

We are **One!**

One. We chose this simple, elegant word as the theme for our 2001 report because it so effectively summarizes and celebrates the major strategic achievement that characterizes the year and our future: the unification of Ecolab's global enterprise.

To Our Shareholders

Thanks to our acquisition of the remaining 50 percent of our European joint venture, Ecolab is now one seamless company worldwide. For the first time since the former Henkel-Ecolab was established more than 10 years ago, we are *one* Ecolab in Europe, North America and around the globe – one company, sharing one culture of excellence and one destiny: unlimited growth!

This transaction, completed November 30, served as a stirring climax to what was a truly unusual and extraordinary year.

In addition to celebrating our global unity in 2001, we rallied together to face extremely tough market conditions that were, in many ways, unlike anything we've experienced during our almost 80 years in business. The once robust U.S. economy, of course, had already begun to slow when terrorists attacked the United States on September 11. This horrific tragedy and the unprecedented events that occurred in its immediate wake – such as the three-day shutdown of the stock market and the grounding of all domestic air transportation – sent the economy plunging even further into a recession. The travel and lodging industry, one of our largest markets, was hit especially hard due to the climate of public fear and uncertainty.

But in the aftermath of the terrorist attacks, as we sent our thoughts and prayers to the families of those who lost their lives, we also made a conscious decision not to let these events defeat our Ecolab spirit. We are, after all, a company that has risen to the occasion time and time again throughout our remarkable history. From the Great Depression and various wars to countless challenges from competitors, Ecolab has not only persevered, but emerged even stronger than we were before.

As we look back on our accomplishments in 2001, it's clear that we have a lot to be proud of. While our financial results may not have met the aggressive standards we set for ourselves, it is important for us to keep in mind that – during a year in which the earnings of the Standard & Poor's 500 declined more than 25 percent and the hospitality industry faced a record drop-off in business – we still handily outperformed the broad market. And, just as importantly, we took steps to further solidify our position as an industry leader in the coming years.

Here's a brief overview of 2001's highlights:

ONE pinnacle of performance

■ Sales from wholly owned operations increased 4 percent to a record \$2.4 billion. Investments in our sales-and-service force, new products and services, aggressive sales initiatives and strategic acquisitions were key drivers of the gain as we fought the sliding



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Chairman of the Board, President and Chief Executive Officer*

economy. Due to the timing of the acquisition's closing date, Henkel-Ecolab's 2001 results have been accounted for as equity income, consistent with prior years. In future years, however, they will be fully consolidated in Ecolab's operations. When European sales are included, our global coverage will be more than \$3 billion.

- Income was \$188 million, a decline of 5 percent from income before unusual items of \$198 million in 2000. Diluted earnings per share eased 3 percent, to \$1.45. Productivity gains and cost controls partially offset the difficult economic climate of 2001.
- We outperformed the S&P 500 for the second consecutive year, and we've now beaten the index nine years out of the past 11. Our stock price opened 2001 at \$43.19 and closed at \$40.25, off 7 percent. While this was our first such annual decline since 1994, we still outperformed the 12 percent stock price decline of the S&P 500.
- Return on beginning shareholders' equity was 25 percent, exceeding our corporate goal of 20 percent for the 10th consecutive year.
- We raised our quarterly cash dividend in December by 4 percent to 13.5 cents per common share. This resulted

in a new indicated annual rate of 54 cents per share. It was our 10th consecutive annual dividend rate increase.

- Our strong financial position allowed us to complete the Henkel-Ecolab transaction through a cash payment to Henkel KGaA of Düsseldorf, Germany. Although debt rose as a result of the transaction, our excellent cash flow should enable us to pay this down soon. In fact, following this payment, the major credit rating agencies upheld Ecolab's strong "A" category balance sheet and Prime-1 commercial paper rating.
- In January 2002, we announced a global restructuring. Following several years of acquisition activity and global expansion, we needed to refine our organization to increase the long-term efficiency and productivity of our worldwide operations. In addition to forging an organization that will be more effective and responsive for the long term, our efforts will result in significant annual cost savings. Although these savings will begin in 2002, their full impact won't be realized until 2003. Our actions will make us an even more effective competitor in the marketplace.

ONE exceptional blend of products and service

■ The selection of cutting-edge products and solutions we introduced in 2001 includes the *Inspex* line of antimicrobial surface treatments for red meat and poultry, which reduces potential contamination from harmful bacteria during processing. Independent restaurant customers now benefit from *Soil-A-Way*, a comprehensive cleaning line tailored especially to their needs. *Solid Ovation*, a new solid detergent system for high-pressure automatic car washes, offers an easy-rinsing foam, fast soil penetration and superior shine for clear-coat finishes. Our *Oxy-Sept 333* antimicrobial disinfectant was approved to guard livestock producers and owners from the threat of foot & mouth disease, which damaged the agricultural industries of several European and South American countries. And thanks to our *S.W.A.T.* Fruit Fly Service, we are helping our customers eliminate these increasingly problematic pests from their commercial kitchens.

You can read more about our numerous other advances in new products and technologies in the "Review of Operations" section of this report.

- The largest and best-trained sales-and-service organization in the industry only got better in 2001. In addition to more than 2,500 European associates added through the Henkel-Ecolab acquisition, we added more than 300

new associates to our field organization, which now totals more than 10,000 members. Simply put, our global service coverage is unmatched by anyone, anywhere.

ONE company committed to growth

Of course, as I mentioned earlier, our biggest acquisition ever became official on November 30 when we acquired 100 percent ownership of our former European joint venture. Again, this acquisition greatly strengthened our global leadership position, and it positions us for improved growth because we now have the ability to better serve our customers' needs on a global basis and introduce new offerings worldwide. But we also made a number of other notable acquisitions. They include:

- We extended our Pest Elimination services to Brazil with the purchase of Microbiotecnica in July. This acquisition is part of our strategy to expand our international pest elimination business, which in addition to North America, spans select countries in Asia Pacific and Latin America.
- Our GCS Service Division in October acquired Commercial Parts & Service, a provider of kitchen equipment repair services and parts with branches in Indiana, Kentucky, Tennessee and Mississippi. GCS now covers nearly every major U.S. restaurant market, with the broadest national independent service capability in the country.
- In January 2002, we acquired Chicago-based Audits International – a provider of food safety services since 1982 – and launched a new service: EcoSure Food Safety Management. A natural extension of our growing service offerings, EcoSure evaluates food safety procedures of restaurants, hotels, supermarkets, and other foodservice and hospitality establishments.
- Also in January 2002, we made our first acquisition in Europe since closing the Henkel-Ecolab transaction by purchasing certain operations of Kleencare Hygiene in the United Kingdom, France, Switzerland and the Netherlands. Kleencare expands our market share in key geographies, offering products, systems and services for the food and beverage industry, and providing customer support for the varied hygiene requirements of each segment.

ONE incomparable level of leadership

We continued to develop our management team, leveraging the depth of talent within the Ecolab ranks.

■ In March 2002, we promoted four of our key leaders: Doug Baker was named president of our Institutional Sector and continues to have responsibility for our Institutional, Textile Care and Kay divisions.

Rick Marcantonio is now president of our Industrial and Service sectors, which include the Food & Beverage, Pest Elimination, Professional Products, Water Care Services, Vehicle Care and GCS Service divisions.

John Spooner, promoted to president of our International Sector, will continue to concentrate on accelerating the growth and profitability of our Europe, Asia Pacific, Latin America and Africa/Middle East/Export businesses.

Steve Fritze was named senior vice president and chief financial officer. Formerly our senior vice president – finance and controller, Steve will lead our Accounting and Control, Treasury, Tax and Investor Relations organizations.

■ In February 2001, our board of directors welcomed new members Ulrich Lehner and Stefan Hamelmann. Ulrich is the president and chief executive officer of Henkel KGaA of Düsseldorf, Germany, a manufacturer of chemicals, household and personal care products, and adhesives. Stefan is a member of the Shareholders' Committee of Henkel KGaA and owner of Franz Hamelmann Baugesellschaft GmbH, a privately held construction company.

■ In March 2002, Jochen Krautter, chief financial officer of Henkel KGaA, joined the board.

We also bid farewell to several members of our leadership team.

■ L. White Matthews III resigned as chief financial officer in August 2001. He also resigned from our board of directors later in the year. We thank White for the strategic leadership he provided our organization.

■ In March 2002, I regretfully accepted Bruno Deschamps' resignation as president and chief operating officer. Bruno, who contributed to making Ecolab an even more successful and global company, decided to pursue personal interests. We wish him well in his future endeavors.

■ In February 2001, the board recognized the resignations of directors Roland Schulz and Albrecht Woeste after eight and 10 years of distinguished service, respectively. In May 2001, the board acknowledged the retirement of Ruth S. Block after 16 years of exemplary service.

■ Hugo Uytterhoeven retired as a member of our board in March 2002 following 10 years of dedicated service.

We thank each of the above for their many contributions, counsel and leadership, and for helping to develop the management talent that will lead Ecolab's growth.

ONE recognized standard of excellence

■ With the public's heightened concern regarding corporate ethics, we were very pleased to have been designated, for the second year in a row, one of America's "100 Best Corporate Citizens" by *Business Ethics* magazine. This honor reaffirms our continued efforts to act with the highest level of integrity and responsibility in all of our business dealings.

■ We were the first recipient of the International Dairy Foods Association Supplier Excellence Award, which we received in October at the Worldwide Food Expo in Chicago. Judged on superior service to customers, product/service innovations that assist customers, and demonstrated dedication to the food industry, we were very pleased to be recognized with this award.

Outlook for 2002:

If the events of 2001 have taught us anything, it's that predicting the future is a very tricky proposition. Nobody really knows what the coming year might bring. What we *can* do, however, is make sure we're fully prepared to meet every challenge and seize every opportunity that lay ahead. That is exactly what Ecolab has done.

Right now, at this moment, we are unquestionably stronger than at any other point in our history. We have a greater reach and more potential for really big-time growth than ever before. And it's our strength that will help us weather the current economic climate, as well as any new twists and turns that events may take in the coming months. We've done it before, and we'll do it again.

I've said it many times before, but the fact is, everyone has to eat and everything has to be cleaned – during the good times and the bad. That's why Ecolab's leading-edge products, systems and services are always in demand. And our customers need us the most during troubled economic times, when they have to fight even harder to protect their brand names and keep their customers coming back. We not only give them the highest-quality cleaning and sanitation solutions, but we help them achieve significant cost and labor savings – because every penny counts.

one *unbreakable spirit*

There is nothing more resilient than the human spirit.

For me, that's the one certainty that emerged from the tragedy and devastation that occurred in 2001. Through it all, our unique capacity to pick ourselves up, dust ourselves off and continue plowing ahead, even under the direst of circumstances, remains constant. I believe people everywhere share this common instinct. I certainly feel it – and it keeps me focused on the incredible future I know is within our grasp.

So, despite the many challenges we faced last year, we will march onward and upward. Inch by inch, step by step, we'll keep pursuing our goals, undauntedly surmounting any obstacles we may encounter. Mark my words, we're up to the task. At Ecolab, we've always known that growth and success don't come easily. You have to work hard and be willing to take risks, make sacrifices and create your own opportunities. As someone once said, "If opportunity doesn't knock, build a door."

Like the human spirit, our Ecolab spirit can never be defeated. Sure, we take our hits now and then, but we keep coming back stronger than ever. And we will again this time. That's ONE thing you can count on.

When you put this all together and look at the big picture, it's easy to see why I'm so confident that Ecolab will continue to outperform the broad market and produce attractive results. We are a global leader, and we already have the tools and people in place to achieve our goals in 2002 and the years to come. But that doesn't mean we're going to stop pursuing new avenues for growth. No way.

We have a roadmap for growth that emphasizes new products, new accounts, deeper product penetration, aggressive cross-selling, sales force increases and profit margin improvement. It also stresses further expansion – via global account growth, acquisitions, strategic alliances, and by tapping into new and expanding markets – to help us even better circle our customers and circle the globe.

Think about it: Can anyone else deliver so much to both customers and investors alike? The answer is clear.

There is only ONE – Ecolab!



Allan L. Schuman
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and Chief Executive Officer