

ECOLAB INC
Form DEF 14A
March 30, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Ecolab Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Ecolab Inc.
370 Wabasha Street North
Saint Paul, MN 55102-1390
651-293-2233

March 31, 2004

Dear Fellow Stockholder:

You are cordially invited to join us for our Annual Meeting of Stockholders, to be held at 10:00 a.m. on Friday, May 7, 2004 in Weyerhaeuser Auditorium at the Landmark Center, 75 West Fifth Street, Saint Paul, Minnesota 55102. The Notice of Annual Meeting and the Proxy Statement that follow describe the business to be conducted at our Annual Meeting. We urge you to read both carefully.

We hope you plan to attend our Annual Meeting. However, if you will not be able to join us, we encourage you to exercise your right as a stockholder and vote. Please sign, date and promptly return the accompanying proxy card, or make use of either our telephone or Internet voting services. Stockholders not in attendance may listen to a broadcast of the meeting on the Internet. Webcast instructions will be available on-line at www.ecolab.com/investor.

Sincerely,

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

YOUR VOTE IS IMPORTANT. WE RECOMMEND YOU SUBMIT YOUR PROXY EVEN IF YOU PLAN TO ATTEND THE ANNUAL MEETING. PLEASE REFER TO THE ACCOMPANYING MATERIALS FOR VOTING INSTRUCTIONS.

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 7, 2004**

To the Stockholders of Ecolab Inc.:

The Annual Meeting of Stockholders of Ecolab Inc. will be held on Friday, May 7, 2004 at 10:00 a.m. in Weyerhaeuser Auditorium at the Landmark Center, 75 West Fifth Street, Saint Paul, Minnesota 55102, for the following purposes (which are more fully explained in the Proxy Statement):

- (1) to elect five Class III Directors to a term ending in 2007;
- (2) to re-approve the Ecolab Inc. Management Performance Incentive Plan, as amended;
- (3) to approve the Ecolab Stock Purchase Plan;
- (4) to ratify the appointment of PricewaterhouseCoopers LLP as our Independent Auditors for the current year ending December 31, 2004; and
- (5) to transact such other business as may properly come before our Annual Meeting and any adjournment or postponement thereof.

Our Board of Directors has fixed the close of business on March 16, 2004 as the record date for the determination of stockholders entitled to notice of and to vote at the meeting.

Whether or not you plan to attend the meeting, please complete and return the accompanying proxy in the enclosed envelope. Or, you may vote by telephone or the Internet. If you attend the meeting, you may vote your shares in person even though you have previously returned your proxy by mail, telephone or the Internet.

By Order of the Board of Directors

Lawrence T. Bell
Senior Vice President,
General Counsel and Secretary

March 31, 2004

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ECOLAB INC.

370 Wabasha Street North, Saint Paul, Minnesota 55102

PROXY STATEMENT ANNUAL MEETING OF STOCKHOLDERS MAY 7, 2004

The Board of Directors of Ecolab Inc. is using this Proxy Statement to solicit proxies from the holders of Ecolab Common Stock, par value \$1.00 per share ("Common Stock"), for use at the Annual Meeting of Ecolab Stockholders. We are first mailing this Proxy Statement and accompanying form of proxy to Ecolab stockholders on or about March 31, 2004.

Meeting Time and Place: Friday, May 7, 2004 at 10:00 a.m., Central time in Weyerhaeuser Auditorium at the Landmark Center, 75 West Fifth Street, Saint Paul, Minnesota 55102;

Purpose of the Meeting is to Vote on the Following Items:

- (1) to elect five Class III Directors to a term ending in 2007;
- (2) to re-approve the Ecolab Inc. Management Performance Incentive Plan, as amended;
- (3) to approve the Ecolab Stock Purchase Plan;
- (4) to ratify the appointment of PricewaterhouseCoopers LLP as our Independent Auditors for the current year ending December 31, 2004; and
- (5) to transact such other business as may properly come before our Annual Meeting and any adjournment or postponement thereof.

Record Date: The record date for Common Stock entitled to vote at our Annual Meeting is the close of business on March 16, 2004.

Shares Entitled to Vote: As of March 16, 2004, the record date for the meeting, there were 257,317,816 shares of Common Stock outstanding. Each share of Common Stock is entitled to one vote. Common Stock held by Ecolab in our treasury is not counted in shares outstanding and will not be voted.

Note: References in this Proxy Statement to "Ecolab," "the Company," "we," or "our" are to Ecolab Inc.

VOTING PROCEDURES

Quorum A quorum of stockholders is necessary to hold a valid meeting. The presence in person or by proxy at the meeting of holders of a majority of the outstanding shares of Common Stock entitled to vote at the meeting is a quorum. Abstentions and broker non-votes count as present for establishing a quorum. Common Stock held by Ecolab in our treasury does not count toward a quorum.

Broker Non-Vote Generally, a broker non-vote occurs on a proposal when a broker is not permitted under applicable rules to vote on that proposal without instruction from the beneficial owner of the Common Stock and no instruction is given.

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How to Vote by Proxy You may vote in person by ballot at our Annual Meeting or by submitting a valid proxy. We recommend you submit your proxy even if you plan to attend the Annual Meeting. If you attend the Annual Meeting, you may vote by ballot, thereby canceling any proxy previously submitted.

Voting instructions are included on your proxy card. If you properly give your proxy and submit it to us in time to be tabulated, one of the individuals named as your proxy will vote your Common Stock as you have directed. You may vote for or against each proposal, or you may abstain from voting on a proposal. With respect to the election of directors, you may vote for each nominee, or you may withhold voting authority on one or more nominees.

Revoking Your Proxy You may revoke your proxy at any time before it is voted by:

timely delivery of a valid, later-dated proxy, including a proxy given by telephone or Internet;

timely delivery of written notice to our Corporate Secretary before the Annual Meeting stating that you have revoked your proxy; or

voting by ballot at our Annual Meeting.

Vote Tabulation The vote on each proposal will be tabulated as follows:

Proposal 1: Election of Directors The nominee will be elected by a plurality of the votes cast. The five director nominees receiving the highest vote totals will be elected. Shares represented by proxies which contain instructions to "withhold" voting authority on one or more nominees will not affect the election of nominees receiving a plurality of the votes cast. It is intended that proxies solicited by our Board of Directors will (unless otherwise directed) be voted **FOR** the election of the five nominees named in this Proxy Statement. If, for any reason, any nominee becomes unavailable for election prior to our Annual Meeting, the proxies solicited by our Board of Directors will be voted **FOR** such substituted nominee as is selected by our Board of Directors, or our Board of Directors, at its option, may reduce the number of directors to constitute the entire Board.

Proposal 2: Re-approval of the Ecolab Inc. Management Performance Incentive Plan, as Amended The affirmative vote of a majority of the total votes cast by holders of Common Stock present in person or represented by proxy at our

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Annual Meeting and entitled to vote is necessary for re-approval of the Ecolab Inc. Management Performance Incentive Plan, as amended. Therefore, abstentions and broker non-votes do not count as votes either for or against re-approval of the Plan. Unless a contrary choice is specified, proxies solicited by our Board of Directors will be voted **FOR** re-approval of the Ecolab Inc. Management Performance Incentive Plan, as amended.

Proposal 3: Approval of the Ecolab Stock Purchase Plan The affirmative vote of a majority of the total votes cast by holders of Common Stock present in person or represented by proxy at our Annual Meeting and entitled to vote is necessary for approval of the Ecolab Stock Purchase Plan. Therefore, abstentions and broker non-votes do not count as votes either for or against approval of the Plan. Unless a contrary choice is specified, proxies solicited by our Board of Directors will be voted **FOR** approval of the Ecolab Stock Purchase Plan.

Proposal 4: Ratification of Independent Auditors The affirmative vote of a majority of the total votes cast by holders of shares present in person or represented by proxy at the Annual Meeting and entitled to vote shall constitute ratification of the appointment of PricewaterhouseCoopers LLP. Therefore, abstentions and broker non-votes do not count as votes either for or against ratification of the appointment. Unless a contrary choice is specified, proxies solicited by our Board of Directors will be voted **FOR** ratification of the appointment of PricewaterhouseCoopers LLP.

Discretionary Voting We are not currently aware of any other business to be acted upon at our Annual Meeting. If, however, other matters are properly brought before our Annual Meeting, or any adjournment or postponement of our Annual Meeting, your proxy includes discretionary authority on

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the part of the individuals appointed to vote your Common Stock or act on those matters according to their best judgment, including to adjourn the meeting.

Adjournments Adjournments of a meeting may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by approval of the holders of Common Stock representing a majority of the votes present in person or by proxy at our Annual Meeting, whether or not a quorum exists, without further notice other than by an announcement made at the meeting. We do not currently intend to seek an adjournment of our Annual Meeting.

GOVERNANCE / STOCKHOLDER ACCESS

Corporate Governance Our Company is managed under the overall direction of our Board of Directors for the benefit of all stockholders. To help familiarize you with our Board's policies and practices, our Corporate Governance Principles are attached as Appendix A to this Proxy Statement. The Corporate Governance Principles also can be found on our website at www.ecolab.com/investor/governance.

Communications with Directors Our stakeholders and other interested parties, including our stockholders and employees, can send substantive communications to our Board using the following methods published on our website at www.ecolab.com/investor/governance:

to correspond with the Board's Presiding Director, please complete and submit the on-line "Contact Presiding Director" form;

to report potential issues regarding accounting, internal controls and other auditing matters to the Board's Audit Committee, please complete and submit the on-line "Contact Audit Committee" form; or

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to make a stockholder recommendation for a potential candidate for nomination to the Board, please submit an e-mail to the Board's Governance Committee, in care of our Corporate Secretary, at investor.info@ecolab.com.

All substantive communications regarding governance matters or potential accounting, control or auditing irregularities are promptly relayed or brought to the attention of the Presiding Director or Chair of the Audit Committee following review by our management. Communications not requiring the substantive attention of our Board, such as employment inquiries, sales solicitations, questions about our products and other such matters, are handled directly by our management. In such instances, we respond to the communicating party on behalf of the Board.

Nonetheless, our management periodically updates the Board on all of the on-line communications received, whether or not our management believes they are substantive. In addition to on-line communications, interested parties may direct correspondence to our Board of Directors, our Board Committees or to individual directors at our headquarters address, repeated at the top of page 1 of this Proxy Statement.

Future Stockholder Proposals and Nominations Any stockholder proposal must comply with advance notice procedures set forth in Article II, Section 4 of our By-Laws. Under our By-Laws, to be in proper written form, the stockholder's notice to our Secretary must set forth (i) a brief description of the business desired to be brought before the Annual Meeting and the reasons for conducting that business at the Meeting, (ii) the name and address of the stockholder, (iii) the number of shares owned by the stockholder, (iv) a description of any arrangements between the stockholder and any other person in connection with the proposed business and any material interest of the stockholder in the business, and (v) a representation by the stockholder that he or she intends to appear at the Annual Meeting to present the business. This summary is qualified in its entirety by reference to the full text of our By-Laws, which can be found on our website under the Corporate Governance section. If the presiding Chairperson of the Annual Meeting of Stockholders determines that business, or a nomination, was not brought before the meeting in accordance with the By-Law provisions, that business will not be transacted or the defective nomination will not be accepted.

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Deadline for Inclusion in the Proxy Statement All proposals to be considered by the Board for inclusion in the Proxy Statement and form of proxy for next year's Annual Meeting of Stockholders, expected to be held in May 2005, must be received by the Corporate Secretary at our headquarters address, repeated at the top of page 1 of this Proxy Statement, no later than December 1, 2004.

Deadline for Consideration Stockholder proposals not included in a proxy statement for an annual meeting as well as proposed stockholder nominations for the election of directors at an annual meeting must each comply with advance notice procedures set forth in our By-Laws in order to be properly brought before that annual meeting of stockholders. In general, written notice of a stockholder proposal or a director nomination must be received by the Corporate Secretary not less than 90 days nor more than 135 days prior to the anniversary date of the preceding annual meeting of stockholders. With regard to next year's Annual Meeting of Stockholders, expected to be held in May 2005, the written notice must be received between December 23, 2004 and February 6, 2005 inclusive.

Director Nomination Process Our Board's Governance Committee has, under its Charter, responsibility for director nominee functions, including review of any director nominee candidates recommended by stockholders in accordance with our Restated Certificate of Incorporation and By-Laws. The Governance Committee has the authority to:

Review and recommend to the Board of Directors with regard to policies for the composition of the Board, including such criteria as:

size of the Board;

diversity of experience, employment, background and other relevant factors of Board members;

the proportion of the Board to be comprised of non-management directors;

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qualifications for new or continued membership on the Board, including experience, employment, background and other relevant considerations; and

director retirement requirements or standards.

Review any director nominee candidates recommended by stockholders in accordance with our Restated Certificate of Incorporation and By-Laws.

Identify, interview and evaluate director nominee candidates and have sole authority to:

retain and terminate any search firm to be used to assist the Committee in identifying director candidates; and

approve the search firm's fees and other retention terms.

Recommend to the Board:

the slate of director nominees to be presented by the Board for election at the Annual Meeting of Stockholders;

the director nominees to fill vacancies on the Board; and

the members of each Board Committee.

Any stockholder nomination for directors must comply with the advance notice procedures set forth in Article II, Section 3 of our By-Laws. Under our By-Laws, to be in proper written form, the stockholder's notice to our Secretary must set forth as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence of the person, (ii) the principal occupation or employment of the person, (iii) the number of shares owned by the person, and (iv) any other information relating to the person that would be required to be disclosed in our proxy statement or other filings made in connection

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with solicitations of proxies for election of directors under the Exchange Act. In addition, as to the stockholder, the notice must set forth (i) the name and address of the stockholder, (ii) the number of shares owned by the stockholder, (iii) a description of any arrangements between the stockholder and the proposed nominee and any other person pursuant to which the nomination is being made by the stockholder, (iv) a representation by the stockholder that he or she intends to appear at the Annual Meeting to nominate the person named in the notice, and (v) any other information relating to the stockholder that would be required to be disclosed in our proxy statement or such Exchange Act filings. The notice must be accompanied by a written consent of the proposed nominee to being named as a nominee and to serve as a director if elected. No person shall be eligible for election as a director of the Company unless nominated in accordance with the foregoing procedures. This summary is qualified in its entirety by reference to the full text of our By-Laws, which can be found on our website under the Corporate Governance section.

In terms of policies for composition of the Board generally, and qualifications for director nominees specifically, we refer you to our Corporate Governance Principles, which are attached as Exhibit A to this Proxy Statement. Under these provisions, for example:

No more than three Board members will be from current management. These management members normally would be the Chief Executive Officer, the Chairman (if an employee of the Company and not

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the CEO) and the President (if an employee of the Company and not the CEO), but may be any other officer deemed appropriate by the Board.

It is desired that the members of the Board represent a geographical dispersion and variety of business disciplines so as to bring to the work of the Board a diversity of experience and background, with the predominance of members being chief or executive officers from different industries.

A continuing effort is made to seek well-qualified women and minority group members for the Board, but these persons must be sought out and evaluated as individuals rather than as representatives of specific groups.

Other criteria relevant to service as a director of our Company are set forth in our Corporate Governance Principles.

All directors are encouraged to submit to the Governance Committee the name of any person deemed qualified to serve on the Board, together with information on the candidate's qualifications. The Governance Committee screens and submits to the full Board the names and biographical information of those persons considered by the Committee to be viable candidates for election as directors. The same evaluation process and criteria are used by the Committee (i) for recommendations for director candidates submitted by stockholders in accordance with our Restated Certificate of Incorporation and By-Laws, and (ii) for recommendations submitted by any other source, such as a director or a third-party search firm.

In 2003, a third-party search firm was engaged to assist in the identification and evaluation of one or more director nominee candidates for our Board. In particular, the search firm was asked to concentrate on candidates who were chief executive or chief financial officers and to ensure that women were represented. Several candidates, including Ms. Pritchard and Mr. De Schutter, were identified and recommended to our Chairman of the Board and Governance Committee. They were subsequently interviewed by the Chairman of the Board, the Chair of the Governance Committee, and certain other directors. Ms. Pritchard and Mr. De Schutter were then recommended by the Chairman of the Board and Governance Committee to the full Board for election as directors. They were appointed to the Board in February 2004 as directors in Class III for terms expiring at this year's Annual Meeting. In addition, Ms. Pritchard and Mr. De Schutter were included by the Board in the slate of nominees for election in Class III for terms expiring at the third subsequent Annual Meeting and, as such, are included in the group of nominees for election at this Annual Meeting. See "Proposal to Elect Directors" in this Proxy Statement.

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SECURITY OWNERSHIP

Certain Beneficial Owners The following table sets forth information as to entities which have reported to the Securities and Exchange Commission ("SEC") or have advised us that they are a "beneficial owner," as defined by the SEC rules and regulations, of more than 5% of our outstanding Common Stock.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class ⁽¹⁾
Common	Henkel Chemie VmbH Henkelstrasse 67 Postfach 1100 40191 Düsseldorf Germany	43,359,224 ⁽²⁾	16.9%
Common	HC Investments, Inc. 1105 North Market Street,	29,333,328 ⁽³⁾	11.4%

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Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class ⁽¹⁾
	Suite 1300 Wilmington, DE 19899		

(1) The percent of class is based on the number of voting shares outstanding as of March 16, 2004.

(2) As last reported to the SEC by Henkel Chemie VmbH on Form 3, filed January 9, 2003. Henkel Chemie VmbH is a wholly-owned, direct subsidiary of Henkel KGaA of Düsseldorf, Germany. Henkel KGaA is a partnership limited by shares organized under the laws of Germany. The Company understands that the majority of the voting stock of Henkel KGaA is controlled by the members of the Henkel family. Voting shares of the Company beneficially owned by Henkel Chemie VmbH are subject to an agreement containing certain restrictions pertaining to, among other things, maximum shareholding, transfer and voting rights. For a description of the agreement, see the information found on page 10 under the heading "Stockholder Agreement."

(3) HC Investments, Inc., a Delaware corporation, is an indirect, wholly-owned subsidiary of Henkel KGaA. Voting shares of the Company beneficially owned by HC Investments, Inc. are bound by the terms of the agreement between the Company and Henkel KGaA, as described on page 10.

Executive Officers and Directors In general, "beneficial ownership" includes those shares of our Common Stock which a director or executive officer has the power to vote or transfer, as well as stock options that are exercisable currently or within 60 days. On March 16, 2004, our current executive officers and directors owned, in the aggregate, 5,106,590 shares of Common Stock which is approximately 2.0% of our shares outstanding. (As required by SEC disclosure rules, "shares outstanding" for this purpose includes options exercisable within 60 days.) The detail of beneficial ownership is set forth in the following table.

Non-management directors also have interests in stock units under our 2001 Non-Employee Director Stock Option and Deferred Compensation Plan. The stock units are Common Stock equivalents. The stock units are credited to a deferred stock unit account and will be paid in the form of Common Stock after a director leaves the Board. Although the stock units may not be voted or transferred, they are shown in the table below because they represent part of the total economic interest of the directors in our Common Stock.

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Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Stock Units	Total	Percentage of Outstanding Shares Beneficially Owned
Allan L. Schuman	2,458,760 ⁽¹⁾⁽²⁾	0	2,458,760	*
Douglas M. Baker, Jr.	296,327 ⁽¹⁾⁽²⁾	0	296,327	*
John P. Spooner	393,889 ⁽¹⁾⁽²⁾	0	393,889	*
Steven L. Fritze	199,977 ⁽¹⁾⁽²⁾	0	199,977	*
Maurizio Nisita	330,003 ⁽¹⁾⁽²⁾	0	330,003	*
Leslie S. Biller	78,815 ⁽²⁾	18,628	97,443	*
Richard U. De Schutter	2,000	0	2,000	*
Jerry A. Grundhofer	44,600 ⁽²⁾	14,981	59,581	*
Stefan Hamelmann	21,800 ⁽²⁾	3,433	25,233	*
James J. Howard	66,024 ⁽²⁾	30,340	96,364	*
William L. Jews	58,329 ⁽²⁾	10,146	68,475	*
Joel W. Johnson	84,495 ⁽²⁾	17,641	102,136	*
Jochen Krautter	18,060 ⁽²⁾	1,985	20,045	*
Ulrich Lehner	21,800 ⁽²⁾	3,433	25,233	*

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Stock Units	Total	Percentage of Outstanding Shares Beneficially Owned
Jerry W. Levin	120,457 ⁽²⁾	18,785	139,242	*
Robert L. Lumpkins	60,484 ⁽²⁾	5,392	65,876	*
Beth M. Pritchard	0	0	0	
Current Directors and Executive Officers as a Group (25 persons)	5,106,590 ⁽³⁾			2.0%

(1) Includes the following shares held by officers in the Ecolab Savings Plan and ESOP as of the last Plan report: Mr. Schuman, 25,405; Mr. Baker, 7,694; Mr. Spooner, 4,683; Mr. Fritze, 20,216; and Mr. Nisita, 16,804.

(2) Includes the following shares which could be purchased under Company-granted stock options within 60 days from March 16, 2004: Mr. Schuman, 1,839,996; Mr. Baker, 256,665; Mr. Spooner, 327,365; Mr. Fritze, 178,106; Mr. Nisita, 212,480; Mr. Biller, 58,815; Mr. Grundhofer, 39,400; Mr. Hamelmann, 21,800; Mr. Howard, 38,200; Mr. Jews, 58,329; Mr. Johnson, 82,179; Mr. Krautter, 18,060; Mr. Lehner, 21,800; Mr. Levin, 93,335; and Mr. Lumpkins, 59,641.

(3) Includes 4,056 shares held by or on behalf of family members of directors and executive officers, 114,670 shares held for executive officers in Company-sponsored employee benefit plans as of the last plan reports, 3,969,025 shares to which these persons have the right to acquire beneficial ownership within 60 days of March 16, 2004, by the exercise of Company-granted stock options and 44,800 shares held by executive officers under Company-granted restricted stock awards which are subject to events of forfeiture.

BOARD OF DIRECTORS

Board Structure Under our Restated Certificate of Incorporation, the number of directors is determined exclusively by the Board. Currently, the Board has fixed the number of directors at 14. Under our Corporate Governance Principles, the optimal size of the Board is between 11 and 15 members, in order to facilitate effective discussion and decision-making, adequate staffing of Board Committees, and a desired mix of diversified experience and background.

Pursuant to our agreement with Henkel KGaA ("Henkel") described on page 10 under the heading "Stockholder Agreement," Henkel is entitled to designate a number of persons to be nominated for election to our Board of Directors proportionate to Henkel's shareholding in the Company rounded down to the nearest whole number. As of March 16, 2004, Henkel beneficially owned approximately 28.3% of our outstanding Common Stock and was accordingly entitled to designate three directors. Messrs. Hamelmann, Krautter and Lehner have been elected to the Board pursuant to designation by Henkel.

There were six meetings of the Board of Directors during the year ended December 31, 2003. Each director attended at least 75% of Board and Committee meetings. Overall attendance at Board and

Committee meetings was 96%. Directors are expected, but are not required, to attend our Annual Meeting of Stockholders. All directors attended last year's Annual Meeting.

The Board has appointed a Presiding Director to lead non-management directors during executive sessions of the Board. Currently, the Chair of the Compensation Committee serves as the Presiding Director. The Presiding Director position rotates among the four Board Committee Chairs, in sequential order of Governance, Compensation, Finance and Audit, beginning each January 1.

Board Committees The business and affairs of our Company are managed under the overall direction of the Board of Directors. Our By-Laws permit the Board of Directors to designate Committees, each comprised of three or more directors, to assist the Board in carrying out its duties. The Board annually reviews its Committee structure as well as the Charter and composition of each Committee and makes modifications as

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necessary. The Board believes its current Committee structure, comprised of standing Audit, Compensation, Finance and Governance Committees, is appropriate. The Charters of these Committees are attached as Appendix B (i), (ii), (iii) and (iv) to this Proxy Statement and are available on our website at www.ecolab.com/investor/governance. The Charters were last amended and approved by the Board in May 2003. The separately designated standing Audit Committee meets the requirements of Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The members of the Audit, Compensation and Governance Committees meet the "independence" and other requirements established by the rules and regulations of the SEC and the New York Stock Exchange.

Audit Committee The Committee members during 2003 were Messrs. Howard (Chairman), Jews, Johnson (Vice Chairman) and Lumpkins. Mr. De Schutter became a member of the Committee in February 2004. The Committee met seven times during the past year. In addition, the Committee Chair, as representative of the Committee, discussed the interim financial information contained in each quarterly earnings announcement for the first three calendar quarters of 2003 with our Chief Financial Officer, Controller and Assistant Controller and with our independent auditors, prior to each of our quarterly earnings announcements. The full Committee (and all of our other directors, who were invited to participate) met to discuss the financial information contained in the fourth quarter and full year 2003 earnings announcement prior to dissemination of that press release and it being furnished to the SEC on a Form 8-K.

The Committee fulfills, and assists the Board of Directors' oversight of, its responsibilities to monitor (i) the quality and integrity of our consolidated financial statements and management's financial control of operations; (ii) the qualifications, independence and performance of the independent auditors; (iii) the role and performance of the internal audit function; and (iv) our compliance with legal and regulatory requirements. The Committee meets regularly and privately with our management and internal auditors, and with our independent auditors, PricewaterhouseCoopers LLP.

A report of the Audit Committee is found under the heading "Audit Committee Report" on page 32.

The Board of Directors has determined that each member of the Audit Committee is "independent" and meets the independence and other requirements of (i) Sections 303A.02 and 303A.07(a) of the listing standards of the New York Stock Exchange, and (ii) Rule 10A-3 under the Exchange Act. The Board has also determined that at least one member of the Committee is an "audit committee financial expert" under the SEC's rules and that, without limitation, the Board has specifically determined that Mr. Robert L. Lumpkins possesses such expertise, that he should be so designated, and that he is "independent." Further, the Board has determined, in its business judgment, that Mr. Lumpkins has accounting and related financial management expertise under the New York Stock Exchange's listing standards. Finally, the Board has determined, in its business judgment, that each member of the Committee is financially literate, under the NYSE's standards.

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Compensation Committee The Committee members during 2003 were Messrs. Biller (Chairman), Grundhofer, Johnson (Vice Chairman) and Levin. Mr. De Schutter became a member of the Committee in February 2004. The Committee met six times during the past year. The Committee is composed entirely of independent directors. The principal functions of this Committee are to (i) review and recommend to the Board with respect to the establishment, amendment and administration of any compensation plans, benefits plans, severance arrangements and long-term incentive for directors, and any executive officers (including the CEO) or other employees; (ii) review and approve our overall compensation policy and annual executive salary plan, including CEO compensation; and (iii) administer our director stock option and deferred compensation plans and executive and employee stock incentive, stock purchase, and cash incentive programs. To assist the Committee in the design and review of executive compensation programs, the Board has selected and retained an independent compensation consultant who reports directly to the Committee. A report by the Committee on executive compensation is located on pages 18 and 19.

The Board of Directors has determined that each member of the Compensation Committee meets the "independence" requirements of the SEC and the New York Stock Exchange.

Finance Committee The Committee members during 2003 were Howard, Jews (Chairman), Krautter, Lehner and Lumpkins (Vice Chairman). Ms. Pritchard and Mr. Baker joined the Committee in February 2004. The Committee met five times during the past year. The principal functions of this Committee are to review and make recommendations to the Board

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concerning (i) management's financial and tax policies and standards; (ii) our financing requirements, including the evaluation of management's proposals concerning funding to meet such requirements; (iii) dividends; (iv) our capital expenditure budget; and (v) adequacy of insurance coverage. The Committee also evaluates specific acquisition, divestiture and capital expenditure projects from a financial standpoint. The Committee oversees a management committee which is charged with monitoring the performance of trust assets held in our benefit plans, and monitors our investor relations program.

Governance Committee The Committee members during 2003 were Messrs. Biller, Grundhofer (Vice Chairman) and Levin (Chairman). Ms. Pritchard joined the Committee in February 2004. The Committee met five times during the past year. The principal functions of the Governance Committee are described on page 4 of this Proxy Statement under the heading "Director Nomination Process."

The Board of Directors has determined that each member of the Governance Committee meets the "independence" requirements of the SEC and the New York Stock Exchange.

Director Remuneration Members of the Board of Directors who are not employees of the Company are paid an annual retainer of \$24,000 and a fee of \$1,200 for each Board or committee meeting they attend. Committee chairs each receive an additional fee of \$6,000 per year. Non-employee directors also receive \$25,000 annually in the form of stock units (which are described under the heading "Security Ownership Executive Officers and Directors" on page 6). In addition, non-employee directors receive stock options having an economic value (as determined by the Board) of \$55,000. Effective for 2004, the Board and committee meeting attendance fees were eliminated and the annual retainer was increased to \$55,000.

Under the 2001 Non-employee Director Stock Option and Deferred Compensation Plan ("the 2001 Plan"), non-employee directors may elect to defer some, or all, of the cash portion of their director's fees until cessation of Board service. Deferred amounts either earn interest at market rates or are invested in the stock unit account at the election of the director. Upon cessation of Board service, deferred amounts (whether in the interest-bearing account or in the stock unit account) are paid in a lump sum or in equal installments to a maximum of ten years as elected by the director.

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The 2001 Plan permits non-employee directors to elect to convert their cash compensation and their \$25,000 stock unit compensation into elective stock options. The value converted purchases options having a face value (i.e., the product of (i) the market price of the stock on the date of grant and (ii) the number of options) equal to four times the amount so converted. The 2001 Plan was amended to eliminate the feature of converting cash and/or stock unit compensation into elective stock options with effect for deferral election periods on and after May 1, 2004.

Commencing 2001, the options granted to Directors under the 2001 Plan may be transferred to defined family members or legal entities established for their benefit, and provide for a one-time automatic grant of a reload stock option if the optionee exercises the original stock option by tendering shares of previously owned Common Stock of the Company. The reload stock option is for the same number of shares tendered to exercise the original stock option and the number of shares required to be withheld to satisfy minimum statutory tax obligations, has an exercise price equal to the fair market value of the Company's Common Stock on the reload grant date, and is immediately exercisable at any time during the remaining exercise term of the original stock option. The reload feature was eliminated under the 2001 Plan as amended effective May 2004.

DIRECTOR INDEPENDENCE

"Independence" Determination In February 2004, the Governance Committee undertook a review of director independence by examining the nature and magnitude of transactions and relationships during 2003, 2002 and 2001 between each director or any member of his or her immediate family and the Company, its subsidiaries and affiliates, including those reported below under "Stockholder Agreement" and "Related Party Transactions." Appropriate scrutiny is given to any situation which could be reasonably considered a material relationship. Both the existence of the relationship and the nature thereof are considered; for example relationships include, among others, commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships.

Based on the review of the Governance Committee, the Board of Directors has determined that each of the current directors, with the exception of the directors named below, including the slate of nominees for election to the Board at this year's Annual Meeting, is "independent," and meets the independence and other requirements of Section 303A.02 of the listing standards of the New York Stock Exchange, the regulations of

the SEC, and applicable law.

Non-independent Director

Capacity

Douglas M. Baker, Jr.	Insider (President and Chief Operating Officer)
Stefan Hamelmann	Affiliated Outsider (Designee of Henkel KGaA)
Jochen Krautter	Affiliated Outsider (Designee of Henkel KGaA)
Ulrich Lehner	Affiliated Outsider (Designee of Henkel KGaA)
Allan L. Schuman	Insider (Chairman of the Board and Chief Executive Officer)

Stockholder Agreement In a filing with the SEC, Henkel KGaA reported that affiliates of Henkel owned 72,692,552 shares of our Common Stock as set forth in the table "Security Ownership Certain Beneficial Owners" located on page 6.

Henkel's equity ownership in the Company is subject to an agreement ("Stockholder's Agreement") containing certain restrictions pertaining to, among other things, Henkel's acquisition, transfer and voting rights of our Common Stock. Generally, the Stockholder's Agreement terminates when Henkel owns less than two percent of our voting shares. Pursuant to the Stockholder's Agreement, Henkel is precluded from acquiring more than 35 percent of our outstanding Common Stock or from acting, alone or in concert with others, to control or influence the Company.

Henkel may sell its shares of our Common Stock under certain conditions specified in the Stockholder's Agreement, subject to our right of first refusal. In December 2003, Henkel KGaA reported that it may

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sell a portion or all of its holdings of our Common Stock and/or its holdings of common stock of The Clorox Company, or a combination of both, in connection with financing its pending acquisition of The Dial Corporation. Any disposition by Henkel of any shares of our Common Stock would be effected in an orderly manner in accordance with the Stockholder's Agreement, including our right of first refusal.

Henkel has agreed to vote its shares in the case of election of our directors, certain stockholder proposals, compensation and certain matters pertaining to the independent publicly traded nature of the Company, in accordance with the recommendations or directions of our Board. In all other cases, except with respect to certain "strategic transactions," Henkel may vote, at its option, either in accordance with the recommendation of our Board or pro rata in the same manner and proportion that votes of our stockholders (other than Henkel and our officers or directors) have been cast. Any vote with respect to "strategic transactions," (for example a disposition, recapitalization, liquidation or consolidation of the Company or other transactions which could reasonably be expected to have a material effect upon Henkel's investment in our Common Stock) may be cast at Henkel's sole discretion. Henkel also is entitled to designate nominees for election to our Board of Directors proportionate to the percentage of its holding of our voting securities (rounded down to the nearest whole number). Currently, Henkel has designated for election three of our directors. Those directors are Stefan Hamelmann, Jochen Krautter and Ulrich Lehner. Further information concerning Henkel directorships is found on page 12 under the heading "Proposal to Elect Directors."

In addition, the Stockholder's Agreement provides that beginning in 2011 Henkel will be permitted to make proposals to our Board of Directors to acquire all, but not less than all, of our outstanding voting shares at certain times, and under terms and conditions set forth in the Stockholder's Agreement.

Related Party Transactions On November 30, 2001, we acquired the 50 percent of the Henkel-Ecolab joint venture ("Henkel-Ecolab") which we did not already own, from our joint venture partner, Henkel KGaA, for a purchase price of approximately 483,500,000 euro, or approximately \$432,700,000 at November 30, 2001 exchange rates, plus \$6,500,000 of direct transaction related expenses ("Purchase Price"). As of February 27, 2004, in connection with the acquisition, we had an outstanding claim for indemnification from Henkel for certain liabilities which, in the aggregate, amounted to 1,475,000 euro, or approximately \$1,845,000 at February 2004 exchange rates. The acquisition is referred to herein as the "Transaction."

As a part of the Transaction, Henkel agreed to continue for up to two years, subject to mutually agreed year-to-year extensions, to provide to our European businesses certain services and products which Henkel previously provided to Henkel-Ecolab prior to the Transaction on financial and other terms substantially similar to those in place prior to the closing of the Transaction. These include leased office space; certain accounting, finance, payroll, human resources, information and other administrative services; and contract manufacturing and supply agreements.

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Pursuant to an Intellectual Property Agreement entered into in connection with the Transaction: (i) Henkel transferred certain trademarks and patents used by Henkel-Ecolab to us and we granted a perpetual royalty-free license back to Henkel to use such transferred intellectual property outside of the cleaning and sanitizing field; and (ii) Henkel granted a perpetual (in a limited number of cases, the license for certain trademarks is limited to five years) royalty-free license to us to use certain other trademarks, patents and technology used by Henkel-Ecolab which were not transferred to us.

In connection with the Transaction, Ecolab and Henkel also entered into an Environmental Agreement dated December 7, 2000 under which Henkel agreed to indemnify Ecolab for certain environmental liabilities associated with the former Henkel-Ecolab. Henkel's outstanding reimbursement obligation to Ecolab for such environmental liabilities in the amount of 108,319 euro (approximately \$116,000) was paid as of December 31, 2003.

During 2003, we sold products and services in the amount of approximately \$3,426,000 to Henkel and its affiliates, and purchased products and services in the amount of approximately \$71,265,000 from

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Henkel and its affiliates. The sales were made at prices comparable to prices charged to other customers and we believe that the amounts paid for products and services purchased were comparable with prices charged by other suppliers for similar products. The payments for products and services include amounts paid to Henkel and its affiliates for administrative services and for products under supply arrangements by our affiliates in approximately 25 countries outside of Europe where we formerly acquired industrial and institutional cleaning and sanitizing businesses from Henkel.

PROPOSAL TO ELECT DIRECTORS

The Board of Directors is divided into three classes. The members of each class are elected to serve a three-year term with the terms of office of each class ending in successive years.

Pursuant to the agreement between us and Henkel KGaA described on page 10 under the heading "Stockholder Agreement," Henkel is entitled to designate a number of persons to be nominated for election to our Board of Directors proportionate to Henkel's shareholding in the Company rounded down to the nearest whole number. As of March 16, 2004, Henkel beneficially owned approximately 28.3% of our outstanding Common Stock and was accordingly entitled to designate three directors. Messrs. Hamelmann, Krautter and Lehner have been elected to the Board pursuant to designation by Henkel.

The term of Class III Directors expires with this Annual Meeting of Stockholders. Pursuant to the recommendation of the Governance Committee, Ms. Pritchard and Messrs. De Schutter, Jews, Johnson and Lehner were nominated by the Board of Directors for election as Class III Directors. Class III Directors being elected at the current Annual Meeting will serve until the 2007 Annual Meeting expected to be held in May 2007, or until their successors have been duly elected and qualified. The Board of Directors has no reason to believe that any of the named nominees is not available or will not serve if elected. The directors of Class I and Class II will continue in office. The Board of Directors recommends a vote **FOR** the election of the five nominees named in this Proxy Statement.

The following information with regard to business experience has been furnished by the respective directors or nominees or obtained from our records.

NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS CLASS III (FOR A TERM ENDING 2007)

RICHARD U. DE SCHUTTER, age 63.

Retired Chairman and Chief Executive Officer of DuPont Pharmaceutical Company, a drug manufacturer formerly based in Wilmington, Delaware. Director of Ecolab since February 2004. Member of the Audit and Compensation Committees.

Following a 35-year career at Monsanto Company where he last served as Vice Chairman and Chief Administrative Officer, Mr. De Schutter transitioned to Pharmacia Corporation, a drug manufacturer created

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through merger of Monsanto, Pharmacia & Upjohn, in 2000 as Chief Administrative Officer and Director. In 2000, Mr. De Schutter joined Dupont Pharmaceutical Company as Chairman and Chief Executive Officer, serving until the 2001 sale of the company to Bristol Myers-Squib. Mr. De Schutter is a director of Incyte Corporation, Smith & Nephew plc and Varian, Inc.

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WILLIAM L. JEWS, age 52.

President and Chief Executive Officer of CareFirst, Inc., a health care insurer operating in the United States' Mid-Atlantic region and parent company of CareFirst of Maryland, Inc. and Group Hospital and Medical Services, Inc., affiliates that do business as CareFirst BlueCross and BlueShield, plus a third affiliate named BlueCross and BlueShield of Delaware, Inc. Director of Ecolab since 1999. Chairman of the Finance Committee and member of the Audit Committee.

Following an extensive career in health administration, Mr. Jews served as President and Chief Executive Officer of Dimensions Health Care Corporation from 1990 to 1993. In 1993, he joined BlueCross and BlueShield of Maryland as President and Chief Executive Officer. Appointed to his current position with CareFirst, Inc. in January 1998. Director of The Ryland Group, Choice Hotels and MBNA.

JOEL W. JOHNSON, age 60.

Chairman of the Board, President and Chief Executive Officer of Hormel Foods Corporation, a processor and marketer of meat and food products. Director of Ecolab since 1996. Vice Chairman of the Compensation Committee and of the Audit Committee.

Following an extensive career at General Foods Corporation, Mr. Johnson joined Hormel Foods Corporation in 1991 as Executive Vice President Sales & Marketing. Advanced to President in 1992, Chief Operating Officer and Chief Executive Officer in 1993 and Chairman of the Board in 1995. Director of Hormel Foods Corporation, the Meredith Corporation and U.S. Bancorp. Also a director of The Hormel Foundation, American Meat Institute and Grocery Manufacturers Association as well as a member of Board of Overseers of the Carlson School of Management at the University of Minnesota and the Board of Trustees of Hamilton College.

ULRICH LEHNER, age 57.

President and Chief Executive Officer of Henkel KGaA, Düsseldorf, Germany, a manufacturer of chemicals, household and personal care products and adhesives. Director of Ecolab since February 2001. Appointed to the Board pursuant to an understanding between the Company and Henkel (see information found on page 12 under the heading "Proposal to Elect Directors"). Member of the Finance Committee.

Mr. Lehner joined Henkel KGaA in 1981 and, following three years at Fried Krupp GmbH serving as Head of Controlling Department, returned to Henkel in 1986 as Head of Accounting/Taxes. Named Corporate Vice President, Finance/Controlling in 1994 and promoted to Executive Vice President, Finance/Logistics in 1995. Elected to his current position of President and Chief Executive Officer in May 2000. Director of Novartis AG and Dresdner Bank Luxemborg. Member of the Supervisory Board of E.ON AG. Mr. Lehner also serves as Chairman of the Management Board of Henkel KGaA. He lectures as a Professor at the University of Münster,

Germany.

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BETH M. PRITCHARD, age 57

President and Chief Executive Officer of Organized Living, Inc., a national retailer of storage products based in Kansas City. Director of Ecolab since February 2004. Member of the Finance and Governance Committees.

From 1991 to January 2003, Ms. Pritchard was an executive with Limited Brands, Inc., a specialty retailer, most recently serving as President and Chief Executive Officer of Bath & Body Works, and as Chief Executive Officer of The White Barn Candle Company. From 1971 to 1991, Ms. Pritchard held various marketing and management positions at S.C. Johnson & Son, Inc., last as Vice President Insect Control Division. Director of Borders Group, Inc., Albertson's, Inc. and Organized Living, Inc.

**MEMBERS OF BOARD OF DIRECTORS CONTINUING IN OFFICE CLASS I
(FOR A TERM ENDING 2005)**

DOUGLAS M. BAKER, JR. age 45

President and Chief Operating Officer of Ecolab. Director of Ecolab since February 2004. Member of the Finance Committee

Prior to joining Ecolab in 1989, Mr. Baker was employed by The Procter & Gamble Company in various marketing and management positions. Mr. Baker has served as Ecolab's President and Chief Operating Officer since August 2002 and formerly held leadership positions with Ecolab's Institutional, Kay and European operations.

STEFAN HAMELMANN, age 40.

Owner of Franz Hamelmann Baugesellschaft GmbH and Franz Hamelmann Projekt GmbH, privately held construction and development companies. Member of the Henkel family which controls Henkel KGaA, Düsseldorf, Germany, a manufacturer of chemicals, household and personal care products and adhesives. Director of Ecolab since February 2001. Appointed to the Board pursuant to an understanding between the Company and Henkel (see information found on page 12 under the heading "Proposal to Elect Directors").

Mr. Hamelmann became a partner at Franz Hamelmann Baugesellschaft GmbH in 1993, serving as sole proprietor since 1997. Appointed as a guest member of the Shareholders' Committee of Henkel KGaA in 1997. Elected to the Henkel Shareholders' Committee in May 1999.

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JAMES J. HOWARD, age 68.

Chairman Emeritus of Xcel Energy Inc. ("Xcel"), an electricity and natural gas energy company formed by the August 2000 merger of New Century Energy and Northern States Power Company. Director of Ecolab since 1991. Chairman of the Audit Committee and member of the Finance Committee.

Mr. Howard joined Northern States Power as President and Chief Executive Officer in 1987. From 1994 until completion of the merger with New Century Energy, he served as Chairman of the Board, President and Chief Executive Officer of Northern States Power. In August 2000, Northern States Power merged with New Century Energy to form Xcel. Served as Chairman of the Board of Xcel from August 2000 to August 2001 when Mr. Howard was named Chairman Emeritus. Director of Honeywell International Inc. and Walgreen Company. He is also on the Board of Visitors for the University of Pittsburgh, Joseph M. Kats Graduate School of Business.

JERRY W. LEVIN, age 59.

Chairman and Chief Executive Officer of American Household, Inc., a household consumer products company. Director of Ecolab since 1992. Chairman of the Governance Committee and member of the Compensation Committee.

Mr. Levin served in a number of senior executive positions with The Pillsbury Company from 1974 through 1989. In 1989, joined MacAndrews & Forbes Holdings, Inc. which controls Revlon, Inc. and The Coleman Company, among other companies. From 1989 to 1991, was Chairman of The Coleman Company, Inc. Served as President of Revlon, Inc. from 1991 to 1992 and as Chief Executive Officer of Revlon, Inc. and Revlon Consumer Products Corporation from 1992 until January 1997. In February 1997, he was appointed Chairman and Chief Executive Officer of The Coleman Company, Inc. and Chairman of Revlon, Inc. and The Cosmetic Center, Inc. He took his present position with American Household, Inc. (formerly known as Sunbeam Corporation) in June 1998. In February 2001 Sunbeam Corporation voluntarily filed a petition under Chapter 11 of the federal bankruptcy code, and emerged in December 2002 as American Household, Inc. Director of U.S. Bancorp.

ROBERT L. LUMPKINS, age 60.

Vice Chairman and Chief Financial Officer of Cargill, Incorporated, a privately held international marketer, processor and distributor of agricultural, food, financial and industrial products. Director of Ecolab since August 1999. Vice Chairman of the Finance Committee and member of the Audit Committee.

Mr. Lumpkins joined Cargill in 1968 and served in various finance and managerial positions. Named President of the Financial Services Division in 1983 and Chief Financial Officer for Cargill Europe, Limited in 1988. Appointed Chief Financial Officer of Cargill in 1989 and elected to Cargill's Board of Directors in 1991. Elected Vice Chairman of Cargill in 1995. Director of Cargill, Incorporated. Also a director of WhereNet Corporation and serves as a trustee of Howard University and of TechnoServe Inc., and as a member of the Advisory Councils of the Stanford Business School and the Notre Dame College of Science.

LESLIE S. BILLER, age 56.

Retired Vice Chairman and Chief Operating Officer of Wells Fargo & Company, a diversified financial services company. Director of Ecolab since 1997. Chairman of the Compensation Committee and member of the Governance Committee.

After holding various positions with Citicorp and Bank of America, Mr. Biller joined Norwest Corporation in 1987 as Executive Vice President in charge of strategic planning and acquisitions for Norwest Banking. Appointed Executive Vice President in charge of South Central Community Banking in 1990. He served as President and Chief Operating Officer of Norwest Corporation from February 1997 until its merger with Wells Fargo in November 1998. Mr. Biller retired from Wells Fargo & Company in October 2002. Director of PG&E Corporation and Pacific Gas and Electric Company.

JERRY A. GRUNDHOFER, age 59.

Chairman of the Board, President and Chief Executive Officer of U.S. Bancorp, a financial services holding company. Director of Ecolab since 1999. Vice Chairman of the Governance Committee and member of the Compensation Committee.

Following an extensive career in the commercial banking industry, including serving as Vice Chairman of BankAmerica Corporation, Mr. Grundhofer joined Star Banc Corporation as Chairman of the Board, President and Chief Executive Officer in 1993. In November 1998, Star Banc merged with Firststar Corporation and he assumed the position of President and Chief Executive Officer of Firststar Corporation. In February 2001, following a merger of Firststar Corporation and U.S. Bancorp, Mr. Grundhofer was named President and CEO of U.S. Bancorp and added the position of Chairman of the Board in January 2003. Director of U.S. Bancorp and The Midland Company.

JOCHEN KRAUTTER, age 61

Executive Vice President, Technologies and member of the Management Board of Henkel KGaA, Düsseldorf, Germany a manufacturer of chemicals, household and personal care products and adhesives. Director of Ecolab since March 2002. Appointed to the Board pursuant to an understanding between the Company and Henkel (see information found on page 12 under the heading "Proposal to Elect Directors"). Member of the Finance Committee.

Mr. Krautter joined Henkel KGaA in 1973 and held various positions in sales, marketing and management. Named to the Management Board of Henkel in 1992. From 1992 - 1999 he was responsible for Henkel's Surface Technologies Business, Information Systems and Latin America operations. Appointed Chief Financial Officer in May 2000 and named Executive Vice President, Technologies in July 2003. Member of the Supervisory Boards of BASF Coatings AG and of Dresdner Bank Latin America.

ALLAN L. SCHUMAN, age 69.

Chairman of the Board and Chief Executive Officer of Ecolab. Director of Ecolab since 1991.

Mr. Schuman joined Ecolab in 1957. After service in numerous executive positions including President, Ecolab Services Group from 1988 to 1992, he was named President and Chief Operating Officer of the Company in August 1992 and President and Chief Executive Officer in March 1995. Assumed the additional position of Chairman of the Board in January 2000. Director of Xcel Energy Corporation. Also serves as a director of Schwan's Sales Enterprises, Inc., The Soap and Detergent Association, the Ordway Center for the Performing Arts and the Guthrie Theater. Trustee of the Culinary Institute of America and of the National Restaurant Association. Member of the Board of Overseers of Carlson School of Management at the University of

EXECUTIVE COMPENSATION

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors (the "Committee") is composed solely of independent directors. The Committee is responsible for the overall executive compensation program and reviews each component annually to maintain alignment with the Company's goals and philosophy. The Company's management and independent compensation consultants provide competitive data and assistance to help the Committee carry out its responsibilities. The Board of Directors holds authority to ratify certain actions of the Committee. The Committee intends to make all reasonable attempts to comply with the requirements to exempt executive compensation from the \$1 million deduction limitation under Section 162(m) of the Internal Revenue Code, unless the Committee determines that such compliance in given circumstances would not be in the best interests of the Company and its stockholders.

Philosophy The Committee uses compensation to help communicate desired business results to executives and to influence them to make decisions to produce those results. The program must be competitive to attract, retain and motivate executives, and it must reinforce and complement sound management practices. In addition, the executives' interests must be effectively aligned with those of our stockholders and, to this end, the Committee developed executive stock ownership guidelines in 1990 to ensure that executives accumulate a significant ownership stake and are vested in maximizing long-term stockholder returns. The ownership guideline for the Chief Executive Officer is 5 times base salary, and range from 3 times base salary to 1 times base salary for all other executive officers depending on their level in the organization.

The principal components of the executive compensation program consist of base salary, annual incentives under the Management Incentive Plan or Management Performance Incentive Plan, and long-term incentives in the form of annual stock option awards. The Company also grants restricted stock on a selective basis to executives and key employees in connection with promotions and for recruitment and retention purposes. The Company's philosophy is to position the aggregate of these components at a level that is commensurate with the Company's size and performance relative to a broad range of general industry manufacturing and service companies. The Committee periodically reviews the reasonableness of total compensation levels and mix using public information from comparator company proxy statements and survey information from credible third-party general industry surveys.

Base Salary The Committee reviews the base salary of executive officers on an annual basis in light of relevant market data and individual performance to determine whether an increase is appropriate. For the most recent fiscal year, base salary increases for executive officers other than the Chief Executive Officer averaged 5.4% excluding promotions. The Committee established a base salary of \$1,000,000 for the Chief Executive Officer representing an 8.1% increase over the prior fiscal year. The increase was based on the Committee's assessment of the Chief Executive Officer's performance in the most recent fiscal year.

Management Incentive Plan (MIP) / Management Performance Incentive Plan (MPIP) The MIP is a cash-based annual incentive plan that focuses executives' attention on achieving competitive annual business goals. The Committee, with input from management, sets specific performance goals at the beginning of each year and communicates them to the Company's executives. A mix of corporate and business unit goals is used to assure that executives have a reasonable measure of control over the factors affecting their awards. For the most recent fiscal year, these performance goals were based principally on earnings per share and business unit operating income and revenue goals. Target award opportunities for executive officers, other than the Chief Executive Officer, ranged from 35% to 60% of base salary. Final awards can range from 0% to 200% of the target award based on overall Company, business unit and individual performance.

The MPIP is a stockholder approved plan that is similar to the MIP, except that it is intended to qualify for the performance-based exception to the \$1,000,000 deduction limitation under Section 162(m) of the Internal Revenue Code. For the most recent fiscal year, the Committee selected the Chief Executive Officer, President and Chief Operating Officer and the President, International as participants in the MPIP and established a maximum award payment opportunity equal to 250% of base salary based on the attainment of pre-established diluted earnings per share goals. Based solely on the Company's earnings per share performance for the most recent fiscal year, and the Committee's assessment of the Chief Executive Officer's performance, the Committee approved an award of 166% of base salary for the Chief Executive Officer.

The Committee, in general, makes awards based strictly on the level of achievement against pre-established goals. Under the MIP, the Committee may, in its sole discretion, make awards at a level higher or lower than that determined by strict application of achievement against goals based upon such other business and individual performance criteria as the Committee determines appropriate. Under the MPIP, however, the Committee may make awards only at a level that is at or lower than the level determined by strict application of achievement against goals.

Long-Term Incentives The Committee uses annual grants of stock options to deliver a competitive compensation package that motivates executives to make decisions that will increase the value of Company stock, thus providing an appropriate focus on the long-term growth of the Company. When executives deliver sustained superior returns to stockholders by outperforming the general industry, they can increase their own compensation accordingly.

Stock options are granted annually under a shareholder approved plan with exercise prices not less than the fair market value of the Company's Common Stock on the date of grant, providing no value to the executive unless the Company's stock price increases after the grants are made. Stock options granted during the most recent fiscal year have a 10-year exercise term and vest ratably on the first three anniversaries of the date of grant, subject to accelerated vesting in the event of certain terminations of employment or a defined change-in-control of the Company. Commencing August 2001, stock options granted to plan participants, including executive officers, may be transferred to defined family members or legal entities established for their benefit. Grants made in 2001 and 2002 also provided for a one-time automatic grant of a reload stock option if the optionee exercises the original stock option by tendering shares of previously owned Common Stock of the Company (the reload feature was eliminated for grants subsequent to 2002). The reload stock option is for the same number of shares tendered to exercise the original stock option and the number of shares required to be withheld to satisfy minimum statutory tax obligations, has an exercise price equal to the fair market value of the Company's Common Stock on the reload grant date, and is immediately exercisable at any time during the remaining exercise term of the original stock option. The stock option award to the Chief Executive Officer for fiscal year 2003 was made consistent with the provisions discussed above.

In fiscal years 1998 through 2001, the Committee made special grants of premium-priced stock options to a select group of executives. The purpose of the grants was to incent the achievement of the growth goals established by the Company's strategic business plan. These options vested in February 2001 (options granted in 2001 vested six-months after grant) and had a term ending in May 2003.

Conclusion The Committee believes that executive compensation policies and programs described in the report serve the interests of stockholders and the Company effectively. The various pay vehicles utilized maintain an appropriate balance between motivating achievement of short-term goals and strategically leading the Company in a direction to provide long-term success. The Committee will continue to monitor the effectiveness of the Company's total compensation program to ensure that it meets the needs of the Company.