3.8%
Expected life	6 years	6 years	6 years*
Expected volatility	24.4%	24.3%	25.5%
Expected dividend yield	1.0%	1.2%	1.0%

* During 2004 significant reload options were also granted with a weighted-average expected life of 3.5 years.

The risk-free rate of return is determined based on a yield curve of U.S. treasury rates from one month to ten years and a period commensurate with the expected life of the options granted. Expected volatility is established based on historical volatility of the company's stock price. The expected dividend yield is determined based on the company's annual dividend amount as a percentage of the average stock price at the time of the grant.

The expense associated with shares of restricted stock issued under the company's stock incentive plans is based on the market price of the company's stock at the date of grant and is amortized on a straight-line basis over the periods during which the restrictions lapse. The company currently has restricted stock outstanding that vests over periods between 12 and 36 months. Stock awards are not performance based and vest with continued employment. Stock awards are subject to forfeiture in the event of termination of employment. The company granted 14,845 shares in 2006, 11,479 shares in 2005 and 13,550 shares in 2004 under its restricted stock award program.

A summary of non-vested stock option and stock award activity is as follows:

NON-VESTED STOCK OPTIONS AND STOCK AWARDS

	STOCK OPTIONS	WEIGHTED-AVERAGE FAIR VALUE AT GRANT DATE	STOCK AWARDS	WEIGHTED-AVERAGE FAIR VALUE AT GRANT DATE
December 31, 2005	7,106,333	$ 9.37	22,175	$32.53
Granted	2,669,223	12.92	14,845	44.46
Vested/Earned	(3,537,235)	9.16	(10,350)	32.85
Cancelled	(389,581)	9.27	(2,000)	36.57
December 31, 2006	5,848,740	$11.13	24,670	$39.25

Total compensation expense related to share-based compensation plans was $36.3 million, ($23.1 million net of tax benefit), $39.1 million, ($24.7 million net of tax benefit) and $44.7 million, ($28.1 million net of tax benefit) during 2006, 2005 and 2004, respectively.

As of December 31, 2006, there was $54.0 million of total measured but unrecognized compensation expense related to non-vested share-based compensation arrangements granted under our plans. That cost is expected to be recognized over a weighted-average period of 1.9 years.

Total cash received from the exercise of share-based instruments in 2006 was $87.9 million.

The company generally issues authorized but previously unissued shares to satisfy stock option exercises. The company has a policy of repurchasing shares on the open market to offset the dilutive effect of stock options, as discussed in Note 9.

11. INCOME TAXES

Income before income taxes consisted of:

THOUSANDS	2006	2005	2004
Domestic	$321,117	$278,795	$238,307
Foreign	246,107	219,387	206,239
Total	$567,224	$498,182	$444,546

The provision for income taxes consisted of:

THOUSANDS	2006	2005	2004
Federal and state	$143,647	$121,409	$ 79,830
Foreign	73,768	70,313	67,681
Currently payable	217,415	191,722	147,511
Federal and state	(15,847)	(8,901)	13,470
Foreign	(2,959)	(4,120)	872
Deferred	(18,806)	(13,021)	14,342
Provision for income taxes	$198,609	$178,701	$161,853

The company's overall net deferred tax assets and deferred tax liabilities were comprised of the following:

DECEMBER 31 (THOUSANDS)	2006	2005
Deferred tax assets		
Other accrued liabilities	$ 56,979	$ 49,257
Loss carryforwards	6,256	6,538
Share-based compensation	47,253	45,718
Other comprehensive income	163,092	42,028
Other, net	36,457	24,739
Valuation allowance	(376)	(2,711)
Total	309,661	165,569
Deferred tax liabilities		
Postretirement health care and pension benefits	7,787	3,217
Property, plant and equipment basis differences	37,785	61,489
Intangible assets	95,516	73,853
Other, net	3,484	2,631
Total	144,572	141,190
Net deferred tax assets	$165,089	$ 24,379

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

	2006	2005	2004
Statutory U.S. rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.3	2.3	2.4
Foreign operations	(1.8)	(2.0)	(0.9)
Reinvested earnings in U.S. under the American Jobs Creation Act		0.6	
Other, net	(0.5)		(0.1)
Effective income tax rate	35.0%	35.9%	36.4%

Cash paid for income taxes was approximately $182 million in 2006, $165 million in 2005 and $163 million in 2004.

As of December 31, 2006, the company had undistributed earnings of international affiliates of approximately $607 million. These earnings are considered to be reinvested indefinitely or available for distribution with foreign tax credits available to offset the amount of applicable income tax and foreign withholding taxes that might be payable on earnings. It is impractical to determine the amount of incremental taxes that might arise if all undistributed earnings were distributed.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. In return, the Act also provides for a two-year phase-out of the existing extra-territorial income exclusion (ETI) for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union.

Under the guidance in FASB Staff Position No. 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004", the deduction will be treated as a "special deduction" as described in SFAS No. 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction is reported in the period in which the deduction is claimed on the company's tax return. The company recorded a modest benefit in both 2006 and 2005 from this deduction.

The Act also creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. In the fourth quarter of 2005 the company approved a plan for the reinvestment of foreign earnings in the U.S. pursuant to the provisions of the Act. The company repatriated $223 million of foreign earnings into the U.S. As a result of completing the repatriation, the company recorded tax expense of approximately $3.1 million, net of available foreign tax credits, in the fourth quarter of 2005.

12. RENTALS AND LEASES

The company leases sales and administrative office facilities, distribution center facilities, automobiles, computers and other equipment under operating leases. Rental expense under all operating leases was $104.3 million in 2006, $97.3 million in 2005 and $86.6 million in 2004. As of December 31, 2006, future minimum payments under operating leases with noncancelable terms in excess of one year were:

THOUSANDS	
2007	$ 44,000
2008	33,000
2009	24,000
2010	17,000
2011	11,000
Thereafter	13,000
Total	$142,000

The company enters into operating leases for vehicles whose noncancelable terms are one year or less in duration with month-to-month renewal options. These leases have been excluded from the table above. The company estimates payments under such leases will approximate $51 million in 2007. These automobile leases have guaranteed residual values that have historically been satisfied primarily by the proceeds on the sale of the vehicles. No estimated losses have been recorded for these guarantees as the company believes, based upon the results of previous leasing arrangements, that the potential recovery of value from the vehicles when sold will be greater than the residual value guarantee.

13. RESEARCH EXPENDITURES

Research expenditures that related to the development of new products and processes, including significant improvements and refinements to existing products are expensed as incurred. Such costs were $73.3 million in 2006, $68.4 million in 2005 and $61.5 million in 2004.

14. COMMITMENTS AND CONTINGENCIES

The company and certain subsidiaries are party to various lawsuits, claims and 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 all actions on the company's financial position, results of operations and cash flows to date has not been material. 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. The accrual for environmental remediation costs was $4.9 million and $4.3 million at December 31, 2006 and 2005, respectively. Potential insurance reimbursements are not anticipated in the company's accruals for environmental liabilities.

The company is self-insured in North America for most workers compensation, general liability and automotive liability losses subject to per occurrence and aggregate annual liability limitations. The company is insured for losses in excess of these limitations. The company has recorded both a liability and an offsetting receivable for amounts in excess of these limitations. The company is self-insured for health care claims for eligible participating employees subject to certain deductibles and limitations. The company determines its liability for claims incurred but not reported on an actuarial basis. 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.

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. Effective January 1, 2003, the U.S. pension plan was amended to provide a cash balance type pension benefit to employees hired on or after the effective date. For employees hired prior to January 1, 2003, plan benefits are based on years of service and highest average compensation for five consecutive years of employment. For employees hired after December 31, 2002, plan benefits are based on contribution credits equal to a fixed percentage of their current salary and interest credits. The company also has U.S. noncontributory non-qualified defined benefit plans, which provide for benefits to employees in excess of limits permitted under its U.S. pension plan. The measurement date used for determining the U.S. pension plan assets and obligations is December 31. Various international subsidiaries also have defined benefit pension plans. The measurement date used for determining the international pension plan assets and obligations is November 30, the fiscal year-end of the company's international affiliates. The information following includes all of the company's international defined benefit pension plans.

The company provides postretirement health care benefits to certain U.S. employees. The plan is contributory based on years of service and family status, with retiree contributions adjusted annually. The measurement date used to determine the U.S. postretirement healthcare plan assets and obligations is December 31. Certain employees outside the U.S. are covered under government-sponsored programs, which are not required to be fully funded. The expense and obligation for providing international postretirement healthcare benefits is not significant.

Effective December 31, 2006, the company prospectively adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106 and 132(R) ("SFAS 158"). As a result of the adoption of SFAS 158, the company has recorded a cumulative effect adjustment as a component of other comprehensive income within shareholders' equity. The company's disclosures for the fiscal year ended 2006 also reflect the revised accounting and disclosure requirements of SFAS 158. Reported items for fiscal years 2005 and 2004 were not affected.

The adoption of SFAS 158 on December 31, 2006 resulted in incremental adjustments to the following individual line items in the consolidated balance sheet:

THOUSANDS	BEFORE APPLICATION OF SFAS 158	ADJUSTMENTS	AFTER APPLICATION OF SFAS 158
Deferred income taxes	$ 86,084	$ 786	$ 86,870
Other assets, net*	456,833	(102,310)	354,523
Total assets	4,520,889	(101,524)	4,419,365
Compensation and benefits	244,172	8,514	252,686
Postretirement health care and pension benefit liabilities	338,990	81,255	420,245
Other liabilities**	282,312	(23,210)	259,102
Shareholders' equity	1,848,313	(168,083)	1,680,230
Total liabilities and shareholders' equity	4,520,889	(101,524)	4,419,365

* The adjustment to "Other assets, net" represents the net effect of an adjustment of $(179,046) to the company's net pension assets, an adjustment of $99,946 for the recognition of deferred taxes and the reclassification of deferred tax liabilities of $(23,210) from the application of SFAS 158.

** The adjustment to the "Other liabilities" represents the recognition and reclassification of deferred taxes from the application of SFAS 158.

A reconciliation of changes in the benefit obligations and fair value of assets of the company's plans is as follows:

	U.S. PENSION BENEFITS (QUALIFIED AND NON-QUALIFIED PLANS)		INTERNATIONAL PENSION BENEFITS		U.S. POSTRETIREMENT HEALTH CARE BENEFITS	
THOUSANDS	**2006**	2005	**2006**	2005	**2006**	2005
Benefit obligation, beginning of year	**$785,664**	$709,676	**$402,317**	$372,045	**$165,358**	$158,030
Service cost	**40,635**	40,646	**18,899**	14,970	**3,113**	3,085
Interest cost	**43,611**	40,174	**18,995**	18,307	**8,992**	8,860
Participant contributions			**2,336**	2,539	**2,675**	2,467
Divestitures				(58)		
Plan amendments, settlements and curtailments	**1,175**		**(2,159)**	18	**127**	(3,566)
Actuarial loss (gain)	**(15,076)**	17,482	**8,375**	48,342	**1,276**	7,535
Benefits paid	**(22,199)**	(22,314)	**(19,629)**	(14,622)	**(12,183)**	(11,053)
Foreign currency translation			**48,806**	(39,224)		
Benefit obligation, end of year	**$833,810**	$785,664	**$477,940**	$402,317	**$169,358**	$165,358

	U.S. PENSION BENEFITS (QUALIFIED AND NON-QUALIFIED PLANS)		INTERNATIONAL PENSION BENEFITS		U.S. POSTRETIREMENT HEALTH CARE BENEFITS	
THOUSANDS	**2006**	2005	**2006**	2005	**2006**	2005
Fair value of plan assets, beginning of year	**$679,209**	$618,133	**$220,143**	$201,482	**$ 25,224**	$ 21,740
Actual gains on plan assets	**89,974**	42,171	**22,245**	23,126	**3,610**	1,499
Company contributions	**46,416**	41,219	**18,873**	27,273	**12,176**	10,571
Participant contributions			**2,336**	2,539	**1,388**	2,467
Settlements			**(315)**			
Benefits paid	**(22,199)**	(22,314)	**(19,629)**	(14,622)	**(12,183)**	(11,053)
Foreign currency translation			**25,987**	(19,655)		
Fair value of plan assets, end of year	**$793,400**	$679,209	**$269,640**	$220,143	**$ 30,215**	$ 25,224

A reconciliation of the funded status for the pension and postretirement plans to the net amount recognized is as follows:

THOUSANDS	U.S. PENSION BENEFITS (QUALIFIED AND NON-QUALIFIED PLANS) 2006	2005	INTERNATIONAL PENSION BENEFITS 2006	2005	U.S. POSTRETIREMENT HEALTH CARE BENEFITS 2006	2005
Funded status	**$(40,410)**	$(106,455)	**$(208,300)**	$(182,174)	**$(139,143)**	$(140,134)
Unrecognized actuarial loss		248,451		82,672		58,539
Unrecognized prior service cost (benefit)		6,978		1,425		(25,981)
Unrecognized net transition (asset) obligation				(21)		
Net amount recognized	**$(40,410)**	$ 148,974	**$(208,300)**	$ (98,098)	**$(139,143)**	$(107,576)

The total amounts recognized in the balance sheet, including accumulated other comprehensive income, and the accumulated benefit obligation are as follows:

THOUSANDS	U.S. PENSION BENEFITS (QUALIFIED AND NON-QUALIFIED PLANS) 2006	2005	INTERNATIONAL PENSION BENEFITS 2006	2005	U.S. POSTRETIREMENT HEALTH CARE BENEFITS 2006	2005
Noncurrent benefit asset	**$ 13,591**	$ 174,063	**$ 24,000**	$ 27,015		
Current benefit liability	**(3,400)**		**(6,484)**		**$ (1,130)**	
Noncurrent benefit liability	**(50,601)**	(25,089)	**(225,816)**	(169,143)	**(138,013)**	$(107,576)
Intangible asset				1,211		
Accumulated other comprehensive loss (pre-tax)	**195,080**		**86,955**	42,819	**30,965**	
Total amount recognized	**$ 154,670**	$ 148,974	**$(121,345)**	$ (98,098)	**$(108,178)**	$(107,576)
Accumulated benefit obligation	**$ 687,708**	$ 627,917	**$ 330,751**	$ 358,837	**$ 169,358**	$ 165,358

Accumulated other comprehensive loss for pension and other postretirement benefit plan activity is as follows:

THOUSANDS	U.S. PENSION BENEFITS (QUALIFIED AND NON-QUALIFIED PLANS) 2006	INTERNATIONAL PENSION BENEFITS 2006	U.S. POSTRETIREMENT HEALTH CARE BENEFITS 2006
Accumulated other comprehensive loss, beginning of year	**$ –**	**$ 27,117**	**$ –**
Recognition of additional minimum pension liability		**979**	
Cumulative effect adjustment of change in accounting – adoption of SFAS 158 to recognize funded status	**195,080**	**43,157**	**30,965**
Tax benefit	**(75,569)**	**(13,917)**	**(11,995)**
Accumulated other comprehensive loss (income), end of year	**$119,511**	**$ 57,336**	**$ 18,970**

The components of accumulated other comprehensive loss related to pension and postretirement benefit plans are as follows:

THOUSANDS	U.S. PENSION BENEFITS (QUALIFIED AND NON-QUALIFIED PLANS) 2006	INTERNATIONAL PENSION BENEFITS 2006	U.S. POSTRETIREMENT HEALTH CARE BENEFITS 2006
Unrecognized net actuarial losses	**$188,924**	**$ 87,248**	**$ 50,384**
Unrecognized net prior service costs (benefits)	**6,156**	**(325)**	**(19,419)**
Unrecognized net transition costs		**32**	
Tax benefit	**(75,569)**	**(29,619)**	**(11,995)**
Accumulated other comprehensive loss, end of year	**$119,511**	**$ 57,336**	**$ 18,970**

Estimated amounts in accumulated other comprehensive income expected to be reclassified to net period cost during 2007 are as follows:

THOUSANDS	U.S. PENSION BENEFITS (QUALIFIED AND NON-QUALIFIED PLANS)	INTERNATIONAL PENSION BENEFITS	U.S. POSTRETIREMENT HEALTH CARE BENEFITS
Net actuarial losses	$13,021	$ 3,048	$ 7,354
Net prior service costs/(benefits)	2,008	21	(6,419)
Net transition costs	–	4	–
Total	$15,029	$ 3,073	$ 935

For certain international pension plans, the accumulated benefit obligations exceeded the fair value of plan assets. The company recognized an addition to the minimum pension liability in other comprehensive income of $1.0 million pre-tax ($0.6 million net of deferred tax asset) in 2006, $24.4 million pre-tax ($16.2 million net of deferred tax asset) during 2005 and $0.4 million pre-tax ($0.3 million net of deferred tax asset) during 2004. The additional minimum pension liability recognized prior to adoption of SFAS 158 was considered in determining the cumulative effect adjustment of adopting SFAS 158 as of December 31, 2006.

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for those U.S. non-qualified plans and international plans with accumulated benefit obligations in excess of plan assets were as follows:

THOUSANDS	DECEMBER 31 2006	2005
Aggregate projected benefit obligation	**$414,731**	$385,141
Accumulated benefit obligation	**364,034**	331,640
Fair value of plan assets	**138,479**	136,937

These plans relate to various international subsidiaries and the U.S. non-qualified plans and are funded consistent with local practices and requirements. As of December 31, 2006, there were approximately $17 million of future postretirement benefits covered by insurance contracts.

PLAN ASSETS

UNITED STATES

The company's plan asset allocations for its U.S. defined benefit pension and postretirement health care benefits plans at December 31, 2006 and 2005 and target allocation for 2007 are as follows:

ASSET CATEGORY	2007 TARGET ASSET ALLOCATION PERCENTAGE	PERCENTAGE OF PLAN ASSETS 2006	2005
Large cap equity	43%	**43%**	43%
Small cap equity	12	**12**	12
International equity	15	**16**	16
Fixed income	25	**24**	24
Real estate	5	**5**	5
Total	100%	**100%**	100%

The company's U.S. investment strategy and policies are designed to maximize the possibility of having sufficient funds to meet the long-term liabilities of the pension fund, while achieving a balance between the goals of asset growth of the plan and keeping risk at a reasonable level. Current income is not a key goal of the plan. The pension and health care plans' demographic characteristics generally reflect a younger plan population relative to an average pension plan. Therefore, the asset allocation position reflects the ability and willingness to accept relatively more short-term variability in the performance of the pension plan portfolio in exchange for the expectation of better long-term returns, lower pension costs and better funded status in the long run.

Since diversification is widely recognized as important to reduce unnecessary risk, the pension fund is diversified across a number of asset classes and securities. Selected individual portfolios within the asset classes may be undiversified while maintaining the diversified nature of total plan assets.

The company's U.S. investment policies prohibit investing in letter stock, warrants and options, and engaging in short sales, margin transactions, private placements, or other specialized investment activities. The use of derivatives is also prohibited for the purpose of speculation or introducing leverage in the portfolio, circumventing the investment guidelines or taking risks that are inconsistent with the fund's guidelines. Selected derivatives may only be used for hedging and transactional efficiency.

INTERNATIONAL

The company's plan asset allocations for its international defined benefit pension plans at December 31, 2006 and 2005 are as follows:

ASSET CATEGORY	PERCENTAGE OF PLAN ASSETS 2006	2005
Equity securities	**40%**	44%
Fixed income	**46**	45
Real estate	**5**	2
Other	**9**	9
Total	**100%**	100%

Assets of funded retirement plans outside the U.S. are managed in each local jurisdiction and asset allocation strategy is set in accordance with local rules, regulations and practice. Therefore, no target asset allocation for 2007 is presented. The funds are invested in a variety of stocks, fixed income and real estate investments and in some cases, the assets are managed by insurance companies which may offer a guaranteed rate of return. Total international pension plan assets represent 24 percent of total Ecolab pension plan assets worldwide.

AMENDMENTS

During 2004, the American Jobs Creation Act of 2004 (the "Act") added a new Section 409A to the Internal Revenue Code (the "Code") which significantly changed the federal tax law applicable to amounts deferred after December 31, 2004 under non-qualified deferred compensation plans. In response to this, the company amended the "Non-Employee Director Stock Option and Deferred Compensation Plan ("Director Plan") and the Mirror Savings Plan in December 2004. The amendments (1) allow compensation that was "deferred" (as defined by the Act) prior to January 1, 2005 to qualify for "grandfathered" status and to continue to be governed by the law applicable to non-qualified deferred compensation prior to the addition of Internal Revenue Code Section 409A by the Act, and (2) cause deferred compensation that is deferred after December 31, 2004 to be in compliance with the requirements of Code Section 409A. For amounts deferred after December 31, 2004, the amendments generally (1) require that such amounts be distributed as a single lump sum payment as soon as practicable after the participant has had a separation of service, with the exception of payments to "key employees" (as defined by the Act) which lump sum payments are required to be held for 6 months after their separation from service, and (2) prohibit the acceleration of distribution of such amounts except for an unforeseeable emergency (as defined by the Act).

Additionally, in December 2004 the company amended the Supplemental Executive Retirement Plan ("SERP") and the Mirror Pension Plan to (1) allow amounts deferred prior to January 1, 2005 to qualify for "grandfathered" status and to continue to be governed by the law applicable to non-qualified deferred compensation prior to the Act, and (2) temporarily freeze the accrual of benefits as of December 31, 2004 due to the uncertainty regarding the effect of the Act on such benefits. The Secretary of Treasury and the Internal Revenue Service are expected to issue regulations and/or other guidance with respect to the provisions of the new Act throughout 2007 and final amendments to comply with the Act are required by the end of 2007. The company currently intends to rescind the freeze, following issuance of regulations to ensure compliance for post 2004 benefit accruals.

CASH FLOWS

As of year-end 2006, the company's estimate of benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter for the company's pension and postretirement health care benefit plans are as follows:

THOUSANDS	ALL PLANS	MEDICARE SUBSIDY RECEIPTS
2007	$ 52,000	$ 1,000
2008	59,000	1,000
2009	64,000	1,000
2010	66,000	1,000
2011	72,000	1,000
2012-2016	447,000	11,000

The company's funding policy for the U.S. pension plan is to achieve and maintain a return on assets that meets the long-term funding requirements identified by the projections of the pension plan's actuaries while simultaneously satisfying the fiduciary responsibilities prescribed in ERISA. The company also takes into consideration the tax deductibility of contributions to the benefit plans. The company is not required to make any contributions to the U.S. pension and postretirement health care benefit plans in 2007. The company estimates contributions to be made to the international plans will approximate $20 million in 2007.

The company is not aware of any expected refunds of plan assets within the next 12 months from any of its existing U.S. or international pension or postretirement benefit plans.

NET PERIODIC BENEFIT COSTS

Pension and postretirement health care benefits expense for the company's operations was:

	U.S. PENSION BENEFITS (QUALIFIED AND NON-QUALIFIED PLANS)			INTERNATIONAL PENSION BENEFITS			U.S. POSTRETIREMENT HEALTH CARE BENEFITS		
THOUSANDS	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Service cost – employee benefits earned during the year	**$ 40,635**	$ 40,646	$ 32,806	**$ 18,899**	$ 14,970	$ 13,409	**$ 3,113**	$ 3,085	$ 3,188
Interest cost on benefit obligation	**43,611**	40,174	36,401	**18,995**	18,307	17,830	**8,992**	8,860	9,041
Expected return on plan assets	**(62,109)**	(53,114)	(50,161)	**(13,192)**	(11,751)	(11,403)	**(2,457)**	(1,770)	(1,843)
Recognition of net actuarial loss	**16,586**	11,183	6,547	**3,059**	1,597	1,458	**8,278**	5,734	5,706
Amortization of prior service cost (benefit)	**1,997**	1,906	2,026	**45**	162	426	**(6,435)**	(5,660)	(5,696)
Amortization of net transition (asset) obligation		(702)	(1,403)	**24**	329	333			
Curtailment (gain) loss				**(170)**	(40)	(51)			
Total expense	**$ 40,720**	$ 40,093	$ 26,216	**$ 27,660**	$ 23,574	$ 22,002	**$ 11,491**	$10,249	$10,396

PLAN ASSUMPTIONS

	U.S. PENSION BENEFITS			INTERNATIONAL PENSION BENEFITS			U.S. POSTRETIREMENT HEALTH CARE BENEFITS		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Weighted-average actuarial assumptions used to determine benefit obligations as of December 31:									
Discount rate	**5.79%**	5.57%	5.75%	**4.65%**	4.54%	5.22%	**5.79%**	5.57%	5.75%
Projected salary increase	**4.32**	4.30	4.30	**3.27**	3.15	3.13			
Weighted-average actuarial assumptions used to determine net cost:									
Discount rate	**5.57**	5.75	6.25	**4.56**	5.18	5.37	**5.57**	5.75	6.25
Expected return on plan assets	**8.75**	8.75	9.00	**5.80**	5.68	5.75	**8.75%**	8.75%	9.00%
Projected salary increase	**4.30%**	4.30%	4.30%	**3.21%**	3.12%	3.07%			

The expected long-term rate of return is generally based on the pension plan's asset mix, assumptions of equity returns based on historical long-term returns on asset categories, expectations for inflation, and estimates of the impact of active management of the assets.

For postretirement benefit measurement purposes as of December 31, 2006, 10 percent (for pre-age 65 retirees) and 11 percent (for post-age 65 retirees) annual rates of increase in the per capita cost of covered health care were assumed. The rates were assumed to decrease by 1 percent each year until they reach 5 percent in 2012 for pre-age 65 retirees and 5 percent in 2013 for post-age 65 retirees and remain at those levels thereafter. Health care costs which are eligible for subsidy by the company are limited to a maximum 4 percent annual increase beginning in 1996 for certain employees.

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

	1-PERCENTAGE POINT	
THOUSANDS	INCREASE	DECREASE
Effect on total of service and interest cost components	$ 509	$ (453)
Effect on postretirement benefit obligation	9,597	(8,531)

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans. The company's U.S. postretirement health care benefits plan offers prescription drug benefits. The company amended its plan effective January 1, 2005 in order to obtain the benefits provided under the Act. In accordance with FSP No. 106-2 "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", the company began recording favorable benefits of the Act in the third quarter of 2004, using the prospective transition method consistent with this guidance. The after-tax benefit for 2004 was approximately $1.0 million. The company recognized an actuarial gain and a reduction in its postretirement benefit obligation of $15.5 million at July 1, 2004 related to the Act.

SAVINGS PLAN AND ESOP

The company provides a 401(k) savings plan for substantially all U.S. employees. Employee before-tax contributions of up to 3 percent of eligible compensation are matched 100 percent by the company and employee before-tax contributions between 3 percent and 5 percent of eligible compensation are matched 50 percent by the company. The match is 100 percent vested immediately. Effective January 2003, the plan was amended to provide that all employee contributions which are invested in Ecolab stock will be part of the employee's ESOP account while so invested. The company's contributions are invested in Ecolab common stock and amounted to $18.9 million in 2006, $17.4 million in 2005 and $15.8 million in 2004. Effective January 1, 2006, the plan was amended to allow employees to immediately re-allocate company matching contributions in Ecolab common stock to other investment funds within the plan.

16. OPERATING SEGMENTS

The company's thirteen operating segments have been aggregated into three reportable segments.

The "United States Cleaning & Sanitizing" reportable segment provides cleaning and sanitizing products to United States markets through its Institutional, Food & Beverage, Kay, Textile Care, Healthcare, Vehicle Care and Water Care Services operating segments. The company's Professional Products operating segment has been combined with Institutional to leverage Institutional's sales force, delivering the professional products line to customers in the hospitality, healthcare and commercial markets. These operating segments exhibit similar products, manufacturing processes, customers, distribution methods and economic characteristics.

The "United States Other Services" reportable segment includes all other U.S. operations of the company. This segment provides pest elimination and kitchen equipment repair and maintenance through its Pest Elimination and GCS Service operating segments. These two operating segments are primarily fee for service businesses. Since the primary focus of these segments is service, they have not been combined with the company's "United States Cleaning & Sanitizing" reportable segment. These operating segments are combined and disclosed as an "all other" category in accordance with SFAS 131. Total service revenue for this segment was $334 million, $300 million and $269 million for 2006, 2005 and 2004, respectively.

The company's "International" reportable segment includes four operating segments; Europe/Middle East/Africa (EMEA), Asia Pacific, Latin America and Canada. These segments provide cleaning and sanitizing products as well as pest elimination service. International operations are managed by geographic region and exhibit similar products, manufacturing processes, customers, distribution methods and economic characteristics. Total service revenue for international pest elimination was $169 million, $161 million and $146 million for 2006, 2005 and 2004, respectively.

Information on each of the company's operating segments is included in the 2006 Review of Operations section on page 10 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.

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

THOUSANDS	U.S. CLEANING & SANITIZING	U.S. OTHER SERVICES	TOTAL U.S.	INTERNATIONAL	FOREIGN CURRENCY TRANSLATION	CORPORATE	CONSOLIDATED
NET SALES							
2006	**$2,152,330**	**$ 410,480**	**$2,562,810**	**$ 2,261,414**	**$ 71,590**		**$4,895,814**
2005	1,952,220	375,234	2,327,454	2,136,664	70,714		4,534,832
2004	1,796,355	339,305	2,135,660	2,037,907	11,366		4,184,933
OPERATING INCOME (LOSS)							
2006	**329,155**	**38,943**	**368,098**	**233,587**	**9,957**		**611,642**
2005	279,960	36,012	315,972	219,104	7,344		542,420
2004	266,072	20,447	286,519	209,490	(1,758)	$ (4,361)	489,890
DEPRECIATION & AMORTIZATION							
2006	**132,030**	**6,416**	**138,446**	**117,911**	**4,522**	**7,690**	**268,569**
2005	123,644	5,460	129,104	113,564	7,595	6,672	256,935
2004	119,831	5,254	125,085	112,726	3,644	5,499	246,954
TOTAL ASSETS							
2006	**1,301,916**	**174,970**	**1,476,886**	**2,237,915**	**171,091**	**533,473**	**4,419,365**
2005	1,348,706	154,870	1,503,576	2,100,205	(30,983)	223,830	3,796,628
CAPITAL EXPENDITURES							
2006	**165,324**	**5,855**	**171,179**	**113,050**	**3,656**		**287,885**
2005	149,100	7,246	156,346	108,245	4,192		268,783
2004	153,503	4,993	158,496	117,698	(323)		275,871

Consistent with the company's internal management reporting, corporate operating income includes special charges included on the consolidated statement of income for 2004. Corporate assets are principally cash and cash equivalents and short-term investments.

The company has two classes of products within its United States Cleaning & Sanitizing and International operations which comprise 10 percent or more of consolidated net sales. Sales of warewashing products were approximately 21 percent, 21 percent and 22 percent of consolidated net sales in 2006, 2005 and 2004, respectively. Sales of laundry products were approximately 10 percent, 11 percent and 10 percent of consolidated net sales in 2006, 2005 and 2004, respectively.

Property, plant and equipment of the company's United States and International operations were as follows:

DECEMBER 31 (THOUSANDS)	**2006**	2005
United States	**$599,153**	$532,430
International	**332,200**	338,117
Effect of foreign currency translation	**20,216**	(2,494)
Consolidated	**$951,569**	$868,053

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

THOUSANDS, EXCEPT PER SHARE	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	YEAR
2006					
Net sales					
United States Cleaning & Sanitizing	$ 513,447	$ 544,477	$ 561,707	$ 532,699	$2,152,330
United States Other Services	93,233	104,902	108,297	104,048	410,480
International	510,088	561,800	584,273	605,253	2,261,414
Effect of foreign currency translation	3,307	14,705	24,578	29,000	71,590
Total	1,120,075	1,225,884	1,278,855	1,271,000	4,895,814
Cost of sales	552,491	608,003	625,554	630,010	2,416,058
Selling, general and administrative expenses	436,127	464,754	471,937	495,296	1,868,114
Operating income					
United States Cleaning & Sanitizing	79,525	86,118	98,976	64,536	329,155
United States Other Services	8,009	10,625	12,466	7,843	38,943
International	43,238	55,145	66,221	68,983	233,587
Effect of foreign currency translation	685	1,239	3,701	4,332	9,957
Total	131,457	153,127	181,364	145,694	611,642
Interest expense, net	10,328	11,014	11,219	11,857	44,418
Income before income taxes	121,129	142,113	170,145	133,837	567,224
Provision for income taxes	43,243	48,934	59,786	46,646	198,609
Net income	$ 77,886	$ 93,179	$ 110,359	$ 87,191	$ 368,615
Net income per common share					
Basic	$ 0.31	$ 0.37	$ 0.44	$ 0.35	$ 1.46
Diluted	$ 0.30	$ 0.36	$ 0.43	$ 0.34	$ 1.43
Weighted-average common shares outstanding					
Basic	253,540	252,152	251,573	251,263	252,132
Diluted	258,055	256,692	256,657	256,639	257,144
2005					
Net sales					
United States Cleaning & Sanitizing	$ 467,179	$ 496,808	$ 510,476	$ 477,757	$1,952,220
United States Other Services	85,810	96,328	98,315	94,781	375,234
International	483,997	536,454	550,197	566,016	2,136,664
Effect of foreign currency translation	32,894	29,074	5,785	2,961	70,714
Total	1,069,880	1,158,664	1,164,773	1,141,515	4,534,832
Cost of sales	526,975	571,066	572,862	577,928	2,248,831
Selling, general and administrative expenses	424,918	449,346	429,464	439,853	1,743,581
Operating income					
United States Cleaning & Sanitizing	71,605	72,660	85,933	49,762	279,960
United States Other Services	7,534	10,287	11,124	7,067	36,012
International	36,503	52,431	64,212	65,958	219,104
Effect of foreign currency translation	2,345	2,874	1,178	947	7,344
Total	117,987	138,252	162,447	123,734	542,420
Interest expense, net	11,190	12,184	11,529	9,335	44,238
Income before income taxes	106,797	126,068	150,918	114,399	498,182
Provision for income taxes	37,371	44,667	52,960	43,703	178,701
Net income	$ 69,426	$ 81,401	$ 97,958	$ 70,696	$ 319,481
Net income per common share					
Basic	$ 0.27	$ 0.32	$ 0.38	$ 0.28	$ 1.25
Diluted	$ 0.27	$ 0.31	$ 0.38	$ 0.27	$ 1.23
Weighted-average common shares outstanding					
Basic	256,272	255,474	255,817	255,402	255,741
Diluted	260,626	259,594	259,911	259,723	260,098

Per share amounts do not necessarily sum due to changes in the calculation of shares outstanding for each discrete period and rounding.

REPORTS OF MANAGEMENT

To our Shareholders:

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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.

The Board of Directors, acting through its Audit Committee composed solely of independent 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 registered public accounting firm, subject to ratification by the shareholders. It meets regularly with management, the internal auditors and the independent auditors.

The independent registered public accounting firm has audited the consolidated financial statements included in this annual report and have expressed their opinion regarding whether these consolidated financial statements present fairly in all material respects our financial position and results of operation and cash flows as stated in their report presented separately herein.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, an evaluation of the design and operating effectiveness of internal control over financial reporting was conducted based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation under the framework in *Internal Control – Integrated Framework,* management concluded that internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2006 has been audited by PricwaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Douglas M. Baker, Jr.
Chairman of the Board, President and Chief Executive Officer

Steven L. Fritze
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Ecolab Inc.:

We have completed integrated audits of Ecolab Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of cash flows, of comprehensive income and shareholders' equity present fairly, in all material respects, the financial position of Ecolab Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

As discussed in Note 2 to the consolidated financial statements, Ecolab Inc. changed the manner in which it accounts for defined benefit pension and other postretirement plans effective December 31, 2006.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Ecolab Inc. maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, Ecolab Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. Ecolab Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of Ecolab Inc.'s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
February 23, 2007

SUMMARY OPERATING AND FINANCIAL DATA

DECEMBER 31 (THOUSANDS, EXCEPT PER SHARE)	**2006**	2005	2004	2003
OPERATIONS				
Net sales				
United States	**$ 2,562,810**	$ 2,327,454	$ 2,135,660	$ 2,014,767
International (at average rates of currency exchange during the year)	**2,333,004**	2,207,378	2,049,273	1,747,052
Total	**4,895,814**	4,534,832	4,184,933	3,761,819
Cost of sales (including special charges (income) of $(106) in 2004, $(76) in 2003 and $8,977 in 2002, $(566) in 2001 and $1,948 in 2000)	**2,416,058**	2,248,831	2,033,492	1,846,584
Selling, general and administrative expenses	**1,868,114**	1,743,581	1,657,084	1,459,818
Special charges, sale of business and merger expenses			4,467	408
Operating income	**611,642**	542,420	489,890	455,009
Gain on sale of equity investment				11,105
Interest expense, net	**44,418**	44,238	45,344	45,345
Income from continuing operations before income taxes, equity earnings and changes in accounting principle	**567,224**	498,182	444,546	420,769
Provision for income taxes	**198,609**	178,701	161,853	160,179
Equity in earnings of Henkel-Ecolab				
Income from continuing operations	**368,615**	319,481	282,693	260,590
Gain from discontinued operations				
Changes in accounting principle				
Net income, as reported	**368,615**	319,481	282,693	260,590
Adjustments				
Adjusted net income	**$ 368,615**	$ 319,481	$ 282,693	$ 260,590
Income per common share, as reported				
Basic - continuing operations	**$ 1.46**	$ 1.25	$ 1.10	$ 1.00
Basic - net income	**1.46**	1.25	1.10	1.00
Diluted - continuing operations	**1.43**	1.23	1.09	0.99
Diluted - net income	**1.43**	1.23	1.09	0.99
Adjusted income per common share				
Basic - continuing operations	**1.46**	1.25	1.10	1.00
Basic - net income	**1.46**	1.25	1.10	1.00
Diluted - continuing operations	**1.43**	1.23	1.09	0.99
Diluted - net income	**$ 1.43**	$ 1.23	$ 1.09	$ 0.99
Weighted-average common shares outstanding – basic	**252,132**	255,741	257,575	259,454
Weighted-average common shares outstanding – diluted	**257,144**	260,098	260,407	262,737
SELECTED INCOME STATEMENT RATIOS				
Gross profit	**50.7%**	50.4%	51.4%	50.9%
Selling, general and administrative expenses	**38.2**	38.4	39.6	38.8
Operating income	**12.5**	12.0	11.7	12.1
Income from continuing operations before income taxes	**11.6**	11.0	10.6	11.2
Income from continuing operations	**7.5**	7.0	6.8	6.9
Effective income tax rate	**35.0%**	35.9%	36.4%	38.1%
FINANCIAL POSITION				
Current assets	**$ 1,853,557**	$ 1,421,666	$ 1,279,066	$ 1,150,340
Property, plant and equipment, net	**951,569**	868,053	866,982	769,112
Investment in Henkel-Ecolab				
Goodwill, intangible and other assets	**1,614,239**	1,506,909	1,570,126	1,309,466
Total assets	**$ 4,419,365**	$ 3,796,628	$ 3,716,174	$ 3,228,918
Current liabilities	**$ 1,502,730**	$ 1,119,357	$ 939,547	$ 851,942
Long-term debt	**557,058**	519,374	645,445	604,441
Postretirement health care and pension benefits	**420,245**	302,048	270,930	249,906
Other liabilities	**259,102**	206,639	262,111	201,548
Shareholders' equity	**1,680,230**	1,649,210	1,598,141	1,321,081
Total liabilities and shareholders' equity	**$ 4,419,365**	$ 3,796,628	$ 3,716,174	$ 3,228,918
SELECTED CASH FLOW INFORMATION				
Cash provided by operating activities	**$ 627,564**	$ 590,136	$ 570,908	$ 523,932
Depreciation and amortization	**268,569**	256,935	246,954	228,103
Capital expenditures	**287,885**	268,783	275,871	212,035
Cash dividends declared per common share	**$ 0.4150**	$ 0.3625	$ 0.3275	$ 0.2975
SELECTED FINANCIAL MEASURES/OTHER				
Total debt	**$ 1,066,036**	$ 746,301	$ 701,577	$ 674,644
Total debt to capitalization	**38.8%**	31.2%	30.5%	33.8%
Book value per common share	**$ 6.69**	$ 6.49	$ 6.21	$ 5.13
Return on beginning equity	**22.4%**	20.0%	21.4%	23.3%
Dividends per share/diluted net income per common share	**29.0%**	29.5%	30.0%	30.1%
Net interest coverage	**13.8**	12.3	10.8	10.0
Year end market capitalization	**$ 11,360,426**	$ 9,217,763	$ 9,047,445	$ 7,045,490
Annual common stock price range	**$46.40-33.64**	$37.15-30.68	$35.59-26.12	$27.92-23.08
Number of employees	**23,130**	22,404	21,338	20,826

Property, plant and equipment amounts have been restated to include capital software which was previously classified in other assets. Results for 2004 through 1996 have been restated to reflect the effect of retroactive application of SFAS No. 123R, "Share-Based Payment". The former Henkel-Ecolab joint venture is included as a consolidated subsidiary effective November 30, 2001. Adjusted results for 1996 through 2001 reflect the pro forma effect of the discontinuance of the amortization of goodwill as if SFAS No. 142 had been in effect since January 1, 1996. All per share, shares outstanding and market price data reflect the two-for-one stock splits declared in 2003 and 1997. Return on beginning equity is net income divided by beginning shareholders' equity.

2002	2001	2000	1999	1998	1997	1996
$ 1,923,500	$ 1,821,902	$ 1,746,698	$ 1,605,385	$ 1,429,711	$ 1,251,517	$ 1,127,281
1,480,085	498,808	483,963	444,413	431,366	364,524	341,231
3,403,585	2,320,710	2,230,661	2,049,798	1,861,077	1,616,041	1,468,512
1,688,710	1,121,133	1,056,899	963,900	875,102	745,437	694,909
1,304,239	898,159	864,072	804,436	730,170	655,726	590,641
37,031	824	(20,736)				
373,605	300,594	330,426	281,462	255,805	214,878	182,962
43,895	28,434	24,605	22,713	21,742	12,637	14,372
329,710	272,160	305,821	258,749	234,063	202,241	168,590
131,277	110,453	124,467	106,412	99,340	83,911	69,840
	15,833	19,516	18,317	16,050	13,433	13,011
198,433	177,540	200,870	170,654	150,773	131,763	111,761
1,882				38,000		
(4,002)		(2,428)				
196,313	177,540	198,442	170,654	188,773	131,763	111,761
	18,471	17,762	16,631	14,934	11,195	10,683
$ 196,313	$ 196,011	$ 216,204	$ 187,285	$ 203,707	$ 142,958	$ 122,444
$ 0.77	$ 0.70	$ 0.79	$ 0.66	$ 0.58	$ 0.51	$ 0.43
0.76	0.70	0.78	0.66	0.73	0.51	0.43
0.76	0.68	0.76	0.63	0.56	0.49	0.42
0.75	0.68	0.75	0.63	0.70	0.49	0.42
0.77	0.77	0.86	0.72	0.64	0.55	0.47
0.76	0.77	0.85	0.72	0.79	0.55	0.47
0.76	0.75	0.83	0.70	0.62	0.53	0.46
$ 0.75	$ 0.75	$ 0.82	$ 0.70	$ 0.76	$ 0.53	$ 0.46
258,147	254,832	255,505	259,099	258,314	258,891	257,983
261,574	259,855	263,892	268,837	268,095	267,643	265,634
50.4%	51.7%	52.6%	53.0%	53.0%	53.9%	52.7%
38.3	38.7	38.7	39.2	39.2	40.6	40.2
11.0	13.0	14.8	13.7	13.7	13.3	12.5
9.7	11.7	13.7	12.6	12.6	12.5	11.5
5.8	7.7	9.0	8.3	8.1	8.2	7.6
39.8%	40.6%	40.7%	41.1%	42.4%	41.5%	41.4%
$ 1,015,937	$ 929,583	$ 600,568	$ 577,321	$ 503,514	$ 509,501	$ 435,507
716,095	668,413	512,581	454,376	423,941	400,537	336,314
		199,642	219,003	253,646	239,879	285,237
1,133,875	943,400	411,871	341,966	293,528	267,731	151,403
$ 2,865,907	$ 2,541,396	$ 1,724,662	$ 1,592,666	$ 1,474,629	$ 1,417,648	$ 1,208,461
$ 853,828	$ 827,952	$ 532,034	$ 470,674	$ 399,791	$ 404,464	$ 327,771
539,743	512,280	234,377	169,014	227,041	259,384	148,683
207,596	183,281	117,790	97,527	85,793	76,109	73,577
144,993	121,135	72,803	86,715	67,829	124,641	138,415
1,119,747	896,748	767,658	768,736	694,175	553,050	520,015
$ 2,865,907	$ 2,541,396	$ 1,724,662	$ 1,592,666	$ 1,474,629	$ 1,417,648	$ 1,208,461
$ 412,697	$ 358,508	$ 309,813	$ 290,098	$ 233,727	$ 234,126	$ 253,819
220,635	158,785	143,212	129,240	117,646	97,449	86,791
212,757	157,937	150,009	145,622	147,631	121,667	111,518
$ 0.2750	$ 0.2625	$ 0.2450	$ 0.2175	$ 0.1950	$ 0.1675	$ 0.1450
$ 699,842	$ 745,673	$ 370,969	$ 281,074	$ 295,032	$ 308,268	$ 176,292
38.5%	45.4%	32.6%	26.8%	29.8%	35.8%	25.3%
$ 4.31	$ 3.51	$ 3.02	$ 2.97	$ 2.68	$ 2.14	$ 2.01
21.9%	23.1%	25.8%	24.6%	34.1%	25.3%	24.5%
36.7%	38.6%	32.7%	34.5%	27.9%	34.2%	34.5%
8.5	10.6	13.4	12.4	11.8	17.0	12.7
$ 6,432,035	$ 5,147,980	$ 5,492,072	$ 5,063,409	$ 4,685,512	$ 3,579,240	$ 2,450,258
$25.20-18.27	$22.10-14.25	$22.85-14.00	$22.22-15.85	$19.00-13.07	$14.00-9.07	$ 9.88-7.28
20,417	19,326	14,250	12,870	12,007	10,210	9,573

INVESTOR INFORMATION

ANNUAL MEETING

Ecolab's annual meeting of stockholders will be held on Friday, May 4, 2007, at 10 a.m. in the McKnight Theatre of The Ordway Center for The Performing Arts, 345 Washington St., St. Paul, MN 55102.

COMMON STOCK

Stock trading symbol ECL. Ecolab common stock is listed and traded on the New York Stock Exchange (NYSE). 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 Specialty Chemicals sub-industry under the Materials sector of the Standard & Poor's Global Industry Classification Standard.

As of January 31, 2007, Ecolab had 5,222 shareholders of record. The closing stock price on January 31, 2007, was $43.90 per share.

DIVIDEND POLICY

Ecolab has paid common stock dividends for 70 consecutive years. Quarterly cash dividends are typically paid on the 15th of January, April, July and October.

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 may contact the plan administrator, Computershare, for a brochure and enrollment form.

GOVERNANCE/COMPLIANCE

Governance Information: Disclosures concerning our Board of Directors' policies, governance principles and corporate ethics practices, including our Code of Conduct, are available online at www.ecolab.com/investor/governance

NYSE Compliance: Our Chief Executive Officer's most recent annual certification dated May 31, 2006, confirming he was not aware of any violations by Ecolab of the NYSE's Corporate Governance listing standards was previously filed with the NYSE.

SEC Compliance: The most recent certifications by our Chief Executive Officer and Chief Financial Officer made pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosure can be found as Exhibit (31) to our Form 10-K for the year ended December 31, 2006. Also, the latest CEO/CFO certifications are available online at www.ecolab.com/investor/governance

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
225 South Sixth Street
Minneapolis, MN 55402

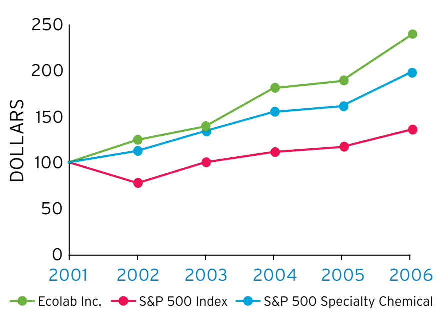
INVESTOR INQUIRIES

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

Michael J. Monahan
External Relations Vice President
Telephone: (651) 293-2809
E-mail: financial.info@ecolab.com

INVESTMENT PERFORMANCE

The following chart assumes investment of $100 in Ecolab Common Stock, the Standard & Poor's 500 Index and the Standard & Poor's 500 Specialty Chemicals Index on January 1, 2002, and daily reinvestment of all dividends.



INVESTOR RESOURCES

SEC Filings: 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 our Web site at www.ecolab.com/investor promptly after such reports are filed with, or furnished to, the SEC, or by contacting:

Ecolab Inc.
Attn: Corporate Secretary
370 Wabasha Street North
St. Paul, MN 55102
E-mail: investor.info@ecolab.com

Web site: Visit www.ecolab.com/investor for investor information and news.

RESEARCH COVERAGE

Investors may contact the following firms that have recently provided research coverage on Ecolab: Buckingham Research; CIBC World Markets; Citigroup; Credit Suisse; Deutsche Bank; Goldman Sachs; Ingalls & Snyder; JPMorgan; Jefferies & Company; Longbow Research; Merrill Lynch; Morgan Stanley; Morningstar; Soleil Securities; UBS Equities; and William Blair & Company. *The reference to such firms does not imply any endorsement of the information by Ecolab.*

TRANSFER AGENT, REGISTRAR AND DIVIDEND PAYING AGENT

Shareholders of record may contact the transfer agent, Computershare Investor Services, to request assistance with a change of address, transfer of share ownership, replacement of lost stock certificates, dividend payment or tax reporting issues. If your Ecolab shares are held in a bank or brokerage account, please contact your bank or broker for assistance.

Courier Address:

Computershare Investor Services
250 Royall Street
Canton, MA 02021

General Correspondence and Dividend Reinvestment Plan Correspondence:

Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078

Web site:
www.computershare.com/ecolab

E-mail: web.queries@computershare.com, or use the online form at www.computershare.com/contactus

Telephone:
(312) 360-5203; or 1-800-322-8325
Hearing Impaired: (312) 588-4110
Computershare provides telephone assistance to shareholders Monday through Friday from 8 a.m. to 6 p.m. (Eastern Time). Around-the-clock service is also available online and to callers using touch-tone telephones.

REDUCE, RE-USE, RECYCLE

If you received multiple copies of this report, you may have duplicate investment accounts. Help save resources. Please contact your broker or the transfer agent to request assistance with consolidating any duplicate accounts.

BOARD OF DIRECTORS

DOUGLAS M. BAKER, JR.
Chairman of the Board, President and Chief Executive Officer, Ecolab Inc., Director since 2004

LESLIE S. BILLER
Chief Executive Officer of Greendale Capital, LLC (private investment and advisory firm), Director since 1997, Compensation and Finance* Committees

RICHARD U. DE SCHUTTER
Retired Chairman and Chief Executive Officer, DuPont Pharmaceutical Company (drug manufacturer), Director since 2004, Audit and Governance Committees

JERRY A. GRUNDHOFER
Chairman of the Board, U.S. Bancorp (financial services holding company), Director since 1999, Compensation* and Finance Committees

STEFAN HAMELMANN
Member of the Shareholders' Committee, Henkel KGaA (chemicals, household and personal care products and adhesives), Director since 2001, Finance Committee

JOEL W. JOHNSON
Retired Chairman and Chief Executive Officer, Hormel Foods Corporation (food products), Director since 1996, Audit* and Governance Committees

JERRY W. LEVIN
Chairman and interim Chief Executive Officer, Sharper Image Corp. (national specialty retailer), Director since 1992, Compensation and Governance* Committees

ROBERT L. LUMPKINS
Chairman of the Board, The Mosaic Company (crop and animal nutrition products and services), Director since 1999, Audit and Governance Committees

BETH M. PRITCHARD
President and Chief Executive Officer, Dean & Deluca, Inc. (gourmet and specialty foods), Director since 2004, Compensation and Finance Committees

KASPER RORSTED
Executive Vice President, Henkel KGaA (chemicals, household and personal care products and adhesives), Director since 2005, Finance Committee

* Denotes Committee Chair

HANS VAN BYLEN
Executive Vice President, Henkel KGaA (chemicals, household and personal care products and adhesives), Director since 2007

JOHN J. ZILLMER
Chairman and Chief Executive Officer, Allied Waste Industries, Inc. (solid waste management), Director since 2006, Audit and Governance Committees

COMMUNICATIONS WITH DIRECTORS

Stakeholders and other interested parties, including our investors and employees, with substantive matters requiring the attention of our board (e.g., governance issues or potential accounting, control or auditing irregularities) may use the contact information for our board located on our Web site at www.ecolab.com/investor/governance

In addition to online communications, interested parties may direct correspondence to our board at:
Ecolab Inc.
Attn: Corporate Secretary
370 Wabasha Street North
St. Paul, MN 55102

OTHER COMMUNICATIONS

Matters not requiring the direct attention of our board – such as employment inquiries, sales solicitations, questions about our products and other such matters – should be submitted to the company's management at our St. Paul headquarters, or online at www.ecolab.com/contact/frmcontact.asp

CORPORATE OFFICERS

DOUGLAS M. BAKER, JR.
Chairman of the Board, President and Chief Executive Officer

LAWRENCE T. BELL
Senior Vice President, General Counsel and Secretary

ANGELA M. BUSCH
Vice President – Corporate Development

JOHN J. CORKREAN
Vice President and Treasurer

STEVEN L. FRITZE
Executive Vice President and Chief Financial Officer

ROBERT K. GIFFORD
Senior Vice President – Global Supply Chain

THOMAS W. HANDLEY
Executive Vice President – Industrial Sector

MICHAEL A. HICKEY
Senior Vice President – Global Business Development

DIANA D. LEWIS
Senior Vice President – Human Resources

PHILLIP J. MASON
Executive Vice President – Asia Pacific and Latin America

JAMES A. MILLER
Executive Vice President – Institutional Sector North America

SUSAN K. NESTEGARD
Senior Vice President – Research, Development and Engineering and Chief Technical Officer

DANIEL J. SCHMECHEL
Senior Vice President and Controller

THOMAS W. SCHNACK
Senior Vice President – North America Food & Beverage

C. WILLIAM SNEDEKER
Executive Vice President – Global Services Sector

ROBERT P. TABB
Vice President and Chief Information Officer

JAMES H. WHITE
Senior Vice President – Strategy and Marketing Development

World Headquarters
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