

Financial Objectives

Ecolab has established the following long-term financial objectives:

- 15 percent annual earnings per share growth.
- 20 percent return on beginning of the year shareholders' equity.
- An investment grade balance sheet.

Ecolab possesses certain financial characteristics that enable it to accomplish these objectives. These characteristics include:

STRONG CASH FLOW

Because of strong margins on most products, stable markets and low capital investment requirements, Ecolab generates a strong cash flow from operations.

SOLID BALANCE SHEET, ATTRACTIVE RETURNS

Ecolab's attractive business and strong financial management have resulted in a solid balance sheet. With a goal to maintain an investment-grade rated balance sheet, Ecolab continues to optimize its capital structure to drive growth. This has given Ecolab the financial flexibility to fund its business needs while maintaining financial discipline and yielding attractive returns on assets and investments.

MODERATE CAPITAL INVESTMENT REQUIREMENTS

Ecolab is primarily a service business. As a result, capital expenditures have generally amounted to approximately 6 to 8 percent of sales. This low capital requirement has allowed Ecolab to use its cash resources for other business investment purposes.

A majority of Ecolab capital expenditures build ties to the customer. Rather than large capital spending projects, about two-thirds of all investment capital spending is for various systems that dispense customers' cleaning and sanitizing products, and low-temperature dishwashing machines. This equipment is designed to use Ecolab's proprietary products wherever possible.

ATTRACTIVE PROFITABILITY

Because of superior differentiated products, systems and service, Ecolab achieves attractive profit levels. Domestic profit margins currently are higher than international margins because of the greater business scale and more mature business development, the full product lines offered and greater use of new products and technology. Worldwide margins have attractive opportunities for improvement.

STABLE, GROWING MARKETS

Ecolab's primary customer base – schools, restaurants, hotels and other institutions – tends to be less sensitive to the economic cycles faced by most businesses. Since Ecolab products fulfill basic hygiene needs, they are less susceptible to expense reduction programs that may be implemented in tough economic times. This provides Ecolab with a relatively stable market in which to do business.

International standards for cleanliness also are on the rise, especially in the Latin America and Asia Pacific regions. Ecolab's broad international presence positions it to respond to these changing demands. Accordingly, strong growth is predicted in those areas.

