

ECOLAB INC
Form 10-Q
August 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 1-9328

ECOLAB INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

41-0231510
(I.R.S. Employer
Identification No.)

370 Wabasha Street N., St. Paul, Minnesota 55102

(Address of principal executive offices)(Zip Code)

1-800-232-6522

(Registrant's telephone number, including area code)

(Not Applicable)

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2013.

301,371,498 shares of common stock, par value \$1.00 per share.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ECOLAB INC.

CONSOLIDATED STATEMENT OF INCOME

(millions, except per share amounts)	Second Quarter Ended June 30		2012
	2013	(unaudited)	
Net sales	\$ 3,337.8	\$ 2,958.7	
Cost of sales (including special charges of \$15.2 in 2013 and \$3.1 in 2012)	1,828.6	1,608.9	
Selling, general and administrative expenses	1,083.3	981.7	
Special (gains) and charges	73.6	41.6	
Operating income	352.3	326.5	
Interest expense, net (including special charges of \$0.3 in 2013)	66.2	63.9	
Income before income taxes	286.1	262.6	
Provision for income taxes	70.3	79.2	
Net income including noncontrolling interest	215.8	183.4	
Less: Net income (loss) attributable to noncontrolling interest	2.7	(1.1)	
Net income attributable to Ecolab	\$ 213.1	\$ 184.5	
Earnings attributable to Ecolab per common share			
Basic	\$ 0.71	\$ 0.63	
Diluted	\$ 0.69	\$ 0.62	
Dividends declared per common share	\$ 0.2300	\$ 0.2000	
Weighted-average common shares outstanding			
Basic	301.5	291.9	
Diluted	307.4	298.2	

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF INCOME

(millions, except per share amounts)	Six Months Ended June 30		2012
	2013	(unaudited)	
Net sales	\$ 6,209.9	\$ 5,769.6	
Cost of sales (including special charges of \$17.2 in 2013 and \$79.1 in 2012)	3,393.5	3,222.9	
Selling, general and administrative expenses	2,079.1	1,971.4	
Special (gains) and charges	123.3	83.0	
Operating income	614.0	492.3	
Interest expense, net (including special charges of \$2.5 in 2013 and \$18.2 in 2012)	127.7	150.0	
Income before income taxes	486.3	342.3	
Provision for income taxes	109.5	114.8	
Net income including noncontrolling interest	376.8	227.5	
Less: Net income (loss) attributable to noncontrolling interest (including special charges of \$0.5 in 2013 and \$4.5 in 2012)	4.1	(6.7)	
Net income attributable to Ecolab	\$ 372.7	\$ 234.2	
Earnings attributable to Ecolab per common share			
Basic	\$ 1.25	\$ 0.80	
Diluted	\$ 1.23	\$ 0.79	
Dividends declared per common share	\$ 0.4600	\$ 0.4000	
Weighted-average common shares outstanding			
Basic	298.5	291.7	
Diluted	304.2	298.1	

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(millions)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Net income including noncontrolling interest	\$ 215.8	\$ 183.4	\$ 376.8	\$ 227.5
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments				
Foreign currency translation	(89.1)	(251.3)	(150.7)	(168.9)
Gain on net investment hedge	2.2	18.1		25.7
	(86.9)	(233.2)	(150.7)	(143.2)
Derivatives and hedging instruments	3.6	3.0	7.5	1.4
Pension and postretirement benefits				
Pension and postretirement benefit adjustment		(1.6)		(1.6)
Amortization of net actuarial loss and prior service cost included in net periodic pension and postretirement costs	10.5	7.6	20.9	14.6
	10.5	6.0	20.9	13.0
Subtotal	(72.8)	(224.2)	(122.3)	(128.8)
Total comprehensive income (loss), including noncontrolling interest	143.0	(40.8)	254.5	98.7
Less: Comprehensive income (loss) attributable to noncontrolling interest	(3.1)	(2.6)	(11.0)	(7.9)
Comprehensive income (loss) attributable to Ecolab	\$ 146.1	\$ (38.2)	\$ 265.5	\$ 106.6

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

ECOLAB INC.
CONSOLIDATED BALANCE SHEET

(millions)	June 30 2013	December 31 2012
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 375.2	\$ 1,157.8
Accounts receivable, net	2,436.3	2,225.1
Inventories	1,373.3	1,088.1
Deferred income taxes	203.6	205.2
Other current assets	309.8	215.8
Total current assets	4,698.2	4,892.0
Property, plant and equipment, net	2,779.1	2,409.1
Goodwill	6,862.3	5,920.5
Other intangible assets, net	4,945.0	4,044.1
Other assets	369.7	306.6
Total assets	\$ 19,654.3	\$ 17,572.3

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

(Continued)

ECOLAB INC.

CONSOLIDATED BALANCE SHEET (continued)

(millions, except shares and per share amounts)	June 30 2013	December 31 2012
	(unaudited)	
LIABILITIES AND EQUITY		
Current liabilities		
Short-term debt	\$ 872.9	\$ 805.8
Accounts payable	912.0	879.7
Compensation and benefits	452.1	518.8
Income taxes	72.9	77.4
Other current liabilities	935.6	771.0
Total current liabilities	3,245.5	3,052.7
Long-term debt	6,635.3	5,736.1
Postretirement health care and pension benefits	1,231.6	1,220.5
Other liabilities	1,803.2	1,402.9
Total liabilities	12,915.6	11,412.2
Equity (a)		
Common stock	344.1	342.1
Additional paid-in capital	4,609.9	4,249.1
Retained earnings	4,255.9	4,020.6
Accumulated other comprehensive loss	(582.0)	(459.7)
Treasury stock	(1,960.4)	(2,075.1)
Total Ecolab shareholders' equity	6,667.5	6,077.0
Noncontrolling interest	71.2	83.1
Total equity	6,738.7	6,160.1
Total liabilities and equity	\$ 19,654.3	\$ 17,572.3

(a) Common stock, 800 million shares authorized, \$1.00 par value per share, 301.4 million shares outstanding at June 30, 2013, 294.7 million shares outstanding at December 31, 2012. Shares outstanding are net of treasury stock.

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions)	2013	Six Months Ended June 30 (unaudited)	2012
OPERATING ACTIVITIES			
Net income including noncontrolling interest	\$	376.8	\$ 227.5
Adjustments to reconcile net income including noncontrolling interest to cash provided by operating activities:			
Depreciation		250.4	231.8
Amortization		139.5	123.8
Deferred income taxes		(79.3)	(26.1)
Share-based compensation expense		39.7	38.3
Excess tax benefits from share-based payment arrangements		(17.9)	(24.4)
Pension and postretirement plan contributions		(37.0)	(201.0)
Pension and postretirement plan expense		71.3	55.4
Restructuring, net of cash paid		(6.4)	27.7
Venezuela currency devaluation		23.4	
Other, net		7.5	6.4
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable		5.0	(73.0)
Inventories		(72.6)	(4.3)
Other assets		(87.7)	(34.0)
Accounts payable		(58.5)	(20.5)
Other liabilities		(161.2)	(116.5)
Cash provided by operating activities	\$	393.0	\$ 211.1

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

(Continued)

ECOLAB INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(millions)	Six Months Ended June 30		2012
	2013	(unaudited)	
INVESTING ACTIVITIES			
Capital expenditures	\$	(265.1)	\$ (254.5)
Capitalized software expenditures		(16.2)	(8.0)
Property and other assets sold		2.3	8.0
Businesses acquired and investments in affiliates, net of cash acquired		(1,452.1)	(27.4)
Sale of business			0.8
Deposit into indemnification escrow		(10.6)	(1.3)
Release from indemnification escrow		13.0	2.1
Cash used for investing activities		(1,728.7)	(280.3)
FINANCING ACTIVITIES			
Net issuances (repayments) of commercial paper and notes payable		67.6	426.4
Long-term debt borrowings		900.1	
Long-term debt repayments		(236.0)	(1,691.1)
Reacquired shares		(175.7)	(190.9)
Dividends paid		(72.4)	(120.9)
Exercise of employee stock options		56.2	98.0
Excess tax benefits from share-based payment arrangements		17.9	24.4
Other, net		0.1	
Cash provided by (used) for financing activities		557.8	(1,454.1)
Effect of exchange rate changes on cash		(4.7)	(15.4)
Decrease in cash and cash equivalents		(782.6)	(1,538.7)
Cash and cash equivalents, beginning of period		1,157.8	1,843.6
Cash and cash equivalents, end of period	\$	375.2	\$ 304.9

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

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated Financial Information

The unaudited consolidated financial information for the second quarter and six months ended June 30, 2013 and 2012 reflect, in the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income and cash flows of Ecolab Inc. (Ecolab or the company) for the interim periods presented. The financial results for any interim period are not necessarily indicative of results for the full year. The consolidated balance sheet data as of December 31, 2012 was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto incorporated in the company's Annual Report on Form 10-K for the year ended December 31, 2012.

With respect to the unaudited financial information of the company for the second quarter and six months ended June 30, 2013 and 2012 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 1, 2013 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (the Act), for their report on the unaudited financial information because that report is not a report or a part of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Special (Gains) and Charges

Special (gains) and charges reported on the Consolidated Statement of Income include the following:

(millions)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Cost of sales				
Restructuring charges	\$ 1.6	\$ 5.8	\$ 3.6	\$ 7.9
Recognition of Champion inventory fair value step-up	13.6		13.6	
Recognition of Nalco inventory fair value step-up		(2.7)		71.2
Subtotal	15.2	3.1	17.2	79.1
Special (gains) and charges				
Restructuring charges	45.0	25.9	63.5	52.4
Champion acquisition and integration costs	24.0		31.8	
Nalco merger and integration costs	4.4	15.7	8.2	30.6
Venezuela currency devaluation			23.4	
Litigation related charges and other	0.2		(3.6)	
Subtotal	73.6	41.6	123.3	83.0
Operating income subtotal	88.8	44.7	140.5	162.1
Interest expense, net				
Acquisition debt costs	0.3		2.5	
Debt extinguishment costs				18.2
Subtotal	0.3		2.5	18.2
Net income attributable to noncontrolling interest				
Venezuela currency devaluation			(0.5)	
Recognition of Nalco inventory fair value step-up				(4.5)
Subtotal			(0.5)	(4.5)
Total special (gains) and charges	\$ 89.1	\$ 44.7	\$ 142.5	\$ 175.8

For segment reporting purposes, special (gains) and charges are included in the Corporate segment, which is consistent with the company's internal management reporting.

Restructuring Charges

The company incurs costs for restructuring activities associated with plans to enhance its efficiency and effectiveness and sharpen its competitiveness. These restructuring plans include costs associated with significant actions involving employee-related severance charges, contract termination costs and asset write-downs. Employee termination costs are largely based on policies and severance plans, and include personnel reductions and related costs for severance, benefits and outplacement services. These charges are reflected in the quarter when the actions are probable and the amounts are estimable, which typically is when management approves the associated actions. Contract termination costs include charges to terminate leases prior to the end of their respective terms and other contract terminations. Asset write-downs include leasehold improvement write-downs and other asset write-downs associated with combining operations.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Special (Gains) and Charges (continued)

Restructuring charges have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income. Amounts included as a component of cost of sales include supply chain related severance and other asset write-downs associated with combining operations. Restructuring liabilities have been classified as a component of other current liabilities on the Consolidated Balance Sheet.

Energy Restructuring Plan

On April 10, 2013, the company completed its acquisition of privately held Champion Technologies and its related company Corsicana Technologies (collectively "Champion").

In April 2013, following the completion of the acquisition of Champion, the company commenced plans to undertake restructuring and other cost-saving actions to realize its acquisition-related cost synergies as well as streamline and strengthen Ecolab's position in the fast growing energy market (the "Energy Restructuring Plan"). Actions associated with the acquisition to improve the effectiveness and efficiency of the business include a reduction of the combined business's current global workforce by approximately 500 positions. A number of these reductions are expected to be achieved through eliminating open positions and attrition. The company also anticipates leveraging and simplifying its global supply chain, including the reduction of plant and distribution center locations and product line optimization, as well as the reduction of other redundant facilities.

The company expects to incur pretax restructuring charges of approximately \$80 million (\$55 million after tax) under the Energy Restructuring Plan through the completion of the Plan in 2015. Approximately \$40 million to \$50 million (\$25 million to \$30 million after tax) of those charges are expected to occur in 2013.

The company anticipates that approximately \$60 million of the \$80 million of the pre-tax charges represent cash expenditures. The remaining pre-tax charges represent estimated asset disposals. No decisions have been made for any asset disposals and estimates could vary depending on the actual actions taken.

As a result of restructuring activities under the Energy Restructuring Plan, the company recorded restructuring charges of \$12.2 million (\$7.6 million after tax) during both the second quarter and six months ended June 30, 2013.

Restructuring charges and activity related to the Energy Restructuring Plan since inception of the underlying actions include the following:

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(millions)	Energy Restructuring Plan			
	Employee Termination Costs	Asset Disposals	Other	Total
2013 Activity:				
Recorded expense and accrual	\$ 12.2	\$	\$	\$ 12.2
Cash payments	(10.4)			(10.4)
Effect of foreign currency translation				
Restructuring liability, June 30, 2013	\$ 1.8	\$	\$	\$ 1.8

Cash payments under the Energy Restructuring Plan during 2013 were \$10 million. The majority of cash payments under this Plan are related to severance, with the current accrual expected to be paid over the next twelve months.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges (continued)

Combined Restructuring Plan

In February 2011, the company commenced a comprehensive plan to substantially improve the efficiency and effectiveness of its European business, sharpen its competitiveness and accelerate its growth and profitability. Additionally, restructuring has been and will continue to be undertaken outside of Europe (collectively, the 2011 Restructuring Plan). Total anticipated charges under this Plan from 2011 through 2013 were expected to be \$150 million (\$125 million after tax). Through 2012, \$134 million of charges (\$100 million after tax) were incurred.

In January 2012, following the merger with Nalco Holding Company (Nalco), the company formally commenced plans to undertake restructuring actions related to the reduction of its global workforce and optimization of its supply chain and office facilities, including planned reductions of plant and distribution center locations (the Merger Restructuring Plan). Total anticipated charges from 2012 through 2013 were expected to be \$180 million (\$120 million after tax) under this Plan. Through 2012, \$80 million of charges (\$59 million after tax) were incurred.

During the first quarter of 2013, as the company considered opportunities to enhance the efficiency and effectiveness of its operations, it decided that because the objectives of the plans discussed above were aligned, the previously separate restructuring plans should be combined into one plan.

The combined restructuring plan (the Combined Plan) combined opportunities and initiatives from both plans and is expected to be substantially completed by the end of 2013. The Combined Plan will continue to follow the original format of the Merger Restructuring Plan by focusing on global actions related to optimization of the supply chain and office facilities, including reductions of plant and distribution center locations and the global workforce. Through the completion of the Combined Plan, the company expects to incur total pretax restructuring charges of approximately \$80 million to \$100 million (\$55 million to \$70 million after tax), of which approximately \$25 million to \$45 million (\$20 million to \$30 million after tax) remained to be incurred as of June 30, 2013.

The company anticipates that approximately \$70 million to \$80 million of the total Combined Plan pre-tax charges will represent net cash expenditures. The remaining pre-tax charges represent estimated asset disposals. No decisions have been made for any remaining asset disposals and estimates could vary depending on the actual actions taken.

As a result of restructuring activities under the Combined Plan, the company recorded restructuring charges of \$34.4 million (\$26.1 million after tax) and \$55.2 million (\$40.4 million after tax), during the second quarter and six months ended June 30, 2013, respectively.

Restructuring charges and activity related to Combined Plan since inception of the underlying actions include the following:

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges (continued)

(millions)	Combined Plan				Total
	Employee Termination Costs	Asset Disposals	Other		
2011 Activity:					
Recorded expense and accrual	\$ 67.1	\$ 0.5	\$ 7.1	\$	74.7
Cash payments	(22.5)		(2.6)		(25.1)
Non-cash charges		(0.5)			(0.5)
Effect of foreign currency translation	(2.2)				(2.2)
Restructuring liability, December 31, 2011	42.4		4.5		46.9
2012 Activity:					
Recorded expense and accrual	126.1	3.2	10.1		139.4
Cash payments	(62.0)		(3.3)		(65.3)
Non-cash charges		(3.2)	(3.9)		(7.1)
Effect of foreign currency translation	(0.7)				(0.7)
Restructuring liability, December 31, 2012	105.8		7.4		113.2
2013 Activity:					
Recorded expense and accrual	43.0	1.5	10.7		55.2
Cash payments	(53.1)		(9.3)		(62.4)
Non-cash charges		(1.5)	(0.5)		(2.0)
Effect of foreign currency translation					
Restructuring liability, June 30, 2013	\$ 95.7	\$	\$ 8.3	\$	104.0

Cash payments under the Combined Plan were \$62 million, \$65 million and \$25 million for the first six months of 2013, full year 2012 and full year 2011, respectively. The majority of cash payments under this Plan are related to severance, with the current accrual expected to be paid over a period of a few months to a period of several quarters.

Nalco Restructuring Plan

Prior to the Nalco merger, Nalco conducted various restructuring programs to redesign and optimize its business and work processes (the Nalco Restructuring Plan). As of June 30, 2013 and December 31, 2012, the remaining liability balance related to the Nalco Restructuring Plan was \$2.4 million and \$3.4 million, respectively. Cash payments during the six months of 2013 related to this Plan were \$0.7 million. The company expects to substantially utilize the remaining liability by the end of 2014.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges (continued)

Non-restructuring Special (Gains) and Charges

Champion acquisition & integration costs

As a result of the company's efforts to acquire Champion and post acquisition integration costs, the company incurred charges of \$37.9 million (\$27.6 million after tax) and \$47.9 million (\$34.7 million) during the second quarter and six months ended June 30, 2013, respectively.

Champion acquisition related costs have been included as a component of cost of sales, special (gains) and charges and net interest expense on the Consolidated Statement of Income. Amounts within cost of sales include the recognition of fair value step-up in Champion international inventory, which is maintained on a FIFO basis. Amounts included in special (gains) and charges include acquisition costs, advisory fees and integration charges. Amounts included in net interest expense include the interest expense through the close date of the Champion transaction of the company's \$500 million public debt issuance in December 2012 as well as fees to secure term loans and short-term debt, all of which were initiated to fund the Champion acquisition. Further information related to the acquisition of Champion is included in Note 3.

Nalco merger & integration costs

As a result of the Nalco merger completed in 2011, the company incurred charges of \$4.4 million (\$3.0 million after tax) and \$13.0 million (\$8.8 million after tax) during the second quarter of 2013 and 2012, respectively. During the six months ended June 30, 2013 and 2012, the company incurred charges of \$8.2 million (\$5.7 million after tax) and \$115.5 million (\$86.5 million after tax), respectively.

Nalco related special charges for 2013 have been included as a component of special (gains) and charges on the Consolidated Statement of Income, and include integration charges. Nalco related special charges for 2012 have been included as a component of cost of sales, special (gains) and charges, net interest expense and net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income. Amounts within cost of sales and net income (loss) attributable to noncontrolling interest include the recognition of fair value step-up in Nalco international inventory, which is maintained on a FIFO basis. Amounts within special (gains) and charges include merger and integration charges. Amounts within net interest expense for 2012 include a loss on the extinguishment of Nalco's senior notes, which were assumed as part of the merger.

Venezuelan currency devaluation

On February 8, 2013, the Venezuelan government devalued its currency, the Bolivar Fuerte. As a result of the devaluation, during the first quarter of 2013, the company recorded a charge of \$22.9 million (\$15.0 million after tax), reflected as a component of special (gains) and charges, due to the remeasurement of the local balance sheet. Due to the ownership structure in place in Venezuela, the company also reflected a portion of the impact of the devaluation as a component of net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions

Champion acquisition

In October 2012, the company entered into an agreement and plan of merger to acquire Champion. Based in Houston, Texas, Champion is a global energy specialty products and services company delivering its offerings to the oil and gas industry.

In November 2012, the company amended the acquisition agreement to provide that Champion's downstream business would not be acquired by the company. Further, in April 2013, the company entered into a consent agreement with the U.S. Department of Justice under which Ecolab took certain steps designed to ensure continued independent competition utilizing Champion technology for certain U.S. deepwater Gulf of Mexico products and services. The amendment and consent agreement discussed above do not significantly impact the value of the acquisition transaction. On April 10, 2013, the company completed its acquisition of Champion. Champion's sales for the business acquired by the company were approximately \$1.3 billion in 2012. The business became part of the company's Global Energy reportable segment in the second quarter of 2013.

Pursuant to the terms of the acquisition agreement, the consideration transferred at closing to acquire all of Champion's stock is as follows:

(millions, except per share)

Cash consideration	\$	1,429.9
Stock consideration		
Ecolab shares issued to Champion shareholders		6.6
Ecolab's closing stock price on April 10, 2013	\$	82.31
Total fair value of stock consideration	\$	543.0
Total fair value of cash and stock consideration	\$	1,972.9

The company deposited approximately \$100 million of the above stock consideration in an escrow account to fund post-closing adjustments to the consideration and covenant and other indemnification obligations of the acquired entity's stockholders for a period of two years following the effective date of the acquisition. As of the end of the second quarter of 2013, the consideration transferred at closing is subject to working capital and other adjustments in accordance with the acquisition agreement.

The company incurred certain acquisition and integration costs associated with the transaction that were expensed as incurred and are reflected in the Consolidated Statement of Income. During the first six months of 2013, a total of \$47.9 million was incurred with \$13.6 million included in cost of sales related to recognition of fair value step-up in Champion international inventory, which is maintained on a FIFO basis, \$31.8 million included in special (gains) and charges related to acquisition costs, advisory fees and integration costs and \$2.5 million included in net interest expense related to interest expense through the close date of the Champion transaction of the company's \$500 million public debt.

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issuance in December 2012 as well as fees to secure term loans and short-term debt.

The company funded the initial cash component of the merger consideration through a \$900 million unsecured term loan, initiated in April 2013, the proceeds from the December 2012 issuance of \$500 million of 1.450% senior notes due 2017 and commercial paper borrowings backed by its syndicated credit facility. See Note 5 for further discussion on the company's debt.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

The Champion acquisition has been accounted for using the acquisition method of accounting, which requires, among other things, that most assets acquired and liabilities assumed be recognized at fair value as of the acquisition date. Certain estimated values are not yet finalized and are subject to change, which could be significant.

The company will finalize the amounts recognized as information necessary to complete the analysis is obtained. The company expects to finalize these by the filing of the 2013 Form 10-k. Amounts for certain contingent liabilities, certain tangible and intangible assets, certain deferred tax assets and liabilities, income tax uncertainties, non-wholly owned subsidiaries and goodwill remain subject to change.

The following table summarizes the preliminary value of Champion assets acquired and liabilities assumed as of the acquisition date.

(millions)	Preliminary Valuation
Current assets	\$ 593.9
Property, plant and equipment	369.3
Other assets	43.4
Identifiable intangible assets	
Customer relationships	840.0
Trademarks	120.0
Other technology	36.5
Total assets acquired	2,003.1
Current liabilities	418.2
Long-term debt	70.8
Net deferred tax liability	433.2
Noncontrolling interest and other liabilities	17.1
Total liabilities and noncontrolling interests assumed	939.3
Goodwill	993.0
Total aggregate purchase price	2,056.8
Estimated future consideration payable to sellers	(83.9)
Total consideration transferred	\$ 1,972.9

In accordance with the acquisition agreement, except under limited circumstances, the company will be required to pay an additional amount in cash, up to \$100 million in the aggregate, equal to 50% of the incremental federal tax on the merger consideration as a result of increases in applicable capital gains and investment taxes after December 31, 2012. Such additional payment will be due on January 31, 2014, and will be based on 2013 tax rates in effect on January 1, 2014. The company's current estimate for this additional payment is \$84 million, which is classified within other current liabilities.

The customer relationships, trademarks and other technology are being amortized preliminarily over weighted average lives of 14, 12 and 7, respectively. In process research and development associated with the Champion acquisition was not significant.

Goodwill is calculated as the excess of consideration transferred over the fair value of identifiable net assets acquired and represents the expected synergies and other benefits of combining the operations of Champion with the operations of the company's existing Global Energy business. The company expects that the acquisition will produce revenue growth synergies through the cross-selling of best-in-class products in complementary markets and geographies. Key areas of cost synergies include leveraging and simplifying the global supply chain, including the reduction of plant and distribution center locations and product line optimization, as well as the reduction of other redundant facilities.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

The results of Champion's operations have been included in the company's consolidated financial statements since the close of the acquisition in April 2013. Due to the rapid pace at which the business is being fully integrated with the company's Global Energy segment, including all customer selling activity, discrete financial data specific to the legacy Champion business is not necessarily available post acquisition.

Based on applicable accounting and reporting guidance, the Champion acquisition is not material to the company's consolidated financial statements; therefore, pro forma financial information has not been presented.

Other significant acquisition activity

2013 Activity

In January 2013, the company completed the acquisition of Mexico-based Quimiproduktos S.A. de C.V. (Quimiproduktos), a wholly-owned subsidiary of Fomento Económico Mexicano, S.A.B. de C.V. Quimiproduktos produces and supplies cleaning, sanitizing and water treatment goods and services to breweries and beverage companies located in Mexico and Central and South America. Annual sales of the business are approximately \$43 million. Approximately \$8 million of the purchase price was placed in an escrow account for indemnification purposes related to general representations and warranties. The business became part of the company's Global Industrial reportable segment during the first quarter of 2013. The purchase price allocation is preliminary, pending completion of the fair value determination of the acquired assets and liabilities, including valuation of the acquired intangibles.

In April 2013, the company completed the acquisition of Russia-based OOO Master Chemicals (Master Chemicals). Master Chemicals sells oil field chemicals to oil and gas producers located throughout Russia and parts of the Ukraine. Annual sales of the business are approximately \$29 million. Approximately \$3 million of the purchase price was placed in an escrow account for indemnification purposes related to general representations and warranties. The business became part of the company's Global Energy reportable segment during the second quarter of 2013. The purchase price allocation is preliminary, pending completion of the fair value determination of the acquired assets and liabilities, including valuation of the acquired intangibles.

In April 2013, the company entered into an agreement to acquire AkzoNobel's Purate business which specializes in global antimicrobial water treatment. With 2012 revenues of approximately \$23 million, the Purate business provides patented, proprietary chlorine dioxide generation programs for use in a wide array of water treatment applications. Consummation of this transaction remains subject to certain regulatory clearances and other standard closing conditions. Upon closing, the business is expected to become part of the company's Global Industrial reportable segment.

2012 Activity

In December 2011, subsequent to the company's fiscal year end for international operations, the company completed the acquisition of Esoform, an independent Italian healthcare manufacturer focused on infection prevention and personal care. Based outside of Venice, Italy, with annual sales of approximately \$12 million, the business is included in the company's Global Institutional reportable segment. Further information related to the recast of the company's reportable segments is included in Notes 6 and 13.

Also in December 2011, the company completed the acquisition of the InsetCenter pest elimination business in Brazil. Annual sales of the acquired business are approximately \$6 million. The business operations and staff have been integrated with the company's existing Brazil Pest Elimination business and is included in the company's Other reportable segment. Further information related to the recast of the company's reportable segments is included in Notes 6 and 13.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

In March 2012, the company acquired Econ Indústria e Comércio de Produtos de Higiene e Limpeza Ltda., a provider of cleaning and sanitizing products and services to the Brazilian foodservice industry. Based in Sao Paulo, Brazil, its annual sales are approximately \$9 million. The business operations have been integrated within the company's existing Brazil Institutional business and its results are part of the company's Global Institutional reportable segment. Further information related to the recast of the company's reportable segments is included in Notes 6 and 13.

Other significant acquisition summary

Acquisitions during the first six months of 2013 and all of 2012 were not material to the company's consolidated financial statements; therefore pro forma financial information is not presented. The aggregate purchase price of acquisitions has been reduced for any cash or cash equivalents acquired with the acquisitions. During the first quarter of 2013, the remaining \$13 million escrow balance related to the O.R. Solutions Inc. acquisition was paid to the seller. The 2013 contingent consideration activity relates to payments on legacy Nalco acquisitions. The 2012 contingent consideration relates to immaterial acquisitions completed during 2012. Based upon purchase price allocations, excluding the Champion acquisition, which is shown in a separate table, the components of the aggregate purchase prices of completed acquisitions during the second quarter and first six months of 2013 and 2012 are shown in the following table.

(millions)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net tangible assets acquired	\$ 1.9	\$ (2.1)	\$ (2.3)	\$ (0.4)
Identifiable intangible assets				
Customer relationships	11.6	6.1	58.8	8.4
Trademarks	1.3	0.4	1.4	0.5
Patents				2.8
Other technology	1.0	0.1	1.0	0.3
Total intangible assets	13.9	6.6	61.2	12.0
Goodwill	7.9	9.0	41.2	23.2
Total aggregate purchase price	23.7	13.5	100.1	34.8
Contingent consideration			9.8	(2.6)
Liability for indemnification, net	(2.6)		2.4	(0.8)
Net cash paid for acquisitions	\$ 21.1	\$ 13.5	\$ 112.3	\$ 31.4

The weighted average useful lives of identifiable intangible assets acquired in the above table during the first six months of 2013 and 2012 were 12 years for both periods.

Dispositions

There were no significant business disposals during the first six months of 2013 or 2012.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Balance Sheet Information

(millions)	June 30 2013		December 31 2012	
	(unaudited)			
Accounts receivable, net				
Accounts receivable	\$	2,508.2	\$	2,298.3
Allowance for doubtful accounts		(71.9)		(73.2)
Total	\$	2,436.3	\$	2,225.1
Inventories				
Finished goods	\$	990.4	\$	774.3
Raw materials and parts		405.9		338.3
Inventories at FIFO cost		1,396.3		1,112.6
Excess of FIFO cost over LIFO cost		(23.0)		(24.5)
Total	\$	1,373.3	\$	1,088.1
Property, plant and equipment, net				
Land	\$	184.5	\$	158.9
Buildings and improvements		636.0		562.1
Leasehold improvements		86.4		80.5
Machinery and equipment		1,564.4		1,281.2
Merchandising and customer equipment		1,758.0		1,812.5
Capitalized software		400.6		385.7
Construction in progress		290.8		207.2
		4,920.7		4,488.1
Accumulated depreciation		(2,141.6)		(2,079.0)
Total	\$	2,779.1	\$	2,409.1
Other intangible assets, net				
Cost of intangible assets not subject to amortization				
Trade names	\$	1,230.0	\$	1,230.0
Cost of intangible assets subject to amortization				
Customer relationships	\$	3,456.9	\$	2,588.6
Trademarks		306.7		185.2
Patents		420.1		414.7
Other technology		210.9		174.8
	\$	4,394.6	\$	3,363.3
Accumulated amortization				
Customer relationships	\$	(469.7)	\$	(373.1)
Trademarks		(59.0)		(51.2)
Patents		(80.7)		(65.6)
Other technology		(70.2)		(59.3)
Other intangible assets, net	\$	4,945.0	\$	4,044.1
Other assets				
Deferred income taxes	\$	74.2	\$	51.0
Pension		9.8		7.0

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Other		285.7		248.6
Total	\$	369.7	\$	306.6

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Balance Sheet Information (continued)

(millions)	June 30 2013	December 31 2012
	(unaudited)	
Other current liabilities		
Discounts and rebates	\$ 249.6	\$ 244.4
Dividends payable	69.4	
Interest payable	29.0	19.5
Taxes payable, other than income	100.0	97.3
Derivative liabilities	14.0	9.9
Restructuring	108.2	116.6
Estimated future consideration payable to Champion sellers	83.9	
Other	281.5	283.3
Total	\$ 935.6	\$ 771.0
Other liabilities		
Deferred income taxes	\$ 1,569.7	\$ 1,174.2
Income taxes payable - non-current	88.6	81.5
Other	144.9	147.2
Total	\$ 1,803.2	\$ 1,402.9
Accumulated other comprehensive loss		
Unrealized loss on derivative financial instruments, net of tax	\$ (6.1)	\$ (13.6)
Unrecognized pension and postretirement benefit expense, net of tax	(590.9)	(613.8)
Cumulative translation, net of tax	15.0	167.7
Total	\$ (582.0)	\$ (459.7)

5. Debt and Interest

(millions)	June 30 2013	December 31 2012
	(unaudited)	
Short-term debt		
Commercial paper	\$ 642.8	\$ 593.7
Notes payable	61.7	44.5
Long-term debt, current maturities	168.4	167.6
Total	\$ 872.9	\$ 805.8

As of June 30, 2013, the company had in place a \$1.5 billion multi-year credit facility, which expires in September 2016 and a \$500 million, 364 day credit facility, which expires in August 2013. The credit facilities support the company's U.S. commercial paper program, which, as shown in the previous table, had \$643 million and \$594 million outstanding as of June 30, 2013 and December 31, 2012, respectively.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Debt and Interest (continued)

(unaudited)			
Long-term debt			
Description / 2013 Principal Amount			
Series A private placement senior euro notes (125 million euro)	\$	162.5	\$ 162.3
Series B private placement senior euro notes (175 million euro)		227.5	227.3
Seven year 2008 senior notes (\$250 million)		249.5	249.4
Series A private placement senior notes (\$250 million)		250.0	250.0
Series B private placement senior notes (\$250 million)		250.0	250.0
Three year 2011 senior notes (\$500 million)		499.9	499.8
Five year 2011 senior notes (\$1.25 billion)		1,248.3	1,248.1
Ten year 2011 senior notes (\$1.25 billion)		1,249.3	1,249.3
Thirty year 2011 senior notes (\$750 million)		742.7	742.6
Three year 2012 senior notes (\$500 million)		499.8	499.8
Five year 2012 senior notes (\$500 million)		499.7	499.6
Term loan (\$900 million)		900.0	
Capital lease obligations		13.7	13.8
Other		10.8	11.7
Total debt		6,803.7	5,903.7
Long-term debt, current maturities		(168.4)	(167.6)
Total long-term debt	\$	6,635.3	\$ 5,736.1

In April 2013, in connection with the close of the Champion transaction, the company initiated term loan borrowings of \$900 million. Under the agreement, the term loan bears interest at a floating base rate plus a credit rating based margin. The term loan can be repaid in part or in full at any time without penalty, but in any event must be repaid in full by April 2016. Further information related to the acquisition of Champion is included in Note 3.

The company is in compliance with its debt covenants as of June 30, 2013.

Interest expense and interest income recognized during the second quarter and six months ended 2013 and 2012 were as follows:

(millions)	Second Quarter Ended June 30			Six Months Ended June 30		
	2013	2012		2013	2012	
Interest expense	\$ 68.8	\$ 66.1	\$	133.8	\$ 154.8	\$
Interest income	(2.6)	(2.2)		(6.1)	(4.8)	
Interest expense, net	\$ 66.2	\$ 63.9	\$	127.7	\$ 150.0	\$

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The decrease in interest expense for the six months ended June 30, 2013 was driven primarily by the inclusion of an \$18.2 million loss on extinguishment of Nalco debt, recognized in the first quarter of 2012.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Goodwill and Other Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. The company's reporting units are its operating segments, which subsequent to the change in the company's organizational model during the first quarter of 2013 are discussed below.

During the second quarter of 2013, the company completed its annual test for goodwill impairment. The company used a step zero qualitative test to assess eight of its ten reporting units. The estimated fair values for seven of the eight reporting units using step zero testing substantially exceeded their respective carrying values. While Global Energy had low headroom due to its recent acquisition of Champion, the company considered step zero analysis to be sufficient due to continued strong qualitative indicators. Global Energy's headroom before the Champion acquisition continued to increase since the prior year assessment. Based on the step zero testing performed, no adjustment to the carrying value of goodwill was necessary.

The company elected to utilize a step one quantitative test for Global Water and Global Paper given the lower headroom between fair value and carrying value. These reporting units have lower headroom as they were acquired as part of the Nalco merger in December 2011. The headroom for these reporting units has continued to increase since the prior year assessment. Based on the step one testing performed, no adjustment to the carrying value of goodwill was necessary.

If circumstances change significantly, the company would also test a reporting unit's goodwill for impairment during interim periods between its annual tests. There has been no impairment of goodwill since the adoption of Financial Accounting Standards Board (FASB) guidance for goodwill and other intangibles on January 1, 2002.

The merger with Nalco and the acquisition of Champion resulted in the addition of \$4.5 billion and \$1.0 billion of goodwill, respectively. Subsequent performance of the reporting units holding the additional goodwill relative to projections used for the purchase price allocation of goodwill could result in an impairment if there is either underperformance by the reporting unit or if the carrying value of the reporting unit were to fluctuate significantly due to working capital changes or other reasons that did not proportionately increase fair value.

Effective in the first quarter of 2013, the company changed its reportable segments due to a change in its underlying organizational model designed to support the business following the Nalco merger and to facilitate global growth. The company did not operate under the realigned reportable segment structure prior to 2013. The company's new segment structure focuses on global businesses, with its ten operating units, which are also operating segments, aggregated into four reportable segments as follows:

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- Global Industrial consists of the Global Water, Global Food & Beverage, Global Paper and Global Textile Care operating units.
- Global Institutional consists of the Global Institutional, Global Specialty and Global Healthcare operating units.
- Global Energy consists of the Global Energy operating unit.
- Other consists of the Global Pest Elimination and Equipment Care operating units.

Based on the changes in the company's organizational model, the company has updated its goodwill allocation both for June 30, 2013, as well as December 31, 2012. The company finalized the allocation during the second quarter of 2013. No impairments were noted in connection with the goodwill allocation procedures performed.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Goodwill and Other Intangible Assets (continued)

The changes in the carrying amount of goodwill for each of the company's reportable segments during the six months ended June 30, 2013 were as follows:

(millions)	Global Industrial	Global Institutional	Global Energy	Other	Total
Goodwill as of December 31, 2012	\$ 2,751.6	\$ 720.6	\$ 2,325.3	\$ 123.0	\$ 5,920.5
Current year business acquisitions(a)	33.3		1,000.9		1,034.2
Effect of foreign currency translation	(40.0)	(10.4)	(40.3)	(1.7)	(92.4)
Goodwill as of June 30, 2013	\$ 2,744.9	\$ 710.2	\$ 3,286.0	\$ 121.3	\$ 6,862.3

(a) For 2013, none of the goodwill related to businesses acquired is expected to be tax deductible.

Other Intangible Assets

As part of the Nalco merger, the company added the Nalco trade name as an indefinite life intangible asset. During the second quarter of 2013, using the qualitative assessment method, the company completed its annual test for indefinite life intangible asset impairment. Based on this testing, no adjustment to the \$1.2 billion carrying value of this asset was necessary. There has been no impairment of the Nalco trade name intangible asset since it was acquired.

The company's other intangible assets subject to amortization primarily include customer relationships, trademarks, patents and other technology. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Total amortization expense related to other intangible assets during the second quarter ended June 30, 2013 and 2012 was \$74.6 million and \$59.5 million, respectively. Total amortization expense related to other intangible assets during the six months ended June 30, 2013 and 2012 was \$135.1 million and \$118.7 million, respectively. The increase from 2012 to 2013 is primarily due to the Champion acquisition.

As of June 30, 2013, future estimated expense related to amortizable other identifiable intangible assets is expected to be:

(millions)	
2013 (Remainder: six-month period)	\$ 161
2014	303

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2015	302
2016	296
2017	293
2018	287

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Fair Value Measurements

The company's financial instruments include cash and cash equivalents, investments held in rabbi trusts, accounts receivable, accounts payable, contingent consideration obligations, estimated future consideration payable to Champion sellers, commercial paper, notes payable, foreign currency forward contracts and long-term debt.

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. A hierarchy has been established for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. The hierarchy is broken down into three levels:

Level 1 - Inputs are quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Inputs include observable inputs other than quoted prices in active markets.

Level 3 - Inputs are unobservable inputs for which there is little or no market data available.

The carrying amount and the estimated fair value for assets and liabilities measured on a recurring basis were:

June 30 (millions)	Carrying Amount	2013 Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Investments held in rabbi trusts	\$ 5.6	\$ 5.6	\$	\$
Foreign currency forward contracts	18.3		18.3	
Liabilities:				
Foreign currency forward contracts	14.0		14.0	
Contingent consideration obligations	17.1			17.1
Estimated future consideration payable to Champion sellers	83.9			83.9

December 31 (millions)

2012

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	Carrying Amount		Level 1	Fair Value Measurements Level 2	Level 3
Assets:					
Money market funds held in rabbi trusts	\$	2.2	\$	2.2	\$
Foreign currency forward contracts		6.5		6.5	
Liabilities:					
Foreign currency forward contracts		9.9		9.9	
Contingent consideration obligations		23.2			23.2

Investments held in rabbi trusts are classified within level 1 because they are valued using quoted prices in active markets. The carrying value of foreign currency forward contracts is at fair value, which is determined based on foreign currency exchange rates as of the balance sheet date, and is classified within level 2. The estimated future consideration payable to Champion sellers is valued using level 3 inputs.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Fair Value Measurements (continued)

Contingent consideration liabilities are classified within level 3 because fair value is measured based on the probability-weighted present value of the consideration expected to be transferred. The consideration expected to be transferred is based on the company's expectations of various financial measures. The ultimate payment of contingent consideration could deviate from current estimates based on the actual results of these financial measures. Changes in the fair value of contingent consideration obligations for the six months ended June 30, 2013 were as follows:

(millions)		
Contingent consideration, December 31, 2012	\$	27.3
Liabilities recognized at acquisition date		
Loss (gain) recognized in earnings		(0.5)
Settlements		(9.8)
Foreign currency translation		0.1
Contingent consideration, June 30, 2013	\$	17.1

The carrying values of accounts receivable and accounts payable approximate fair value because of their short maturities. The carrying value of cash and cash equivalents, commercial paper and notes payable approximate fair value because of their short maturities, and as such are classified within level 1.

The fair value of long-term debt is based on quoted market prices for the same or similar debt instruments and as such is classified within level 1. The carrying amount and the estimated fair value of long-term debt, including current maturities, held by the company were:

(millions)	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt (including current maturities)	\$ 6,803.7	\$ 7,071.1	\$ 5,903.7	\$ 6,417.6

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Derivatives and Hedging Transactions

Derivative Instruments and Hedging

The company uses foreign currency forward contracts, interest rate swaps and foreign currency debt to manage risks associated with foreign currency exchange rates, interest rates and net investments in foreign operations. The company does not hold derivative financial instruments of a speculative nature or for trading purposes. The company records all derivatives as assets and liabilities on the balance sheet at fair value. Changes in fair value are recognized immediately in earnings unless the derivative qualifies and is designated as a hedge. For derivatives designated as cash flow hedges, the effective portion of changes in fair value of hedges is initially recognized in accumulated other comprehensive income (AOCI) on the Consolidated Balance Sheet. Amounts recorded in AOCI are reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. The company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings.

The company is exposed to credit risk 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 by selecting major international banks and financial institutions as counterparties. The company does not anticipate nonperformance by any of these counterparties, and therefore, recording a valuation allowance against the company's derivative balance is not considered necessary.

Derivatives Designated as Cash Flow Hedges

The company utilizes foreign currency forward contracts to hedge the effect of foreign currency exchange rate fluctuations on forecasted foreign currency transactions, including: inventory purchases and intercompany royalty and management fee payments. These forward contracts are designated as cash flow hedges. The effective portions of the changes in fair value of these contracts are recorded in AOCI until the hedged items affect earnings, at which time the gain or loss is reclassified into the same line item in the Consolidated Statement of Income as the underlying exposure being hedged. All hedged transactions are forecasted to occur within the next twelve months.

The company occasionally enters into interest rate swap contracts to manage interest rate exposures. In 2011, the company entered into and subsequently closed six forward starting swap agreements in connection with the issuance of its private placement debt during the fourth quarter of 2011. The interest rate swap agreements were designated and effective as cash flow hedges of the expected interest payments related to the anticipated debt issuance. In 2006, the company entered into and subsequently closed two forward starting swap contracts related to the issuance of its senior euro notes. The amounts recorded in AOCI for both the 2011 and 2006 transactions are recognized as part of interest expense over the remaining life of the notes as the forecasted interest transactions occur. The company did not have any forward starting interest rate swap agreements outstanding at June 30, 2013 or December 31, 2012.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Derivatives and Hedging Transactions (continued)Derivatives Not Designated as Hedging Instruments

The company also uses foreign currency forward contracts to offset its exposure to the change in value of certain foreign currency denominated assets and liabilities held at foreign subsidiaries, primarily receivables and payables, which are remeasured at the end of each period. Although the contracts are effective economic hedges, they are not designated as accounting hedges. Therefore, changes in the value of these derivatives are recognized immediately in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities.

Derivative Summary

The following table summarizes the fair value of the company's outstanding derivatives. The amounts represent gross values of derivative assets and liabilities and are included in other current assets and other current liabilities on the Consolidated Balance Sheet.

(millions)	Asset Derivatives		Liability Derivatives	
	June 30 2013	December 31 2012	June 30 2013	December 31 2012
<u>Derivatives designated as hedging instruments</u>				
Foreign currency forward contracts	\$ 6.1	\$ 0.8	\$ 0.6	\$ 1.7
<u>Derivatives not designated as hedging instruments</u>				
Foreign currency forward contracts	12.2	5.7	13.4	8.2
Total	\$ 18.3	\$ 6.5	\$ 14.0	\$ 9.9

The company's derivative transactions are subject to master netting arrangements that allow the company to net settle contracts with the same counterparties. These arrangements generally do not call for collateral. Had the company elected to offset amounts in its Consolidated Balance Sheet, there would be a net asset of \$4.3 million as of June 30, 2013 and a net liability of \$3.4 million as of December 31, 2012.

The company had foreign currency forward exchange contracts with notional values that totaled approximately \$1.6 billion at June 30, 2013, and \$1.3 billion at December 31, 2012.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Derivatives and Hedging Transactions (continued)

The impact on AOCI and earnings from derivative contracts that qualified as cash flow hedges was as follows:

(millions)	Location	Second Quarter Ended June 30		Six Months Ended June 30	
		2013	2012	2013	2012
<u>Unrealized gain (loss) recognized into AOCI (effective portion)</u>					
Foreign currency forward contracts	AOCI (equity)	\$ 3.0	\$ 4.4	\$ 6.6	\$ 1.5
<u>Gain (loss) reclassified from AOCI into income (effective portion)</u>					
Foreign currency forward contracts	Sales	\$	\$ (0.1)	\$	\$ (0.1)
	Cost of sales	(1.4)	0.5	(1.7)	1.0
	SG&A	0.2	0.2	0.2	0.3
		(1.2)	0.6	(1.5)	1.2
Interest rate swap	Interest expense, net	(0.7)	(0.6)	(1.4)	(1.3)
		\$ (1.9)	\$	\$ (2.9)	\$ (0.1)
<u>Loss recognized in income on derivative (ineffective portion)</u>					
Foreign currency forward contracts	Interest expense, net	\$ (0.4)	\$ (0.2)	\$ (0.8)	\$ (0.6)

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Derivatives and Hedging Transactions (continued)

The impact on earnings from derivative contracts that are not designated as hedging instruments was as follows:

		Second Quarter Ended June 30		Six Months Ended June 30	
(millions)	Location	2013	2012	2013	2012
<u>Gain (loss) recognized in income</u>					
Foreign currency forward contracts	SG&A	\$ 1.8	\$ 3.1	\$ (4.5)	\$ (0.8)
	Interest expense, net	(1.4)	(1.3)	(2.6)	(3.5)
		\$ 0.4	\$ 1.8	\$ (7.1)	\$ (4.3)

The amounts recognized in SG&A above offset the earnings impact of the related foreign currency denominated assets and liabilities. The amounts recognized in interest expense above represent the component of the hedging gains (losses) attributable to the difference between the spot and forward rates of the hedges as a result of interest rate differentials.

Net Investment Hedge

The company designates its euro 300 million (\$390 million as of June 30, 2013) senior notes and related accrued interest as a hedge of existing foreign currency exposures related to net investments the company has in certain Euro functional subsidiaries. Prior to redemption in January 2012, the Nalco euro denominated borrowings were also designated as a hedge of existing foreign currency exposures.

In the third quarter of 2012, the company entered into a forward contract with a notional amount of euro 100 million to hedge an additional portion of the company's net investment in euro functional subsidiaries. The forward contract was closed during the second quarter of 2013.

The revaluation gains and losses on the euronotes and of the forward contract, through the date of its closing, which are designated and effective as hedges of the company's net investments, have been included as a component of the cumulative translation adjustment account.

Total revaluation gains and losses related to the euronotes and forward contract charged to shareholders' equity were as follows:

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(millions)	Second Quarter Ended				Six Months Ended			
	June 30				June 30			
	2013		2012		2013		2012	
Revaluation gains, net of tax	\$	2.2	\$	18.1	\$		\$	25.7

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Other Comprehensive Income Information

The following table provides other comprehensive income information related to the company's derivatives and hedging instruments and pension and postretirement benefits.

(millions)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Derivative & Hedging Instruments				
Unrealized gains (losses) on derivative & hedging instruments				
Amount recognized into AOCI	\$ 3.0	\$ 4.4	\$ 6.6	\$ 1.5
(Gains) losses reclassified from AOCI into income				
Sales		0.1		0.1
Cost of sales	1.4	(0.5)	1.7	(1.0)
SG&A	(0.2)	(0.2)	(0.2)	(0.3)
Interest expense, net	0.7	0.6	1.4	1.3
	1.9		2.9	0.1
Translation & other insignificant activity	(0.7)	(0.3)	(0.2)	0.2
Tax impact	(0.6)	(1.1)	(1.8)	(0.4)
Net of tax	\$ 3.6	\$ 3.0	\$ 7.5	\$ 1.4
Pension & Postretirement Benefits				
Amount reclassified from AOCI				
Actuarial losses	\$ 18.5	\$ 12.4	\$ 37.2	\$ 24.8
Prior service costs	(1.8)	(1.1)	(3.7)	(2.2)
	16.7	11.3	33.5	22.6
Tax impact	(6.2)	(3.7)	(12.6)	(8.0)
Net of tax	\$ 10.5	\$ 7.6	\$ 20.9	\$ 14.6

See Note 12 for information related to the company's recognition of net actuarial losses and amortization of prior service benefits.

10. Shareholders' EquityChampion acquisition

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On April 10, 2013, the company issued 6,596,444 shares of common stock for the stock consideration portion of the Champion acquisition. Of the total shares issued, the company deposited 1,258,115 shares, or approximately \$100 million of the total consideration, into an escrow fund to satisfy adjustments to the consideration and indemnification obligations of the acquired company's stockholders. Further information related to the acquisition of Champion is included in Note 3.

Share repurchases

In May 2011, the company's Board of Directors authorized the repurchase of up to 15 million shares of common stock, including shares to be repurchased under Rule 10b5-1. In August 2011, the Finance Committee of the company's Board of Directors, via delegation by the company's Board of Directors, authorized the repurchase of an additional 10 million common shares which was contingent upon completion of the merger with Nalco.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Shareholders' Equity (continued)

In September 2011, under the existing Board authorization, subject to the completion of the Nalco merger, the company announced a \$1.0 billion share repurchase program. As part of this program, in December 2011, the company entered into an accelerated share repurchase (ASR) agreement with a financial institution to repurchase \$500 million of its common stock. Under the ASR, the company received 8,330,379 shares of its common stock in December 2011. The final per share purchase price and the total number of shares to be repurchased under the ASR agreement were generally based on the volume weighted average price of the company's common stock during the term of the agreement. The ASR agreement ended in the first quarter of 2012. In connection with the finalization of the ASR agreement, the company received an additional 122,314 shares of common stock. All shares acquired under the ASR agreement were recorded as treasury stock.

In accordance with its share repurchase program through open market or private purchases, including the 122,314 shares settled through the ASR discussed above, the company repurchased 2,722,883 shares of its common stock during 2012. During the first six months of 2013, the company repurchased 1,812,115 shares of its common stock. The number of shares repurchased in 2013 includes 1,258,115 shares the company repurchased from the Champion escrow account, with the cash paid to the beneficial shareholders deposited back into escrow.

As of June 30, 2013, 13,997,981 shares remained to be repurchased under the company's repurchase authorization and approximately \$126 million remained to be purchased as part of the \$1.0 billion program discussed above. The company expects to complete this remaining portion of the \$1.0 billion share repurchase program in 2013.

The company intends to repurchase all shares under its authorizations, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.

11. Earnings Attributable to Ecolab Per Common Share

The computations of the basic and diluted earnings attributable to Ecolab per share amounts were as follows:

(millions, except per share amounts)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net income attributable to Ecolab	\$ 213.1	\$ 184.5	\$ 372.7	\$ 234.2
Weighted-average common shares outstanding				
Basic	301.5	291.9	298.5	291.7
Effect of dilutive stock options, units and awards	5.9	6.3	5.7	6.4

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Diluted		307.4		298.2		304.2		298.1
Earnings attributable to Ecolab per common share								
Basic	\$	0.71	\$	0.63	\$	1.25	\$	0.80
Diluted	\$	0.69	\$	0.62	\$	1.23	\$	0.79
Anti-dilutive securities excluded from computation of earnings per share								
		0.3		0.8		2.3		3.1

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Pension and Postretirement Plans

The company has non-contributory qualified defined benefit pension plans covering the majority of its U.S. employees. The company also has U.S. non-contributory non-qualified defined benefit plans, which provide for benefits to employees in excess of limits permitted under its U.S. pension plans. Various international subsidiaries also have defined benefit pension plans. The company provides postretirement health care benefits to certain U.S. employees and retirees.

The components of net periodic pension and postretirement health care benefit costs for the second quarter ended June 30 are as follows:

(millions)	U.S. Pension				International Pension				U.S. Postretirement Health Care			
	2013		2012		2013		2012		2013		2012	
Service cost	\$	17.2	\$	12.6	\$	8.9	\$	7.3	\$	1.5	\$	1.3
Interest cost on benefit obligation		21.2		22.3		11.6		12.0		2.7		3.2
Expected return on plan assets		(32.6)		(31.8)		(11.5)		(10.7)		(0.2)		(0.3)
Recognition of net actuarial loss		15.6		11.3		2.8		1.0		0.1		0.1
Amortization of prior service benefit		(1.8)		(1.0)		0.1				(0.1)		
Settlements/curtailments						0.1		0.8				
	\$	19.6	\$	13.4	\$	12.0	\$	10.4	\$	4.0	\$	4.3

The components of net periodic pension and postretirement health care benefit costs for the six months ended June 30 are as follows:

(millions)	U.S. Pension				International Pension				U.S. Postretirement Health Care			
	2013		2012		2013		2012		2013		2012	
Service cost	\$	34.3	\$	25.2	\$	18.0	\$	14.7	\$	3.0	\$	2.5
Interest cost on benefit obligation		42.4		44.7		23.5		23.8		5.4		6.5
Expected return on plan assets		(65.1)		(63.6)		(23.3)		(21.2)		(0.5)		(0.6)
Recognition of net actuarial loss		31.2		22.6		5.7		2.0		0.3		0.2
Amortization of prior service benefit		(3.5)		(2.1)				(0.1)		(0.2)		
Settlements/curtailments						0.1		0.8				
	\$	39.3	\$	26.8	\$	24.0	\$	20.0	\$	8.0	\$	8.6

As of June 30, 2013, the company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans.

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Based on plan asset values as of December 31, 2011, the company was required to make contributions of \$38 million to its Nalco U.S. pension plan during 2012. During the first six months of 2012, \$166 million was funded to the Nalco U.S. pension plan. During 2012, a total of \$180 million was funded to the Nalco U.S. plan. Effective December 31, 2012, the Nalco U.S. qualified pension plan merged into the Ecolab U.S. qualified pension plan. No contributions are anticipated to be made to the U.S. qualified pension plan during 2013.

During the first six months of 2013, the company made payments of \$2 million to its U.S. non-contributory non-qualified defined benefit plans, and estimates that it will make payments of approximately \$8 million more to such plans during the remainder of 2013.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Pension and Postretirement Plans (continued)

The company contributed \$25 million to its international pension benefit plans during the first six months of 2013. The company currently estimates that it will contribute approximately \$22 million more to the international pension benefit plans during the remainder of 2013.

During the first six months of 2013, the company made payments of \$10 million to its U.S. postretirement health care benefit plans, and estimates that it will make payments of approximately \$10 million more to such plans during the remainder of 2013.

13. Operating Segments

Effective in the first quarter of 2013, the company changed its reportable segments due to a change in its underlying organizational model designed to support the business following the Nalco merger and to facilitate global growth. The company did not operate under the realigned reportable segment structure prior to 2013. The company's new segment structure focuses on global businesses, with its ten operating units, which are also operating segments, aggregated into four reportable segments as follows:

- Global Industrial consists of the Global Water, Global Food & Beverage, Global Paper and Global Textile Care operating units.
- Global Institutional consists of the Global Institutional, Global Specialty and Global Healthcare operating units.
- Global Energy consists of the Global Energy operating unit.
- Other consists of the Global Pest Elimination and Equipment Care operating units.

For periods prior to its disposition in December 2012, the Vehicle Care operating unit was included within the Other reportable segment within the realigned reportable segment structure.

Consistent with the company's internal management reporting, the Corporate segment includes amortization specifically from the Nalco merger and Champion acquisition intangible assets and certain integration costs. The Corporate segment also includes special (gains) and charges reported on the Consolidated Statement of Income.

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The profitability of the company's operating units is evaluated by management based on operating income. The company has no intersegment revenues. The international amounts included within each of the company's four reportable segments are based on translation into U.S. dollars at the fixed currency exchange rates used by management for 2013.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Operating Segments (continued)

The following tables present net sales and operating income (loss) by reportable segment, reflecting the impact of the segment structure changes discussed above, with the 2012 periods recast under the same structure utilized for the 2013 periods:

(millions)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net Sales				
Global Industrial	\$ 1,220.2	\$ 1,178.7	\$ 2,360.9	\$ 2,308.6
Global Institutional	1,054.9	1,028.5	2,029.6	1,979.8
Global Energy	901.0	550.1	1,480.1	1,089.0
Other	180.2	188.9	347.5	364.4
Subtotal at fixed currency rates	3,356.3	2,946.2	6,218.1	5,741.8
Effect of foreign currency translation	(18.5)	12.5	(8.2)	27.8
Consolidated	\$ 3,337.8	\$ 2,958.7	\$ 6,209.9	\$ 5,769.6
Operating Income				
Global Industrial	\$ 157.3	\$ 134.1	\$ 274.4	\$ 232.2
Global Institutional	193.6	180.6	338.9	313.5
Global Energy	131.1	79.1	209.9	161.2
Other	26.2	27.4	46.8	47.3
Corporate	(152.6)	(95.2)	(253.5)	(262.5)
Subtotal at fixed currency rates	355.6	326.0	616.5	491.7
Effect of foreign currency translation	(3.3)	0.5	(2.5)	0.6
Consolidated	\$ 352.3	\$ 326.5	\$ 614.0	\$ 492.3

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies

The company is subject to various claims and contingencies related to, among other things, workers' compensation, general and product liability, automobile claims, health care claims, environmental matters and lawsuits. The company is also subject to various claims and contingencies related to income taxes, and also has contractual obligations related to lease commitments.

The company records liabilities where a contingent loss is probable and can be reasonably estimated. If the reasonable estimate of a probable loss is a range, the company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. The company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that a material loss may have been incurred.

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 from time to time antitrust, commercial, patent infringement, product liability and wage hour lawsuits, as well as 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 company has established accruals for certain lawsuits, claims and environmental matters. The company currently believes that there is not a reasonably possible risk of material loss in excess of the amounts accrued related to these legal matters. Because litigation is inherently uncertain, and unfavorable rulings or developments could occur, there can be no certainty that the company may not ultimately incur charges in excess of presently recorded liabilities. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on the company's results of operations or cash flows in the period in which they are recorded. The company currently believes that such future charges related to suits and legal claims, if any, would not have a material adverse effect on the company's consolidated financial position.

Matters Related to Wage Hour Claims

The company is a defendant in six pending wage hour lawsuits claiming violations of the Fair Labor Standards Act (FLSA) or a similar state law. Of the six suits, two have been certified for class action status, three seek class certification and one has reached a tentative settlement. *Doug Ladore v. Ecolab Inc., et al.*, United States District Court for the Central District of California, case no. CV 11-9386 GAF (FMOx), is a wage hour class action brought on behalf of California Pest Elimination employees. The case has been certified for class treatment, and on January 22, 2013, the plaintiffs' motion for summary judgment was granted and the court found that the class of employees was entitled to overtime pay. On February 22, 2013, pursuant to court-ordered mediation, the company reached a preliminary settlement with the plaintiffs, which remains subject to court approval. The company has established an accrual for the settlement amount, which is not material to its operations or financial position.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies (continued)

A second suit, a California state action, has been certified for class treatment of California Institutional employees. A third suit involving Institutional employees seeks nationwide class certification for alleged FLSA violations as well as purported state sub-classes in two states (New York and New Jersey) alleging violations of state wage hour laws. A fourth suit involving Pest Elimination employees seeks nationwide class certification for alleged FLSA violations as well as a purported California sub-class for alleged California wage hour law violations. A fifth suit seeks certification of a purported class of terminated California employees of any business for alleged violation of statutory obligations regarding payment of accrued vacation upon termination.

Tentative settlement, subject to Court approval, has been reached in a sixth suit involving a California class of technicians in the company's Equipment Care subsidiary (formerly GCS). The class in this suit was certified for settlement purposes only. The settlement amount is not material to the company's operations or financial position.

Matters Related to Deepwater Horizon Incident Response

On April 22, 2010, the deepwater drilling platform, the Deepwater Horizon, operated by a subsidiary of BP plc, sank in the Gulf of Mexico after a catastrophic explosion and fire that began on April 20, 2010. A massive oil spill resulted. Approximately one week following the incident, subsidiaries of BP plc, under the authorization of the responding federal agencies, formally requested Nalco Company, now an indirect subsidiary of Ecolab, to supply large quantities of COREXIT® 9500, a Nalco oil dispersant product listed on the U.S. EPA National Contingency Plan Product Schedule. Nalco Company responded immediately by providing available COREXIT and increasing production to supply the product to BP's subsidiaries for use, as authorized and directed by agencies of the federal government throughout the incident. Prior to the incident, Nalco and its subsidiaries had not provided products or services or otherwise had any involvement with the Deepwater Horizon platform. On July 15, 2010, BP announced that it had capped the leaking well, and the application of dispersants by the responding parties ceased shortly thereafter.

On May 1, 2010, the President appointed retired U.S. Coast Guard Commandant Admiral Thad Allen to serve as the National Incident Commander in charge of the coordination of the response to the incident at the national level. The EPA directed numerous tests of all the dispersants on the National Contingency Plan Product Schedule, including those provided by Nalco Company, to ensure decisions about ongoing dispersant use in the Gulf of Mexico are grounded in the best available science. Nalco Company cooperated with this testing process and continued to supply COREXIT, as requested by BP and government authorities. After review and testing of a number of dispersants, on June 30, 2010, and on August 2, 2010, the EPA released toxicity data for eight oil dispersants.

The use of dispersants by the responding parties was one tool used by the government and BP to avoid and reduce damage to the Gulf area from the spill. Since the spill occurred, the EPA and other federal agencies have closely monitored conditions in areas where dispersant has been applied. Nalco Company has encouraged ongoing monitoring and review of COREXIT and other dispersants and has cooperated fully with the governmental review and approval process. However, in connection with its provision of COREXIT, Nalco Company has been named in several lawsuits as described below.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies (continued)

Putative Class Action Litigation

In June, July and August 2010, in April 2011 and in April 2012, Nalco Company was named, along with other unaffiliated defendants, in nine putative class action complaints filed in either the United States District Court for the Eastern District of Louisiana (Parker, et al. v. Nalco Company, et al., Civil Action No. 2:10-cv-01749-CJB-SS; Harris, et al. v. BP, plc, et al., Civil Action No. 2:10-cv-02078-CJBSS; Ireland v. BP Products, Inc., et al., Civil Action No. 11-cv-00881; Adams v. Louisiana, et al., Civil Action No. 11-cv-01051; Elrod, et al. v. BP Exploration & Production Inc., et al., 12-cv-00981), the United States District Court for the Southern District of Alabama, Southern Division (Lavigne, et al. v. BP PLC, et al., Civil Action No. 1:10-cv-00222-KD-C; Wright, et al. v. BP, plc, et al., Civil Action No. 1:10-cv-00397-B) or the United States District Court for the Northern District of Florida, Pensacola Division (Walsh, et al. v. BP, PLC, et al., Civil Action No. 3:10-cv-00143-RV-MD; Petitjean, et al. v. BP, plc, et al., Case No. 3:10-cv-00316-RS-EMT) on behalf of various potential classes of persons who live and work in or derive income from the Coastal Zone. The Parker, Lavigne and Walsh cases have since been voluntarily dismissed. Each of the remaining actions contains substantially similar allegations, generally alleging, among other things, negligence relating to the use of our COREXIT dispersant in connection with the Deepwater Horizon oil spill. The plaintiffs in each of these putative class action lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys' fees and costs.

Other Related Federal Claims

In July, August, September, October and December 2010, Nalco Company was also named, along with other unaffiliated defendants, in eight complaints filed by individuals in either the United States District Court for the Eastern District of Louisiana (Ezell v. BP, plc, et al., Case No. 2:10-cv-01920-KDE-JCW), the United States District Court for the Southern District of Alabama, Southern Division (Monroe v. BP, plc, et al., Case No. 1:10-cv-00472-M; Hill v. BP, plc, et al., Civil Action No. 1:10-cv-00471-CG-N; Hudley v. BP, plc, et al., Civil Action No. 10-cv-00532-N), the United States District Court for the Northern District of Florida, Tallahassee Division (Capt Ander, Inc. v. BP, plc, et al., Case No. 4:10-cv-00364-RH-WCS), the United States District Court for the Southern District of Mississippi, Southern Division (Trehern v. BP, plc, et al., Case No. 1:10-cv-00432-HSO-JMR) or the United States District Court for the Southern District of Texas (Chatman v. BP Exploration & Production, Civil Action No. 10-cv-04329; Brooks v. Tidewater Marine LLC, et al., Civil Action No. 11-cv-00049).

In April 2011, Nalco Company was also named in Best v. British Petroleum plc, et al., Civil Action No. 11-cv-00772 (E.D. La.); Black v. BP Exploration & Production, Inc., et al. Civil Action No. 2:11-cv-867, (E.D. La.); Pearson v. BP Exploration & Production, Inc., Civil Action No. 2:11-cv-863, (E.D. La.); Alexander, et al. v. BP Exploration & Production, et al., Civil Action No. 11-cv-00951 (E.D. La.); and Coco v. BP Products North America, Inc., et al. (E.D. La.).

In October 2011, Nalco Company was also named in Toups, et al. v Nalco Company, et al., No. 59-121 (25th Judicial District Court, Parish of Plaquemines, Louisiana). In November 2011, Toups was removed to the United States District Court for the Eastern District of Louisiana. In April 2012, Nalco Company was named in Sponge v. BP, P.L.C., et al., Case No. 0166367 (32nd Judicial District Court, Parish of Terrebonne, Louisiana); and Hogan v. British Petroleum Exploration & Production, Inc., et al., Case No. 2012-22995 (District Court, Harris County, Texas).

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In April 2012, Esponge was removed to the United States District Court for the Eastern District of Louisiana. In May 2012, Hogan was removed to the United States District Court for the Southern District of Texas. In June 2012, the Judicial Panel for Multidistrict Litigation transferred Hogan to the United States District Court for the Eastern District of Louisiana.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies (continued)

The complaint in *Eponge* generally alleges, among other things, that oil and dispersants have caused and will continue to cause plaintiffs to lose revenue and/or earning capacity. The remaining complaints generally allege, among other things, negligence and injury resulting from the use of COREXIT dispersant in connection with the Deepwater Horizon oil spill. The complaints seek unspecified compensatory and punitive damages, and attorneys' fees and costs. The *Chatman* case was voluntarily dismissed.

In January 2012, Nalco Company was named, along with other unaffiliated defendants, in *Top Water Charters, LLC v. BP, P.L.C., et al.*, No. 0165708 (32nd Judicial District Court, Parish of Terrebonne, Louisiana). The complaint generally alleges, among other things, negligence and gross negligence relating to the Deepwater Horizon oil spill and use of chemical dispersants. The plaintiffs allege that the oil and dispersants have harmed their fishing charter businesses and seek unspecified compensatory damages, punitive damages and attorneys' fees and costs. In February 2012, *Top Water Charters* was removed to the United States District Court for the Eastern District of Louisiana.

In August and September 2012, Nalco Company was named, along with other unaffiliated defendants, in *Doom v. BP Exploration & Production, et al.*, Case No. 12-cv-2048 (E.D. La.) and *Kolian v. BP Exploration & Production, et al.*, Case No. 12-cv-2338 (E.D. La.). The complaints generally allege, among other things, negligence and strict liability relating to the Deepwater Horizon oil spill and use of chemical dispersants. The complaints seek unspecified compensatory and punitive damages.

All of the above-referenced cases pending against Nalco Company have been administratively transferred for pre-trial purposes to a judge in the United States District Court for the Eastern District of Louisiana with other related cases under *In Re: Oil Spill by the Oil Rig Deepwater Horizon in the Gulf of Mexico, on April 20, 2010, Civil Action No. 10-md-02179 (E.D. La.) (MDL 2179)*. Pursuant to orders issued by Judge Barbier in MDL 2179, the claims have been consolidated in several master complaints, including one naming Nalco Company and others who responded to the Gulf Oil Spill (known as the B3 Bundle). Plaintiffs are required by Judge Barbier to prepare a list designating previously-filed lawsuits that assert claims within the B3 Bundle regardless of whether the lawsuit named each defendant named in the B3 Bundle master complaint. Nalco Company has received a draft list from the plaintiffs' steering committee. The draft list identifies fifteen cases in the B3 Bundle, some of which are putative class actions. Six cases previously filed against Nalco Company are not included in the B3 Bundle.

Pursuant to orders issued by Judge Barbier in MDL 2179, claimants wishing to assert causes of action subject to one or more of the master complaints were permitted to do so by filing a short-form joinder. A short-form joinder is deemed to be an intervention into one or more of the master complaints in MDL 2179. The deadline for filing short form joinders was April 20, 2011. Of the individuals who have filed short form joinders that intervene in the B3 Bundle, Nalco Company has no reason to believe that these individuals are different from those covered by the putative class actions described above. These plaintiffs who have intervened in the B3 Bundle seek to recover damages for alleged personal injuries, medical monitoring and/or property damage related to the oil spill clean-up efforts.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies (continued)

On May 18, 2012, Nalco filed a motion for summary judgment against the claims in the B3 Master Complaint, on the grounds that: (i) Plaintiffs claims are preempted by the comprehensive oil spill response scheme set forth in the Clean Water Act and National Contingency Plan; and (ii) Nalco is entitled to derivative immunity from suit. On November 28, 2012, the Court granted Nalco's motion and dismissed with prejudice the claims in the B3 Master Complaint asserted against Nalco. The Court held that such claims were preempted by the Clean Water Act and National Contingency Plan. Because claims in the B3 Master Complaint remain pending against other defendants, the Court's decision is not a final judgment for purposes of appeal. Under Federal Rule of Appellate Procedure 4(a), plaintiffs will have 30 days after entry of final judgment to appeal the Court's decision.

On April 3, 2013, Nalco was named, along with other, unaffiliated defendants, in *Duong, et al., v. BP America Production Company, et al.*, Case No. 13-cv-00605 (E.D. La.). The complaint generally alleges, among other things, negligence relating to the Deepwater Horizon oil spill and use of chemical dispersants. The complaint seeks unspecified compensatory and punitive damages. On April 8, 2013, Nalco was named, along with other, unaffiliated defendants, in *Fitzgerald v. BP Exploration, et al.*, Case No. 13-cv-00650 (E.D. La.). The complaint generally alleges, among other things, negligence and strict liability relating to the Deepwater Horizon oil spill and use of chemical dispersants. The complaint seeks unspecified compensatory and punitive damages. On April 17, 2013, Nalco was named, along with other, unaffiliated defendants, in *Danos, et al. v. BP Exploration et al.*, Case No. 00060449 (25th Judicial Court, Parish of Plaquemines, Louisiana). The complaint generally alleges, among other things, negligence and injury resulting from use of COREXIT dispersant in connection with the Deepwater Horizon oil spill. The complaint seeks unspecified compensatory and punitive damages. On May 22, 2013, Danos was removed to the United States District Court for the Eastern District of Louisiana. Doung, Fitzgerald and Danos are consolidated in MDL 2179 and subject to the MDL Court's November 28, 2012 order.

On April 18, 2012, BP and the Plaintiffs' Steering Committee (PSC) for MDL 2179 filed motions for preliminary approval of two proposed class action settlements: (1) a proposed Medical Benefits Class Action Settlement; and (2) a proposed Economic and Property Damages Class Action Settlement. Pursuant to the proposed settlements, class members agree to release claims against BP and other released parties, including Nalco Energy Services, LP, Nalco Holding Company, Nalco Finance Holdings LLC, Nalco Finance Holdings Inc., Nalco Holdings LLC and Nalco Company. Potential class members were permitted to opt-out of the settlements. The opt-out period closed November 1, 2012. The court permitted potential class members to revoke their opt-outs until the date final settlement approval was entered.

On May 2, 2012, the Court preliminarily approved the Medical Benefits Class Action Settlement and Economic and Property Damages Class Action Settlement. A hearing to consider the fairness, reasonableness and adequacy of the proposed settlements took place on November 8, 2012. On December 24, 2012, the Court granted final approval of the Economic and Property Damages Class Action Settlement. On January 11, 2013, the Court granted final approval of the Medical Benefits Class Action Settlement.

Nalco Company, the incident defendants and the other responder defendants have been named as first party defendants by Transocean Deepwater Drilling, Inc. and its affiliates (the Transocean Entities) (in re the Complaint and Petition of Triton Asset Leasing GmbH, et al, MDL No. 2179, Civil Action 10-2771). In April and May 2011, the Transocean Entities, Cameron International Corporation, Halliburton Energy Services, Inc., M-I L.L.C., Weatherford U.S., L.P. and Weatherford International, Inc. (collectively, the Cross Claimants) filed cross claims in MDL 2179 against Nalco Company and other unaffiliated cross defendants. The Cross Claimants generally allege, among other things, that if they are found liable for damages resulting from the Deepwater Horizon explosion, oil spill and/or spill response, they are entitled to indemnity

or contribution from the cross defendants.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies (continued)

In April and June 2011, in support of its defense of the claims against it, Nalco Company filed counterclaims against the Cross Claimants. In its counterclaims, Nalco Company generally alleges that if it is found liable for damages resulting from the Deepwater Horizon explosion, oil spill and/or spill response, it is entitled to contribution or indemnity from the Cross Claimants.

Other Related Actions

In March 2011, Nalco Company was named, along with other unaffiliated defendants, in an amended complaint filed by an individual in the Circuit Court of Harrison County, Mississippi, Second Judicial District (Franks v. Sea Tow of South Miss, Inc., et al., Cause No. A2402-10-228 (Circuit Court of Harrison County, Mississippi)). The amended complaint generally asserts, among other things, negligence and strict product liability claims relating to the plaintiff's alleged exposure to chemical dispersants manufactured by Nalco Company. The plaintiff seeks unspecified compensatory damages, medical expenses, and attorneys' fees and costs. Plaintiff's allegations place him within the scope of the MDL 2179 Medical Benefits Class. In approving the Medical Benefits Settlement, the MDL 2179 Court barred Medical Benefits Settlement class members from prosecuting claims of injury from exposure to oil and dispersants related to the Response. As a result of the MDL court's order, on April 11, 2013, the Mississippi court stayed proceedings in the *Franks* case.

In August 2012, Jambon Supplier, L.L.C. and Jambon Marine Holdings, L.L.C. (Third-Party Plaintiffs), petitioners-in-limitation in In re of Jambon Supplier II, L.L.C., et al., Civil Action No. 12-426 (E.D. La.), filed a third-party complaint against Nalco and other, unaffiliated defendants (collectively, Third-Party Defendants). The third-party complaint generally alleges, among other things, that one of Third-Party Plaintiffs' employees filed a claim against them in the underlying limitation action. In his claim, he alleged that he was exposed to oil and dispersants while working as a crew member aboard Third-Party Plaintiffs' vessel during the Deepwater Horizon oil spill response. The third-party complaint asserts that if the employee suffered injuries as alleged, the Third-Party Defendants are strictly liable.

The company believes the claims asserted against Nalco Company are without merit and intends to defend these lawsuits vigorously. The company also believes that it has rights to contribution and/or indemnification (including legal expenses) from third parties. However, the company cannot predict the outcome of these lawsuits, the involvement it might have in these matters in the future, or the potential for future litigation.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. New Accounting Pronouncements

In December 2011, the FASB issued a final standard on balance sheet offsetting disclosures. A clarification in the scope of the final standard was issued in January 2013 and requires disclosures to provide information to help reconcile differences in the offsetting requirements under U.S. GAAP and IFRS. The company adopted this guidance effective January 1, 2013. See Note 8 for applicable disclosures.

In July 2012, the FASB amended its guidance on testing of indefinite-lived intangible assets for impairment. Under the amended guidance, companies may perform a qualitative assessment to determine whether further impairment testing is necessary, similar to the amended goodwill impairment testing guidance discussed above. The guidance for indefinite-lived intangible assets is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012, with an option for early adoption. The company applied the amended guidance to the impairment testing of indefinite life intangible assets during the second quarter of 2013. The adoption of this guidance did not have an impact on the company's financial statements.

In August 2012, the U.S. Securities and Exchange Commission (the "SEC") adopted a rule mandated by the Dodd-Frank Act to require companies to publicly disclose their use of conflict minerals that originated in the Democratic Republic of the Congo or an adjoining country. The final rule applies to a company that uses minerals including tantalum, tin, gold or tungsten. The final rule requires companies to provide disclosure on a new form filed with the SEC, with the first specialized disclosure report due on May 31, 2014, for the 2013 calendar year, and annually on May 31 each year thereafter. The company is currently evaluating the impact of adoption.

In February 2013, the FASB issued a final standard on the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance was issued to improve the reporting of reclassifications out of AOCI. The company adopted this guidance effective January 1, 2013. See Note 9 for applicable disclosures.

In March 2013, the FASB issued a final standard to resolve diversity in practice regarding the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investments in a foreign entity. In addition, the standard resolves diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. The guidance is effective prospectively for fiscal years and interim periods beginning after December 15, 2013. Upon adoption the company does not expect a significant impact to future financial statements.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Ecolab Inc.

We have reviewed the accompanying consolidated balance sheet of Ecolab Inc. and its subsidiaries as of June 30, 2013, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012 and the consolidated statement of cash flows for the six month periods ended June 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income and equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 26, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
August 1, 2013

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following management discussion and analysis (MD&A) provides information that we believe is useful in understanding our operating results, cash flows and financial condition. The discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Form 10-Q, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012.

This discussion contains various Non-GAAP Financial Measures and also contains various Forward-Looking Statements within the meaning of the Private Securities Litigation Reform Act of 1995. We refer readers to the statements entitled Non-GAAP Financial Measures and Forward-Looking Statements located at the end of Part I of this report.

Comparability of Reportable Segments

Effective in the first quarter of 2013, we changed our reportable segments due to a change in our underlying organizational model designed to support the business following the Nalco merger and facilitate global growth. We did not operate under the realigned reportable segment structure prior to 2013. As a result of the change, our new segment structure focuses on global businesses, with our ten operating units, which are also operating segments, aggregated into four reportable segments as follows:

- Global Industrial consists of the Global Water, Global Food & Beverage, Global Paper and Global Textile Care operating units.
- Global Institutional consists of the Global Institutional, Global Specialty and Global Healthcare operating units.
- Global Energy consists of the Global Energy operating unit.
- Other consists of the Global Pest Elimination and Equipment Care operating units.

For periods prior to its disposition in December 2012, the Vehicle Care operating unit was included within the Other reportable segment within the realigned reportable segment structure.

All comparisons and discussion throughout the MD&A are based on the new segment structure implemented in the first quarter of 2013 as discussed above.

Fixed Currency Foreign Exchange Rates

We evaluate the performance of our international operations based on fixed currency exchange rates, which eliminate the impact of exchange rate fluctuations on our international operations. Fixed currency amounts for all periods presented are updated annually based on translation into U.S. dollars at fixed foreign currency exchange rates established by management at the beginning of 2013.

Impact of Acquisitions and Divestitures

Our historical practice for providing growth rates adjusted for acquisitions and divestitures has been to exclude the results of the acquired business from the first twelve months post acquisition and exclude the results of the divested business from the previous twelve months prior to divestiture, thus allowing for a more meaningful period-over-period comparison. Presentation of acquisition adjusted growth rates, with the exception of the Champion transaction, continues to be handled in such a way. Specific to the Champion transaction, due to the rapid pace at which the business is being fully integrated within our Global Energy segment, including all customer selling activity, discrete financial data specific to the legacy Champion business is not necessarily available post acquisition. As such, to allow for the most meaningful period-over-period comparison, specific to the Champion transaction, Champion's results for the comparable period of the prior year have been included for purposes of providing acquisition adjusted growth rates. Throughout the following MD&A, reference to acquisition adjusted growth rates follows the above methodology.

Overview of the Second Quarter Ended June 30, 2013

In April 2013, we completed the acquisition of Champion, a global specialty products and services company that delivers offerings to the oil and gas industry.

Second quarter 2013 sales increased 13% compared to second quarter 2012 sales. Second quarter fixed currency sales increased 14%. Acquisition adjusted fixed currency sales grew 6% in the second quarter of 2013, led by double-digit Global Energy gains and strong growth from Global Specialty.

Second quarter 2013 operating income and diluted earnings per share attributable to Ecolab increased 8% and 11%, respectively, compared to second quarter 2012 results.

Both 2013 and 2012 results of operations included special (gains) and charges as well as discrete tax items which impact the period-over-period comparisons. Excluding special (gains) and charges from both 2013 and 2012 results, second quarter 2013 adjusted operating income increased 19% when compared to second quarter 2012 adjusted operating income. Excluding special (gains) and charges and discrete tax items, growth in adjusted diluted earnings per share attributable to Ecolab was strong at 19% in the second quarter versus the prior year second quarter.

Sales Performance

As summarized in the tables on pages 45 and 54:

- Second quarter 2013 sales increased 13% to \$3.3 billion. Acquisition adjusted fixed currency sales increased 6% comparing second quarter 2013 against second quarter 2012.

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- Fixed currency sales for our Global Industrial segment increased 4% to \$1,220 million when comparing second quarter 2013 against second quarter 2012. Acquisition adjusted fixed currency sales increased 3%, with similar gains in Global Water and Global Paper and acquisition adjusted Global Food & Beverage.
- Second quarter 2013 Global Institutional segment sales, when measured in fixed rates of currency exchange, increased 3% to \$1,055 million. Within this segment, Global Specialty showed strong growth, Global Institutional reported moderate sales gains and Global Healthcare sales declined slightly.
- Fixed currency sales for our Global Energy segment increased 64% to \$901 million when comparing second quarter 2013 against second quarter 2012. Acquisition adjusted fixed currency sales increased 14%.
- Second quarter 2013 Other segment sales, when measured in fixed rates of currency exchange, decreased 5% to \$180 million. When adjusting for the Vehicle Care divestiture, acquisition adjusted fixed currency sales increased 5%.

Overview of the Second Quarter Ended June 30, 2013 (continued)

Financial Performance

As summarized in the tables on pages 51 through 53:

- Second quarter 2013 operating income increased 8% to \$352 million compared to second quarter 2012 operating income of \$327 million. Excluding the impact of special (gains) and charges from both 2013 and 2012 reported results, 2013 adjusted operating income increased 19% when compared to 2012 adjusted operating income. Second quarter 2013 adjusted fixed currency operating income increased 20% when compared to 2012 adjusted fixed currency operating income.
- Second quarter 2013 net income attributable to Ecolab increased 16% to \$213 million. Excluding the impact of special (gains) and charges and discrete tax items from 2013 and 2012 reported results, adjusted net income attributable to Ecolab increased 24% compared to the prior year's second quarter.
- Second quarter 2013 diluted earnings per share attributable to Ecolab of \$0.69 increased 11% compared to the second quarter of 2012. Excluding the impact of special (gains) and charges and discrete tax items from 2013 and 2012 reported results, adjusted diluted earnings per share attributable to Ecolab increased 19% to \$0.86 for the second quarter of 2013 compared to \$0.72 in the second quarter of 2012.
- Our effective income tax rate was 24.6% for the second quarter of 2013 compared to 30.2% for the second quarter of 2012. Excluding the tax rate impact of special (gains) and charges and discrete tax items from 2013 and 2012 results, our adjusted effective income tax rate was 28.5% and 30.6% for the second quarter of 2013 and 2012, respectively.

Results of Operations – Second Quarter and Six Months Ended June 30, 2013

Net Sales

(millions)	Second Quarter Ended June 30			% Change	Six Months Ended June 30			% Change
	2013	2012			2013	2012		
Reported GAAP net sales	\$ 3,337.8	\$ 2,958.7		13%	\$ 6,209.9	\$ 5,769.6		8%
Effect of foreign currency translation	18.5	(12.5)			8.2	(27.8)		
Non-GAAP fixed currency net sales	\$ 3,356.3	\$ 2,946.2		14%	\$ 6,218.1	\$ 5,741.8		8%

As shown in the previous table, foreign currency exchange had a minimal impact on sales growth during the second quarter and first six months of 2013. The percentage change components of the period-over-period 2013 sales increase are shown below:

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(percent)	Second Quarter Ended June 30, 2013	Six Months Ended June 30, 2013
Volume	4%	3%
Price changes	1	1
Acquisition adjusted fixed currency sales increase	6	4
Acquisitions & divestitures	8	4
Fixed currency sales increase	14	8
Foreign currency exchange	(1)	(1)
Total net sales increase	13%	8%

Note: Amounts in the table above do not necessarily sum due to rounding.

Results of Operations – Second Quarter and Six Months Ended June 30, 2013 (continued)

Gross Profit Margin

(percent)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Reported GAAP gross margin	45.2%	45.6%	45.4%	44.1%
Special (gains) and charges	0.5	0.1	0.2	1.4
Non-GAAP adjusted gross margin	45.7%	45.7%	45.6%	45.5%

Our gross profit margin (gross margin) is defined as sales less cost of sales divided by sales. Our reported gross margin was 45.2% and 45.6% for the second quarter of 2013 and 2012, respectively. Our reported gross margin for the first six months of 2013 and 2012 was 45.4% and 44.1%, respectively.

Our second quarter 2013 and first six months of 2013 reported gross margin were both impacted by the recognition of fair value step-up in Champion inventory and restructuring charges. Our second quarter 2012 and first six months of 2012 reported gross margin were both impacted by the recognition of fair value step-up in Nalco inventory and restructuring charges.

Excluding the impact of these items, our second quarter 2013 adjusted gross margin was 45.7% and our adjusted gross margin for the first six months of 2013 was 45.6%. These percentages compared against a second quarter 2012 adjusted gross margin of 45.7% and an adjusted gross margin of 45.5% for the first six months of 2012.

Our adjusted gross margin has remained consistent when comparing the second quarter and six month periods ended June 30, 2013 against the comparable periods from 2012. Pricing gains, sales volume increases, synergies and cost savings were offset by unfavorable Global Energy business mix, including the impact of the Champion acquisition.

Selling, General and Administrative Expense

Selling, general and administrative (SG&A) expenses as a percentage of sales were 32.5% for the second quarter of 2013 compared to the 33.2% in 2012. For the six month periods, SG&A expenses were 33.5% of sales in 2013 and 34.2% of sales in 2012.

The decrease in SG&A ratio to sales during 2013 was driven by leverage from sales gains, synergies and cost savings, which more than offset investments and other cost increases.

Results of Operations – Second Quarter and Six Months Ended June 30, 2013 (continued)
Special (Gains) and Charges

Special (gains) and charges reported on the Consolidated Statement of Income included the following items:

(millions)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Cost of sales				
Restructuring charges	\$ 1.6	\$ 5.8	\$ 3.6	\$ 7.9
Recognition of Champion inventory fair value step-up	13.6		13.6	
Recognition of Nalco inventory fair value step-up		(2.7)		71.2
Subtotal	15.2	3.1	17.2	79.1
Special (gains) and charges				
Restructuring charges	45.0	25.9	63.5	52.4
Champion acquisition and integration costs	24.0		31.8	
Nalco merger and integration costs	4.4	15.7	8.2	30.6
Venezuela currency devaluation			23.4	
Litigation related charges and other	0.2		(3.6)	
Subtotal	73.6	41.6	123.3	83.0
Operating income subtotal	88.8	44.7	140.5	162.1
Interest expense, net				
Acquisition debt costs	0.3		2.5	
Debt extinguishment costs				18.2
Subtotal	0.3		2.5	18.2
Net income attributable to noncontrolling interest				
Venezuela currency devaluation			(0.5)	
Recognition of Nalco inventory fair value step-up				(4.5)
Subtotal			(0.5)	(4.5)
Total special (gains) and charges	\$ 89.1	\$ 44.7	\$ 142.5	\$ 175.8

Results of Operations – Second Quarter and Six Months Ended June 30, 2013 (continued)

Special (Gains) and Charges (continued)

Restructuring charges

Energy Restructuring Plan

In April 2013, following the completion of the acquisition of Champion, we commenced plans to undertake restructuring and other cost-saving actions to realize our acquisition-related cost synergies as well as streamline and strengthen our position in the fast growing energy market (the Energy Restructuring Plan). Actions associated with the acquisition to improve the effectiveness and efficiency of the business include a reduction of the combined business's current global workforce by approximately 500 positions. A number of these reductions are expected to be achieved through eliminating open positions and attrition. We also anticipate leveraging and simplifying our global supply chain, including the reduction of plant and distribution center locations and product line optimization, as well as the reduction of other redundant facilities.

The pre-tax restructuring charges costs under the Energy Restructuring Plan are expected to be approximately \$80 million (\$55 million after tax), with approximately \$40 million to \$50 million (\$25 million to \$30 million after tax) incurred in 2013. The restructuring is expected to be completed by the end of 2015.

We anticipate that approximately \$60 million of the \$80 million pre-tax charges will represent cash expenditures. The remaining pre-tax charges represent estimated asset disposals. No decisions have been made for any remaining asset disposals and estimates could vary depending on the actual actions taken.

Cash payments under the Energy Restructuring Plan during 2013 were \$10 million. The majority of cash payments under this Plan are related to severance, with the current accrual expected to be paid over the next twelve months. We anticipate the remaining cash expenditures will be funded from operating activities.

As a result of activities under the Energy Restructuring Plan, we recorded restructuring charges of \$12.2 million (\$7.6 million after tax) or \$0.02 per diluted share during both the second quarter and six months ended June 30, 2013.

We anticipate cost savings from the Energy Restructuring Plan, along with synergies achieved in connection with the acquisition, of approximately \$25 million in 2013, with annual cost savings and synergies of \$150 million by the end of 2015. Savings achieved under this Plan during 2013 were not significant.

Combined Restructuring Plan

In February 2011, we commenced a comprehensive plan to substantially improve the efficiency and effectiveness of our European business, sharpen its competitiveness and accelerate its growth and profitability. Additionally, restructuring has been and will continue to be undertaken outside of Europe (collectively, the 2011 Restructuring Plan). Total anticipated charges from this Plan from 2011 through 2013 were expected to be \$150 million (\$125 million after tax), with expected annualized cost savings of approximately \$120 million (\$100 million after tax) when fully realized. Through 2012, \$134 million of charges (\$100 million after tax) or \$0.37 per diluted share were incurred, and cumulative cost savings were approximately \$70 million.

Results of Operations – Second Quarter and Six Months Ended June 30, 2013 (continued)

Special (Gains) and Charges (continued)

In January 2012, following the merger with Nalco, the company formally commenced plans to undertake restructuring actions related to the reduction of its global workforce and optimization of its supply chain and office facilities, including planned reductions of plant and distribution center locations (the Merger Restructuring Plan). Total anticipated charges from 2012 through 2013 were expected to be \$180 million (\$120 million after tax), under this Plan with expected annual pre-tax cost savings, along with cost synergies in connection with the merger, of approximately \$250 million when fully realized. Through 2012, \$80 million of charges (\$59 million after tax), or \$0.20 per diluted share were incurred, and cumulative cost savings were approximately \$75 million.

During the first quarter of 2013, as we considered opportunities to enhance the efficiency and effectiveness of our operations, we decided that because the objectives of the plans discussed above were aligned, the previously separate restructuring plans have been combined into one plan.

The combined restructuring plan (the Combined Plan) combines opportunities and initiatives from both plans and is expected to be substantially completed by the end of 2013. The Combined Plan will continue to follow the original format of the Merger Restructuring Plan by focusing on global actions related to optimization of the supply chain and office facilities, including reductions of plant and distribution center locations and the global workforce. Through the completion of the Combined Plan, we expect to incur total pretax restructuring charges of approximately \$80 million to \$100 million (\$55 million to \$70 million after tax), of which approximately \$25 million to \$45 million (\$20 million to \$30 million after tax) remained to be incurred as of June 30, 2013.

We anticipate that approximately \$70 million to \$80 million of the total pre-tax charges will represent net cash expenditures. The remaining pre-tax charges represent estimated asset disposals. No decisions have been made for any remaining asset disposals and estimates could vary depending on the actual actions taken.

Cash payments under the Combined Plan were \$62 million, \$65 million and \$25 million for the first six months of 2013, full year 2012 and full year 2011, respectively. The majority of cash payments under this Plan are related to severance, with the current accrual expected to be paid over a period of a few months to a period of several quarters. Cash payments are expected to continue at a consistent level through the end of the Plan, and subsequently are expected to progressively decline. We anticipate the remaining cash expenditures will continue to be funded from operating activities.

As a result of activities under the Combined Plan, we recorded restructuring charges of \$34.4 million (\$26.1 million after tax) or \$0.09 per diluted share and \$55.2 million (\$40.4 million after tax) or \$0.14 per diluted share during the second quarter and first six months of 2013, respectively.

We anticipate cumulative savings and synergies achieved from the Combined Plan will be the same as those anticipated under the original Merger Restructuring Plan of approximately \$135 million in 2013 and \$250 million on an annual basis with the run rate achieved by the end of 2014 and under the original 2011 Restructuring Plan of approximately \$120 million of annual cost savings by the end of 2014, primarily within the European operations. The European savings are expected to be enhanced by synergies within the Merger Restructuring Plan associated with

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combining the legacy Ecolab European business with the additional European operations acquired with the Nalco merger. The Combined Plan is expected to provide approximately \$110 million of incremental savings in 2013 as compared to 2012. For the six month period ended June 30, 2013, the Combined Plan has achieved approximately \$50 million of savings as compared to 2012. The 2013 savings are consistent with the original goals established under the previously separate plans.

Results of Operations – Second Quarter and Six Month Ended June 30, 2013 (continued)

Special (Gains) and Charges (continued)

Restructuring charges have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income. Further details related to our reported restructuring charges are included in Note 2.

Non-restructuring special (gains) and charges

Champion acquisition & integration costs

As a result of our efforts to acquire Champion and acquisition integration costs, we incurred charges of \$37.9 million (\$27.6 million after tax) or \$0.09 per diluted share and \$47.9 million (\$34.7 million) or \$0.11 per diluted share during the second quarter and six months ended June 30, 2013, respectively.

Champion acquisition related costs have been included as a component of cost of sales, special (gains) and charges and net interest expense and net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income. Amounts included in special (gains) and charges include acquisition costs, advisory fees and integration charges. Amounts included in net interest expense include the interest expense through the close date of the Champion transaction of the company's \$500 million public debt issuance in December 2012 as well as fees to secure term loans and short-term debt, all of which were initiated to fund the Champion acquisition.

Nalco merger & integration costs

As a result of the Nalco merger completed in 2011, we incurred charges of \$4.4 million (\$3.0 million after tax), or \$0.01 per diluted share and \$13.0 million (\$8.8 million after tax), or \$0.03 per diluted share, during the second quarter of 2013 and 2012, respectively. During the six months ended June 30, 2013 and 2012, we incurred charges of \$8.2 million (\$5.7 million after tax), or \$0.02 per diluted share and \$115.5 million (\$86.5 million after tax), or \$0.29 per diluted share, respectively.

Nalco related special charges for 2013 have been included as a component of special (gains) and charges on the Consolidated Statement of Income, and include integration charges. Nalco related special charges for 2012 have been included as a component of cost of sales, special (gains) and charges, net interest expense and net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income. Amounts within cost of sales and net income (loss) attributable to noncontrolling interest include the recognition of fair value step-up in Nalco international inventory, which is maintained on a FIFO basis. Amounts within special (gains) and charges include merger and integration charges. Amounts within net interest expense include a loss on the extinguishment of Nalco's senior notes, which were assumed as part of the merger.

Venezuelan currency devaluation

On February 8, 2013, the Venezuelan government devalued its currency, the Bolivar Fuerte. As a result of the devaluation, during the first quarter of 2013, we recorded a charge of \$22.9 million (\$15.0 million after tax) or \$0.05 per diluted share, due to the remeasurement of the local balance sheet. Due to the ownership structure in place in Venezuela, we also reflected the impact of the devaluation as a component of net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income.

Further details related to our reported non-restructuring special (gains) and charges are included in Note 2, and further details related to acquisitions and dispositions are included in Note 3.

Results of Operations – Second Quarter and Six Months Ended June 30, 2013 (continued)
Operating Income

(millions)	Second Quarter Ended June 30				Six Months Ended June 30					
	2013		2012	% Change	2013		2012	% Change		
Reported GAAP operating income	\$	352.3	\$	326.5	8%	\$	614.0	\$	492.3	25%
Special (gains) and charges		88.8		44.7			140.5		162.1	
Non-GAAP adjusted operating income		441.1		371.2	19%		754.5		654.4	15%
Effect of foreign currency translation		3.3		(0.5)			2.5		(0.6)	
Non-GAAP adjusted fixed currency operating income	\$	444.4	\$	370.7	20%	\$	757.0	\$	653.8	16%

Reported operating income increased 8% and 25% in the second quarter and first six months of 2013, respectively, versus the comparable periods of 2012.

Our reported operating income for both 2013 and 2012 was impacted by special (gains) and charges. Excluding the impact of special (gains) and charges from 2013 and 2012 reported results, second quarter 2013 adjusted operating income increased 19% when compared against second quarter 2012 adjusted operating income and adjusted operating income for the first six months of 2013 increased 15% when compared against adjusted operating income for the first six months of 2012. Foreign currency had a small negative impact on operating income growth as shown in the previous table. The net impact of acquisitions and divestitures added approximately 2% and 1% to second quarter and first six months of 2013 adjusted fixed currency operating growth rates, respectively.

The second quarter and first six months of 2013 adjusted fixed currency operating income increase as compared to 2012 adjusted fixed currency operating income was driven by pricing, sales volume gains, synergies, cost savings and the net impact of acquisitions, which more than offset investments in the business.

Interest Expense, Net

(millions)	Second Quarter Ended June 30			% Change	Six Months Ended June 30			% Change		
	2013		2012		2013		2012			
Reported GAAP net interest expense	\$	66.2	\$	63.9	4%	\$	127.7	\$	150.0	(15)%
Adjustments:										
Special (gains) and charges		0.3					2.5		18.2	
Non-GAAP adjusted net interest expense	\$	65.9	\$	63.9	3%	\$	125.2	\$	131.8	(5)%

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Reported net interest expense totaled \$66 million in the second quarter of 2013, compared with \$64 million in the second quarter of 2012. Reported net interest expense for the first six months of 2013 and 2012 was \$128 million and \$150 million, respectively.

Our reported net interest expense for both 2013 and 2012 was impacted by special gains and charges. Excluding the impact of special gains and charges from 2013 and 2012 reported results, second quarter 2013 adjusted net interest expense increased 3% when compared against second quarter 2012 adjusted net interest expense and adjusted interest expense for the first six months of 2013 decreased 5% when compared against adjusted net interest expense for the first six months of 2012.

Results of Operations Second Quarter and Six Months Ended June 30, 2013 (continued)

Interest Expense, Net (continued)

The increase in adjusted net interest expense when comparing the second quarter of 2013 against the second quarter of 2012 was driven primarily by the increased debt levels held during the second quarter of 2013 in connection with the close of the Champion acquisition.

The lower adjusted net interest expense for the first six months of 2013 was driven primarily by the decrease in interest expense at the legacy Nalco business due to debt pay downs in early 2012, decreased financing fees and decreased borrowings across our international operations, which more than offset interest associated with debt issued in connection with the Champion acquisition.

Provision for Income Taxes

The following table provides a summary of our tax rate:

(percent)	Second Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Reported GAAP tax rate	24.6%	30.2%	22.5%	33.5%
Tax rate impact of:				
Special gains and charges	0.7	(0.6)	1.5	(3.3)
Discrete tax net benefits	3.2	1.0	4.4	0.4
Non-GAAP adjusted effective tax rate	28.5%	30.6%	28.4%	30.6%

Our reported tax rate for 2013 and 2012 includes the tax rate impact of special gains and charges and discrete tax items. Depending on the nature of our special gains and charges and discrete tax items, our reported tax rate may not be consistent on a period to period basis, as amounts included in our special gains and charges are derived from tax jurisdictions with rates that vary from our overall non-GAAP adjusted tax rate.

Our second quarter 2013 reported tax expense includes \$24.6 million of net tax benefits on special gains and charges and \$12.1 million of discrete tax net benefits. For the first six months of 2013, our reported tax expense includes \$41.6 million of net tax benefits on special gains and charges and \$27.6 million of discrete tax net benefits. The corresponding impact of these items to the reported tax rate is shown in the above table.

Second quarter 2013 discrete tax net benefits are driven primarily by the release of a valuation allowance related to the realizability of foreign deferred tax assets, law changes within a foreign jurisdiction and recognition of settlements related to our 2009 through 2010 U.S. income tax returns, offset partially by foreign audit adjustments. First quarter 2013 discrete tax net benefits are driven primarily by net benefits related to the remeasurement of certain deferred tax assets and liabilities and the retroactive extension during first quarter 2013 of the U.S. R&D credit.

Our second quarter 2012 reported tax expense includes \$12.1 million of net tax benefits on special gains and charges and \$2.6 million of discrete tax net benefits. For the first six months of 2012, our reported tax expense includes \$44.0 million of net tax benefits on special gains and charges and \$1.2 million of discrete tax net benefits. The corresponding impact of these items to the reported tax rate is shown in the above table.

Results of Operations Second Quarter and Six Months Ended June 30, 2013 (continued)
Provision for Income Taxes (continued)

Second quarter 2012 discrete tax net benefits primarily include the impact of remeasurement of certain foreign deferred tax assets and liabilities due to the impact of tax rate changes resulting from a change in tax jurisdictions, offset partially by foreign audit settlements and adjustments. First quarter 2012 discrete tax net expense was made up of various individually insignificant items.

The decrease in the 2013 adjusted effective tax rate compared to 2012 was due primarily to global tax planning actions, extension of the R&D credit and geographic income mix.

Net Income Attributable to Ecolab

(millions)	Second Quarter Ended June 30			% Change	Six Months Ended June 30			Change
	2013	2012			2013	2012		
Reported GAAP net income	\$ 213.1	\$ 184.5	16%		\$ 372.7	\$ 234.2	59%	
Adjustments:								
Special (gains) and charges, net of tax	64.5	32.6			100.9	131.8		
Discrete tax net expense (benefits)	(12.1)	(2.6)			(27.6)	(1.2)		
Non-GAAP adjusted net income	\$ 265.5	\$ 214.5	24%		\$ 446.0	\$ 364.8	22%	

Diluted Earnings Per Share Attributable to Ecolab (EPS)

(dollars)	Second Quarter Ended June 30			% Change	Six Months Ended June 30			% Change
	2013	2012			2013	2012		
Reported GAAP diluted EPS	\$ 0.69	\$ 0.62	11%		\$ 1.23	\$ 0.79	56%	
Adjustments:								
Special (gains) and charges	0.21	0.11			0.33	0.44		
Discrete tax net expense (benefits)	(0.04)	(0.01)			(0.09)	(0.00)		
Non-GAAP adjusted diluted EPS	\$ 0.86	\$ 0.72	19%		\$ 1.47	\$ 1.22	20%	

Note: Per share amounts in the table above do not necessarily sum due to changes in shares outstanding and rounding.

Currency translation had an unfavorable impact of approximately \$0.01 on diluted earnings per share for both the second quarter of 2013 compared to 2012, as well as the first six months of 2013 compared to 2012.

Segment Performance

As discussed at the beginning of the MD&A, effective in the first quarter of 2013, we changed our reportable segments due to a change in our organizational model designed to support the business following the Nalco merger and facilitate global growth. Under the reporting structure implemented in the first quarter of 2013, our ten operating units are aggregated into four reportable segments: Global Industrial, Global Institutional, Global Energy and Other. For periods prior to its disposition in December 2012, the Vehicle Care operating unit was included within the Other reportable segment within the realigned reportable segment structure.

The international amounts included within each of our four reportable segments are based on translation into U.S. dollars at the fixed currency exchange rates used by management for 2013.

All comparisons provided in the following tables and discussions are based on the segment structure implemented in the first quarter of 2013.

Sales by Reportable Segment

Fixed currency sales for the second quarter and first six months of 2013 and 2012 for each of our reportable segments were as follows:

(millions)	Second Quarter Ended			% Change	Six Months Ended			% Change
	June 30				June 30			
	2013	2012			2013	2012		
Global Industrial	\$ 1,220.2	\$ 1,178.7	4%		\$ 2,360.9	\$ 2,308.6	2%	
Global Institutional	1,054.9	1,028.5	3		2,029.6	1,979.8	3	
Global Energy	901.0	550.1	64		1,480.1	1,089.0	36	
Other	180.2	188.9	(5)		347.5	364.4	(5)	
Subtotal at fixed currency rates	3,356.3	2,946.2	14		6,218.1	5,741.8	8	
Effect of foreign currency translation	(18.5)	12.5			(8.2)	27.8		
Consolidated	\$ 3,337.8	\$ 2,958.7	13%		\$ 6,209.9	\$ 5,769.6	8%	

Global Industrial

Fixed currency sales for our Global Industrial segment increased 4% in the second quarter and 2% for the first six months of 2013. Acquisition adjusted fixed currency sales increased 3% in the second quarter and 1% for the first six months of 2013.

Fixed currency sales results for our Global Industrial operating units were as follows:

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- Global Water Sales increased 3% in the second quarter and 1% in the first six months of 2013. Sales growth was led by gains in heavy and light industries and improvements in mining. At a regional level second quarter growth was led by Asia Pacific and Latin America, with continued steady trends in North America, partially offset by modest declines in EMEA.
- Global Food & Beverage Sales increased 6% in both the second quarter and first six months of 2013. Acquisition adjusted sales increased 3% in the second quarter and 4% for the first six month of 2013. Sales growth continued to be led by gains in the beverage & brewing, dairy, food and agri markets, offsetting weakness in the protein market. Merger growth synergies also continued to benefit results. All regions showed sales increases, led by strong growth in Latin America.

Segment Performance (continued)

- Global Paper Sales increased 2% in the second quarter and were flat for the first six months of 2013. Sales increases for the quarter were driven by increased product penetration, partially offset by continued lower customer plant utilization. Asia Pacific and Latin America led sales growth at a regional level. EMEA showed modest growth, offset by continued slower sales in North America.
- Global Textile Care Sales decreased 3% in the second quarter and 1% for the first six months of 2013. Pricing gains were more than offset by volume declines in North America and general softness in the EMEA markets.

When measured at public currency rates, for our Global Industrial segment, sales increased 2% in both the second quarter and first six months of 2013 against the comparable periods of 2012.

Global Institutional

Fixed currency sales for our Global Institutional segment increased 3% in both the second quarter and the first six months of 2013. The impact of acquisitions on fixed currency sales growth was not significant.

Fixed currency sales results for our Global Institutional operating units were as follows:

- Global Institutional Sales increased 2% in the second quarter and 1% for the first six months of 2013. Sales initiatives, targeting new accounts and effective product programs remained focus areas for the Global Institutional operating unit. Demand from lodging customers showed modest growth, while foodservice foot traffic continued to be soft. At a regional level, a double digit increase in Latin America and modest gains in North America and Asia Pacific were offset by decreased sales in EMEA.
- Global Specialty Sales increased 9% in the second quarter and 11% for the first six months of 2013. Our food retail business continued to produce double digit growth, and our quick service business remained steady. Both businesses benefited from new accounts and increased product penetration. At a regional level, Asia Pacific's good growth benefited from good quick service foot traffic, North America had solid growth and EMEA showed modest growth.
- Global Healthcare Sales decreased 1% in the second quarter and increased 1% for the first six months of 2013. General softness in the U.S. and Europe healthcare markets continued to impact results. Good sales growth in temperature management and moderate growth in surgical drapes and contamination control were offset by the elimination of certain low margin business and timing of distributor shipments. At a regional level, modest sales gains in North America were offset by lower sales in EMEA.

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When measured at public currency rates, for our Global Institutional segment, sales increased 2% in both the second quarter and first six months of 2013 against the comparable periods of 2012.

Segment Performance (continued)

Global Energy

Fixed currency sales for our Global Energy segment increased 64% in the second quarter and 36% for the first six months of 2013, largely driven by the Champion acquisition. Acquisition adjusted fixed currency sales increased 14% in the second quarter and 11% for the first six months of 2013.

The increase in acquisition adjusted fixed currency sales reflected double-digit growth in our upstream business resulting from good market conditions, share gains and continued focus on high growth energy sources, including shale and oil sands accounts. Sales for our downstream business had good sales gains, resulting from share gains and increases in refining in North America.

When measured at public currency rates, second quarter 2013 Global Energy segment sales increased 62% compared to second quarter sales in 2012. For the first six months of 2013, Global Energy segment sales increased 35% against the comparable period of 2012.

Other

Fixed currency sales for our Other segment decreased 5% in both the second quarter and the first six months of 2013. When adjusting for the Vehicle Care divestiture, acquisition adjusted fixed currency sales increased 5% in both the second quarter and the first six months of 2013.

Fixed currency sales results for our Other operating units were as follows:

- Global Pest Elimination Sales increased 5% in both the second quarter and first six months of 2013. Gains in the food & beverage, healthcare and foodservice segments led the growth. Market penetration coupled with new services and technologies benefited results. All regions showed sales increases, led by Latin America and Asia Pacific, along with good gains in North America.
- Equipment Care Sales increased 7% in the second quarter and 6% in the first six months of 2013. Service and installed parts sales increased, benefiting from new accounts and improved productivity. Direct parts sales showed good gains against results from the prior year.

When measured at public currency rates Other segment sales decreased 5% in both the second quarter and first six months of 2013 against the comparable periods of 2012.

Segment Performance (continued)Operating Income by Reportable Segment

Fixed currency operating income for the second quarter and first six months of 2013 and 2012 for each of our reportable segments were as follows:

(millions)	June 30		Second Quarter Ended		June 30		%
	2013	2012	% Change	2013	2012	% Change	
Global Industrial	\$ 157.3	\$ 134.1	17%	\$ 274.4	\$ 232.2	18%	
Global Institutional	193.6	180.6	7	338.9	313.5	8	
Global Energy	131.1	79.1	66	209.9	161.2	30	
Other	26.2	27.4	(4)	46.8	47.3	(1)	
Corporate	(152.6)	(95.2)		(253.5)	(262.5)		
Subtotal at fixed currency rates	355.6	326.0	9	616.5	491.7	25	
Effect of foreign currency translation	(3.3)	0.5		(2.5)	0.6		
Consolidated	\$ 352.3	\$ 326.5	8%	\$ 614.0	\$ 492.3	25%	

Global Industrial

Fixed currency operating income for our Global Industrial segment increased 17% and 18% for the second quarter and first six months of 2013, respectively. Acquisition adjusted fixed currency operating income increased 16% in the second quarter and 18% for the first six months of 2013.

The increase in fixed currency operating income was driven by sales volume increases, pricing gains, cost savings actions and synergies, which more than offset investments in the business.

When measured at public currency rates, second quarter 2013 Global Industrial segment operating income increased 16% compared to second quarter operating income in 2012. For the first six months of 2013, Global Industrial segment operating income increased 18% against the comparable period of 2012.

Global Institutional

Fixed currency operating income for our Global Institutional segment increased 7% and 8% for the second quarter and first six months of 2013, respectively. The impact of acquisitions on fixed currency operating income growth was not significant.

The increase in fixed currency operating income was driven by pricing gains, sales volume increases and cost saving actions, which more than offset increased investments in the business and other cost increases.

When measured at public currency rates, second quarter 2013 Global Institutional segment operating income increased 6% compared to second quarter operating income in 2012. For the first six months of 2013, Global Institutional segment operating income increased 8% against the comparable period of 2012.

Segment Performance (continued)

Global Energy

Fixed currency operating income for our Global Energy segment increased 66% and 30% for the second quarter and first six months of 2013, respectively, with the largest impact from the Champion acquisition. Acquisition adjusted fixed currency operating income increased 28% in the second quarter and 14% for the first six months of 2013.

The increase in acquisition adjusted fixed currency operating income was a result of sales volume increases, pricing gains and synergies, which more than offset investments in the business.

When measured at public currency rates, second quarter 2013 Global Energy segment operating income increased 65% compared to second quarter operating income in 2012. For the first six months of 2013, Global Energy segment operating income increased 30% against the comparable period of 2012.

Other

Fixed currency operating income for our Other segment decreased 4% and 1% for the second quarter and first six months of 2013, respectively. When adjusting for the Vehicle Care divestiture, acquisition adjusted fixed currency operating income increased 12% in the second quarter and 14% for the first six months of 2013.

The increase in acquisition adjusted fixed currency operating income was driven by sales volume growth and pricing gains, partially offset by cost increases.

When measured at public currency rates, second quarter 2013 Other segment operating income decreased 5% compared to second quarter operating income in 2012. For the first six months of 2013, Other segment operating income decreased 1% against the comparable period of 2012.

Corporate

Consistent with our internal management reporting, the Corporate segment includes amortization specifically from the Nalco merger and Champion acquisition intangible assets and certain integration costs. The Corporate segment also includes special (gains) and charges reported on the Consolidated Statement of Income. Items included within special (gains) and charges are shown in the table on page 47.

Financial Position and Liquidity

Financial Position

Total assets were \$19.7 billion as of June 30, 2013, compared to total assets of \$17.6 billion at December 31, 2012. The increase is driven primarily by the Champion acquisition, which added \$3.0 billion to total assets, primarily driven by \$2.0 billion of goodwill and intangibles. The decrease in cash from December 31, 2012 to June 30, 2013 was largely due to the Champion acquisition. Foreign currency exchange rates negatively impacted the value of our international assets.

Financial Position and Liquidity (continued)

Total liabilities were \$12.9 billion and \$11.4 billion as of June 30, 2013 and December 31, 2012, respectively. Total debt was \$7.5 billion as of June 30, 2013 and \$6.5 billion as of December 31, 2012, reflecting the additional debt required to close the Champion acquisition. The ratio of total debt to capitalization (total equity plus total debt) increased to 53% at June 30, 2013 compared to 52% at December 31, 2012. We are in compliance with our debt covenants and believe we have sufficient borrowing capacity to meet our foreseeable operating needs.

Cash Flows

Cash provided by operating activities totaled \$393 million for the first six months of 2013 compared to \$211 million for the first six months of 2012. Year-over-year comparability was favorably impacted by increased income and lower pension and postretirement plan contributions, which was partially offset by payments for certain liabilities assumed with the Champion acquisition, higher comparable cash payments for income taxes and increased cash payments made in 2013 as part of our ongoing restructuring plans.

We continue to generate strong cash flow from operations which has allowed us to fund our ongoing operations and investments in the business, to fund acquisitions, to return cash to shareholders through share repurchases and dividend payments and to repay debt.

Cash used for investing activities was \$1.7 billion for the first six months of 2013 compared to \$280 million for the first six months of 2012. The fluctuation across the periods is driven primarily by the timing of business acquisitions. Total cash paid for acquisitions, net of cash acquired, during the first six months of 2013 was \$1.5 billion with the Champion transaction accounting for \$1.3 billion of this total. Other acquisitions during the first six months of 2013 included Quimiproducos S.A. de C.V. and OOO Master Chemicals. Acquisitions during the first six months of 2012 included Esoform, InsetCenter and Econ Indústria e Comércio de Produtos de Higiene e Limpeza. See Note 3 for further information on our business acquisition activity.

Cash provided by financing activities was \$558 million for the first six months of 2013 compared to cash used for financing activities of \$1.5 billion for the first six months of 2012.

Our 2013 financing activities included \$900 million of term loan borrowings initiated in connection with the Champion transaction, as well as \$236 of long-term debt repayments, primarily related to the redemption of debt acquired through the Champion transaction. During the first six months of 2013, net issuances of commercial paper and notes payable led to an increase of \$68 million, and we had total share repurchases of \$176 million. Cash payments for dividends are comparably lower for 2013 as the dividends declared in December 2012 were paid in December 2012, whereas the dividends declared in December 2011 were paid in January 2012.

Cash used for financing activities during the first six months of 2012 included \$1.7 billion of long-term debt repayments, primarily related to the redemption of Nalco's senior notes in January 2012. During the first six months of 2012, net issuances of commercial paper and notes payable led to an increase of \$426 million, and we had total share repurchases of \$191 million. In connection with the finalization of the accelerated share repurchase agreement initially entered into in December 2011, we received an additional 122,314 shares of common stock, with no additional cash impact in 2012.

Financial Position and Liquidity (continued)

Liquidity and Capital Resources

We currently expect to fund all of the cash requirements which are reasonably foreseeable for the next twelve months, including scheduled debt repayments, new investments in the business, share repurchases, dividend payments, possible business acquisitions and pension and postretirement contributions with cash from operating activities, cash reserves and additional short-term and/or long-term borrowings.

As of June 30, 2013, we had \$375 million of cash and cash equivalents on hand, of which \$345 million was held outside of the U.S. We continue to expect our operating cash flow to remain strong.

As of June 30, 2013 we had a \$1.5 billion multi-year credit facility, which expires in September 2016. Additionally, we had a \$500 million 364 day credit facility, which expires in August 2013. Both the \$1.5 billion and \$500 million credit facilities have been established with a diverse portfolio of banks. There were no borrowings under the credit facilities as of June 30, 2013 or December 31, 2012.

The credit facilities support our \$2.0 billion U.S. commercial paper program, and our \$200 million European commercial paper program. Combined borrowing under these two commercial paper programs may not exceed \$2.0 billion. As of June 30, 2013, we had \$643 million in outstanding U.S. commercial paper, with an average annual interest rate of 0.3%, and no amounts outstanding under our European commercial paper program. As of June 30, 2013, both programs were rated A-2 by Standard & Poor's and P-2 by Moody's.

The schedule of contractual obligations included in the Financial Position and Liquidity section of our Form 10-K for the year ended December 31, 2012 disclosed total notes payable and long-term debt due within one year of \$806 million. As of June 30, 2013, the total notes payable and long-term debt due within one year increased to \$873 million.

In April 2013, in connection with the close of the Champion acquisition, we initiated term loan borrowings of \$900 million and increased our commercial paper borrowings. The term loan can be repaid in part or in full at any time without penalty, but in any event must be repaid in full by April 2016.

Our gross liability for uncertain tax positions was \$107 million as of June 30, 2013 and \$93 million as of December 31, 2012. The increase is due primarily to additions as part of the Champion acquisition. We are not able to reasonably estimate the amount by which the liability will increase or decrease over time; however, at this time, we do not expect significant payments related to these obligations within the next year.

Global Environment

Approximately half of our sales are outside of the United States. Our international operations subject us to changes in economic conditions and foreign currency exchange rates as well as political uncertainty in some countries which could impact future operating results. During 2012 and 2013, economic conditions in Europe have remained challenging. Certain countries continued to experience instability in credit markets, including diminished liquidity and credit availability as well as currency fluctuations which could negatively impact our customers located in these and other geographic areas. We currently do not foresee any specific risks that would have a significant impact to our results of operations. However, we continue to monitor economic and political trends within the global environment. The operating environment in Venezuela is discussed further below.

Venezuela Foreign Currency Translation

Venezuela is a country with a highly inflationary economy under U.S. GAAP. As a result, the U.S. dollar is the functional currency for our subsidiaries in Venezuela. Any currency remeasurement adjustments for non-dollar denominated monetary assets and liabilities held by these subsidiaries and other transactional foreign exchange gains and losses are reflected in earnings. On February 8, 2013, the Venezuelan government devalued its currency, the Bolivar Fuerte, resulting in a \$15 million charge, net of tax, recorded within special (gains) and charges.

Our ability to effectively manage sales and profit levels in Venezuela will be impacted by several factors, including our ability to mitigate the effect of any additional future devaluation, further actions of the Venezuelan government, economic conditions in Venezuela, the availability of raw materials, utilities and energy and the future state of exchange controls in Venezuela including the availability of U.S. dollars at the official foreign exchange rate. Sales and profit levels in Venezuela could also be impacted by any actions taken by the government aimed at controlling market prices. We expect that the ongoing impact related to measuring our Venezuelan statement of income at the exchange rate subsequent to the devaluation in February 2013, or future exchange rates, will not have a significant impact to our results of operations. Through the first six months of 2013, sales in Venezuela represented approximately 1% of our consolidated sales.

New Accounting Pronouncements

For information on new accounting pronouncements, see Note 15 to the Consolidated Financial Statements.

Subsequent Events

None

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 2, contains financial measures that have not been calculated in accordance with accounting principles generally accepted in the U.S. (GAAP). These Non-GAAP measures include:

- Fixed currency sales
- Acquisition adjusted fixed currency sales
- Adjusted gross margin
- Fixed currency operating income
- Adjusted operating income
- Adjusted fixed currency operating income
- Acquisition adjusted fixed currency operating income
- Adjusted net interest expense
- Adjusted effective income tax rate
- Adjusted net income attributable to Ecolab
- Adjusted diluted earnings per share attributable to Ecolab

We provide these measures as additional information regarding our operating results. We use these Non-GAAP measures internally to evaluate our performance and in making financial and operational decisions, including with respect to incentive compensation. We believe that our presentation of these measures provides investors with greater transparency with respect to our results of operations and that these measures are useful for period-to-period comparison of results.

We include in special (gains) and charges items that are unusual in nature and significant in amount. In order to better allow investors to compare underlying business performance period-to-period, we provide adjusted gross margin, adjusted operating income, adjusted fixed currency operating income, acquisition adjusted fixed currency operating income, adjusted net interest expense, adjusted net income attributable to Ecolab and adjusted diluted earnings per share attributable to Ecolab, which exclude special (gains) and charges and discrete tax items. The exclusion of special (gains) and charges and discrete tax items in such adjusted amounts help provide a better understanding of underlying business performance.

The adjusted effective tax rate measure promotes period-to-period comparability of the underlying effective tax rate because it excludes the tax rate impact of special (gains) and charges and discrete tax items which do not necessarily reflect costs associated with historical trends or

expected future results.

We evaluate the performance of our international operations based on fixed currency rates of foreign exchange. Fixed currency sales, acquisition adjusted fixed currency sales, fixed currency operating income, adjusted fixed currency operating income and acquisition adjusted fixed currency operating income measures eliminate the impact of exchange rate fluctuations on our international sales, acquisition adjusted sales, operating income, adjusted operating income and acquisition adjusted operating income, respectively, and promote a better understanding of our underlying sales and operating income trends. Fixed currency amounts are based on translation into U.S. dollars at fixed foreign currency exchange rates established by management at the beginning of 2013.

Non-GAAP Financial Measures (continued)

Acquisition adjusted growth rates exclude the results of acquired businesses, with the exception of Champion, from the first twelve months post acquisition and exclude the results of divested businesses from the previous twelve months prior to divestiture. Specific to the Champion transaction, due to the rapid pace at which the business is being fully integrated within our Global Energy segment, including all customer selling activity, discrete financial data specific to the legacy Champion business is not necessarily available post acquisition. As such, to allow for the most meaningful period-over-period comparison, specific to the Champion transaction, Champion's results for the comparable period of the prior year have been included for purposes of providing acquisition adjusted growth rates.

These measures are not in accordance with, or an alternative to, GAAP and may be different from Non-GAAP measures used by other companies. Investors should not rely on any single financial measure when evaluating our business. We recommend that investors view these measures in conjunction with the GAAP measures included in this Financial Discussion and have provided reconciliations of reported GAAP amounts to the Non-GAAP amounts on pages 45-53.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning the timing, scope, costs, cash expenditures, timing of cash payments, benefits and headcount impact of our restructuring initiatives; synergies; utilization of recorded restructuring liabilities; purchase price allocations; additional Champion purchase price payment; pending acquisitions; payment of contingent consideration; contributions to pension and post-retirement health care benefit plans; tax deductibility of goodwill; amortization expense; share repurchases; the impact of new accounting pronouncements; the impact of potential lawsuits or claims; gross liability for unrecognized tax benefits or uncertain tax positions and payments related thereto; timing of hedged transactions; borrowing capacity; potential additional devaluation of Venezuelan currency; risk in certain European countries; future cash flow; cash requirements and sources of funding; and nonperformance of financial counterparties.

Without limiting the foregoing, words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "we believe," "estimate," "project" (including the negative or variations thereof) or similar terminology, generally identify forward-looking statements. Forward-looking statements may also represent challenging goals for us. These statements, which represent the company's expectations or beliefs concerning various future events, are based on current expectations that involve a number of risks and uncertainties that could cause actual results to differ materially from those of such forward-looking statements. In particular, the ultimate results of any restructuring and business improvement actions, including cost synergies, depend on a number of factors, including the development of final plans, the impact of local regulatory requirements regarding employee terminations, the time necessary to develop and implement the restructuring and other business improvement initiatives and the level of success achieved through such actions in improving competitiveness, efficiency and effectiveness. 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 statement are set forth under Part II, Item 1A of this Form 10-Q. Except as required under applicable law, we undertake no duty to update our Forward-Looking Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We primarily use foreign currency forward contracts, foreign currency debt and interest rate swaps to manage risks generally associated with interest rate and foreign exchange rate volatility and net investments in our foreign operations. We do not hold derivative financial instruments of a speculative nature. For a more detailed discussion of derivative instruments, refer to Note 8, entitled Derivatives and Hedging Transactions , of the consolidated financial statements located under Part I, Item 1 of this quarterly report on Form 10-Q, beginning on page 26.

Item 4. Controls and Procedures

As of June 30, 2013, we carried out an evaluation, under the supervision and with the participation of our management, including the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chairman of the Board and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective.

During the period April 1 through June 30, 2013, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Note 14, entitled "Commitments and Contingencies" located under Part I, Item 1 of this Form 10-Q beginning on page 35, is incorporated herein by reference.

Item 1A. Risk Factors

In our report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on February 26, 2013, we identify under Item 1A important factors which could affect our financial performance and could cause our actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this Form 10-Q. See the section entitled Forward-Looking Statements located on page 63 of this Form 10-Q. We may also refer to such disclosure to identify factors that may cause results to differ from those expressed in other forward-looking statements made in oral presentations, including telephone conferences and/or webcasts open to the public.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased(1)	(b) Average price paid per share(2)	(c) Number of shares purchased as part of publicly announced plans or programs(3)	(d) Maximum number of shares that may yet be purchased under the plans or programs(3)
April 1-30, 2013	404	\$ 81.4684	0	15,810,096
May 1-31, 2013	1,310,032	\$ 84.6284	1,305,415	14,504,681
June 1-30, 2013	506,823	\$ 84.0136	506,700	13,997,981
Total	1,817,259	\$ 84.4562	1,812,115	13,997,981

(1) Includes 5,144 shares reacquired from employees and/or directors as swaps for the cost of stock options, or shares surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.

(2) The average price paid per share includes brokerage commissions associated with publicly announced plan purchases plus the value of such other reacquired shares.

(3) As announced on May 5, 2011, our Board of Directors authorized the repurchase of up to 15,000,000 shares of Common Stock, including shares to be repurchased under Rule 10b5-1. As announced on August 23, 2011, the Finance Committee, via delegation by our Board of Directors, authorized the repurchase of up to an additional 10,000,000 shares contingent upon completion of the merger with Nalco. On September 6, 2011, the Company announced a \$1 billion share repurchase program under the existing Board authorizations of which approximately \$126 million of shares remained as of June 30, 2013 to be purchased. We expect to complete the remaining portion of the announced \$1 billion share repurchase program in 2013. We intend to repurchase all shares under these authorizations, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

(a) The following documents are filed as exhibits to this report:

- (2.1) Fourth Amendment dated as of April 10, 2013 to Agreement and Plan of Merger, dated as of October 11, 2012, among Ecolab Inc., OFC Technologies Corp. and Permian Mud Service, Inc. Incorporated by reference to Exhibit (2.5) of the Company's Form 8-K dated April 10, 2013.
- (4.1) Registration Rights Agreement, dated as of April 10, 2013 by and among Ecolab Inc., the Holders identified on Schedule A thereto and John W. Johnson and Steven J. Lindley, in their capacity as Holders' Representatives Incorporated by reference to Exhibit (4.1) of the Company's Form 8-K dated April 10, 2013.
- (10.1) Ecolab Inc. 2010 Stock Incentive Plan, as amended and restated effective May 2, 2013 Incorporated by reference to Exhibit (10.1) of the Company's Form 8-K dated May 2, 2013.
- (15.1) Letter regarding unaudited interim financial information.
- (31.1) Rule 13a - 14(a) Certifications.
- (32.1) Section 1350 Certifications.
- (101.1) Interactive Data File.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ECOLAB INC.

Date: August 1, 2013

By:

/s/John J. Corkrean
John J. Corkrean
Senior Vice President & Corporate Controller
(duly authorized Officer and Chief Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Document	Method of Filing
(2.1)	Fourth Amendment dated as of April 10, 2013 to Agreement and Plan of Merger, dated as of October 11, 2012, among Ecolab Inc., OFC Technologies Corp. and Permian Mud Service, Inc.	Incorporated by reference to Exhibit (2.5) of the Company's Form 8-K dated April 10, 2013.
(4.1)	Registration Rights Agreement, dated as of April 10, 2013 by and among Ecolab Inc., the Holders identified on Schedule A thereto and John W. Johnson and Steven J. Lindley, in their capacity as Holders Representatives.	Incorporated by reference to Exhibit (4.1) of the Company's Form 8-K dated April 10, 2013
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(15.1)	Letter regarding unaudited interim financial information.	Filed herewith electronically
(31.1)	Rule 13a - 14(a) Certifications.	Filed herewith electronically
(32.1)	Section 1350 Certifications.	Filed herewith electronically
(101.1)	Interactive Data File.	Filed herewith electronically