ECOLAB INC
Form 10-Q
October 31, 2013

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2013**

**OR**

**o 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)

| **Delaware** | | **41-0231510** |
|---|---|---|
| (State or other jurisdiction of | | (I.R.S. Employer |
| incorporation or organization) | | 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 x No o

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 x No o

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 x | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

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

301,299,251 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) | Third Quarter Ended September 30 2013 (unaudited) | 2012 |
|---|---|---|
| Net sales | $ 3,484.0 | $ 3,023.3 |
| Cost of sales (including special charges of $6.3 in 2013 and $3.2 in 2012) | 1,882.8 | 1,616.4 |
| Selling, general and administrative expenses | 1,097.4 | 977.7 |
| Special (gains) and charges | 27.8 | 28.0 |
| Operating income | 476.0 | 401.2 |
| Interest expense, net | 67.0 | 64.2 |
| Income before income taxes | 409.0 | 337.0 |
| Provision for income taxes | 101.8 | 97.7 |
| Net income including noncontrolling interest | 307.2 | 239.3 |
| Less: Net income (loss) attributable to noncontrolling interest | (0.8) | 1.3 |
| Net income attributable to Ecolab | $ 308.0 | $ 238.0 |
| Earnings attributable to Ecolab per common share | | |
| Basic | $ 1.02 | $ 0.81 |
| Diluted | $ 1.00 | $ 0.80 |
| Dividends declared per common share | $ 0.2300 | $ 0.2000 |
| Weighted-average common shares outstanding | | |
| Basic | 301.2 | 292.7 |
| Diluted | 307.2 | 298.6 |

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF INCOME

| (millions, except per share amounts) | Nine Months Ended September 30 2013 | | (unaudited) 2012 | |
|---|---|---|---|---|
| Net sales | $ | 9,693.9 | $ | 8,792.9 |
| Cost of sales (including special charges of $23.5 in 2013 and $82.3 in 2012) | | 5,276.3 | | 4,839.3 |
| Selling, general and administrative expenses | | 3,176.5 | | 2,949.1 |
| Special (gains) and charges | | 151.1 | | 111.0 |
| Operating income | | 1,090.0 | | 893.5 |
| Interest expense, net (including special charges of $2.5 in 2013 and $18.2 in 2012) | | 194.7 | | 214.2 |
| Income before income taxes | | 895.3 | | 679.3 |
| Provision for income taxes | | 211.3 | | 212.5 |
| Net income including noncontrolling interest | | 684.0 | | 466.8 |
| Less: Net income (loss) attributable to noncontrolling interest (including special charges of $0.5 in 2013 and $4.5 in 2012) | | 3.3 | | (5.4) |
| Net income attributable to Ecolab | $ | 680.7 | $ | 472.2 |
| Earnings attributable to Ecolab per common share | | | | |
| Basic | $ | 2.27 | $ | 1.62 |
| Diluted | $ | 2.23 | $ | 1.58 |
| Dividends declared per common share | $ | 0.6900 | $ | 0.6000 |
| Weighted-average common shares outstanding | | | | |
| Basic | | 299.4 | | 292.0 |
| Diluted | | 305.3 | | 298.3 |

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

| | Third Quarter Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| **(millions)** | **2013** | **2012** | **2013** | **2012** |
| | **(unaudited)** | | **(unaudited)** | |
| Net income including noncontrolling interest | $ 307.2 | $ 239.3 | $ 684.0 | $ 466.8 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustments | | | | |
| Foreign currency translation | (126.2) | 121.5 | (276.9) | (47.4) |
| Gain (loss) on net investment hedge | (4.2) | (5.9) | (4.2) | 19.8 |
| | (130.4) | 115.6 | (281.1) | (27.6) |
| Derivatives and hedging instruments | 1.6 | (2.5) | 9.1 | (1.1) |
| Pension and postretirement benefits | | | | |
| Pension and postretirement benefit adjustment | | | | (1.6) |
| Amortization of net actuarial loss and prior service cost included in net periodic pension and postretirement costs | 10.4 | 7.0 | 31.3 | 21.6 |
| | 10.4 | 7.0 | 31.3 | 20.0 |
| Subtotal | (118.4) | 120.1 | (240.7) | (8.7) |
| Total comprehensive income, including noncontrolling interest | 188.8 | 359.4 | 443.3 | 458.1 |
| Less: Comprehensive income (loss) attributable to noncontrolling interest | | 1.6 | (11.0) | (6.3) |
| Comprehensive income attributable to Ecolab | $ 188.8 | $ 357.8 | $ 454.3 | $ 464.4 |

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

ECOLAB INC.

CONSOLIDATED BALANCE SHEET

| (millions) | September 30 2013 (unaudited) | December 31 2012 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 394.4 | $ 1,157.8 |
| Accounts receivable, net | 2,488.9 | 2,225.1 |
| Inventories | 1,378.1 | 1,088.1 |
| Deferred income taxes | 196.6 | 205.2 |
| Other current assets | 338.0 | 215.8 |
| Total current assets | 4,796.0 | 4,892.0 |
| Property, plant and equipment, net | 2,786.1 | 2,409.1 |
| Goodwill | 6,812.8 | 5,920.5 |
| Other intangible assets, net | 4,851.1 | 4,044.1 |
| Other assets | 367.6 | 306.6 |
| Total assets | $ 19,613.6 | $ 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) | September 30 2013 (unaudited) | December 31 2012 |
|---|---|---|
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Short-term debt | $ 713.2 | $ 805.8 |
| Accounts payable | 926.6 | 879.7 |
| Compensation and benefits | 506.3 | 518.8 |
| Income taxes | 68.6 | 77.4 |
| Other current liabilities | 985.9 | 771.0 |
| Total current liabilities | 3,200.6 | 3,052.7 |
| Long-term debt | 6,537.3 | 5,736.1 |
| Postretirement health care and pension benefits | 1,242.4 | 1,220.5 |
| Other liabilities | 1,787.4 | 1,402.9 |
| Total liabilities | 12,767.7 | 11,412.2 |
| Equity (a) | | |
| Common stock | 344.6 | 342.1 |
| Additional paid-in capital | 4,647.2 | 4,249.1 |
| Retained earnings | 4,494.7 | 4,020.6 |
| Accumulated other comprehensive loss | (700.4) | (459.7) |
| Treasury stock | (2,009.7) | (2,075.1) |
| Total Ecolab shareholders equity | 6,776.4 | 6,077.0 |
| Noncontrolling interest | 69.5 | 83.1 |
| Total equity | 6,845.9 | 6,160.1 |
| Total liabilities and equity | $ 19,613.6 | $ 17,572.3 |

(a) Common stock, 800 million shares authorized, $1.00 par value per share, 301.3 million shares outstanding at September 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) | Nine Months Ended September 30 2013 | (unaudited) 2012 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income including noncontrolling interest | $ 684.0 | $ 466.8 |
| Adjustments to reconcile net income including noncontrolling interest to cash provided by operating activities: | | |
| Depreciation | 381.3 | 348.5 |
| Amortization | 220.5 | 185.1 |
| Deferred income taxes | (102.7) | 14.6 |
| Share-based compensation expense | 53.6 | 50.7 |
| Excess tax benefits from share-based payment arrangements | (26.2) | (28.1) |
| Pension and postretirement plan contributions | (62.0) | (232.0) |
| Pension and postretirement plan expense | 106.9 | 82.2 |
| Restructuring, net of cash paid | (20.5) | 33.4 |
| Venezuela currency devaluation | 23.3 | |
| Other, net | 12.9 | (3.2) |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable | (70.3) | (174.7) |
| Inventories | (92.3) | (27.4) |
| Other assets | (109.5) | (48.6) |
| Accounts payable | (40.7) | 46.7 |
| Other liabilities | (29.1) | 6.8 |
| Cash provided by operating activities | $ 929.2 | $ 720.8 |

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

(Continued)

ECOLAB INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

| (millions) | Nine Months Ended September 30 2013 | 2012 |
|---|---|---|
| | (unaudited) | |
| INVESTING ACTIVITIES | | |
| Capital expenditures | $ (423.4) | $ (394.0) |
| Capitalized software expenditures | (25.7) | (17.6) |
| Property and other assets sold | 9.6 | 9.9 |
| Businesses acquired and investments in affiliates, net of cash acquired | (1,442.3) | (43.0) |
| Divestiture of business | (7.9) | 13.8 |
| Deposit into indemnification escrow | (10.6) | (1.3) |
| Release from indemnification escrow | 13.0 | 17.3 |
| Cash used for investing activities | (1,887.3) | (414.9) |
| FINANCING ACTIVITIES | | |
| Net issuances (repayments) of commercial paper and notes payable | (90.6) | (389.6) |
| Long-term debt borrowings | 900.1 | 501.6 |
| Long-term debt repayments | (337.8) | (1,692.9) |
| Reacquired shares | (228.5) | (193.1) |
| Dividends paid | (143.6) | (180.5) |
| Exercise of employee stock options | 77.7 | 113.7 |
| Excess tax benefits from share-based payment arrangements | 26.2 | 28.1 |
| Acquisition related contingent consideration | (9.8) | |
| Other, net | 0.6 | (3.1) |
| Cash provided by (used) for financing activities | 194.3 | (1,815.8) |
| Effect of exchange rate changes on cash | 0.4 | (9.7) |
| Decrease in cash and cash equivalents | (763.4) | (1,519.6) |
| Cash and cash equivalents, beginning of period | 1,157.8 | 1,843.6 |
| Cash and cash equivalents, end of period | $ 394.4 | $ 324.0 |

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 third quarter and nine months ended September 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 third quarter and nine months ended September 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 October 31, 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) | Third Quarter Ended September 30 2013 | Third Quarter Ended September 30 2012 | Nine Months Ended September 30 2013 | Nine Months Ended September 30 2012 |
|---|---|---|---|---|
| Cost of sales | | | | |
| Restructuring charges | $ 1.9 | $ 1.7 | $ 5.5 | $ 9.6 |
| Recognition of Champion inventory fair value step-up | 4.4 | | 18.0 | |
| Recognition of Nalco inventory fair value step-up | | 1.5 | | 72.7 |
| Subtotal | 6.3 | 3.2 | 23.5 | 82.3 |
| | | | | |
| Special (gains) and charges | | | | |
| Restructuring charges | 11.9 | 20.8 | 75.4 | 73.2 |
| Champion acquisition and integration costs | 10.7 | 3.8 | 42.5 | 3.8 |
| Nalco merger and integration costs | 5.3 | 16.4 | 13.5 | 47.0 |
| Venezuela currency devaluation | (0.1) | | 23.3 | |
| Gain on sale of business | | (13.0) | | (13.0) |
| Litigation related charges and other | | | (3.6) | |
| Subtotal | 27.8 | 28.0 | 151.1 | 111.0 |
| | | | | |
| Operating income subtotal | 34.1 | 31.2 | 174.6 | 193.3 |
| | | | | |
| Interest expense, net | | | | |
| Acquisition debt costs | | | 2.5 | |
| Debt extinguishment costs | | | | 18.2 |
| Subtotal | | | 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 | $ 34.1 | $ 31.2 | $ 176.6 | $ 207.0 |

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 net costs for restructuring activities associated with plans to enhance its efficiency and effectiveness and sharpen its competitiveness. These restructuring plans include net costs associated with significant actions involving employee-related severance charges, contract termination costs and asset write-downs and disposals. 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 and disposals include leasehold improvement write-downs, other asset write-downs associated with combining operations and disposal of assets.

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 global 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 $30 million ($20 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 write-downs and 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 $8.4 million ($6.7 million after tax) and $20.6 million ($14.3 million after tax), during the third quarter and nine months ended September 30, 2013, respectively.

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

| (millions) | Energy Restructuring Plan<br>Employee Termination Costs | Asset Disposals | Other | Total |
|---|---|---|---|---|
| 2013 Activity: | | | | |
| Recorded expense and accrual | $ 19.4 | $ 0.8 | $ 0.4 | $ 20.6 |
| Cash payments | (12.9) | | (0.4) | (13.3) |
| Non-cash charges | | (0.8) | | (0.8) |
| Effect of foreign currency translation | (0.1) | | | (0.1) |
| Restructuring liability, September 30, 2013 | $ 6.4 | $ | $ | $ 6.4 |

Cash payments under the Energy Restructuring Plan during 2013 were $13.3 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 determined 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 mostly completed by the end of 2013, with carryover of some projects and expenditures into 2014. The Combined Plan continues 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. After combining the plans, and through the completion of the Combined Plan, the company expects to incur total pretax restructuring charges of approximately $100 million ($70 million after tax), of which approximately $70 million ($50 million after tax) will be incurred in 2013.

The company anticipates that approximately $80 million of the total Combined Plan pre-tax charges will represent net cash expenditures. The remaining pre-tax charges represent estimated asset write-downs and 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 $5.3 million ($2.1 million after tax) and $60.5 million ($42.5 million after tax), during the third quarter and nine months ended September 30, 2013, respectively.

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ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Special (Gains) and Charges (continued)

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

| | Combined Plan | | | |
|---|---|---|---|---|
| **(millions)** | **Employee Termination Costs** | **Asset Disposals** | **Other** | **Total** |
| 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 net expense and accrual | 52.0 | (2.9) | 11.4 | 60.5 |
| Net cash payments | (76.7) | 5.9 | (10.0) | (80.8) |
| Non-cash net charges | | (3.0) | (0.4) | (3.4) |
| Effect of foreign currency translation | 1.0 | | | 1.0 |
| Restructuring liability, September 30, 2013 | $ 82.1 | $ | $ 8.4 | $ 90.5 |

Asset disposals include a gain of $5.1 million from the sale of a plant in California during the third quarter of 2013.

Net cash payments under the Combined Plan were $80.8 million, $65.3 million and $25.1 million for the first nine 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 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 September 30, 2013 and December 31, 2012, the remaining liability balance related to the Nalco Restructuring Plan was $2.1 million and $3.4 million, respectively. Cash payments during the nine months of 2013 related to this Plan were $1.1 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 and integration costs*

As a result of the company s efforts to acquire Champion and post acquisition integration costs, the company incurred charges of $15.1 million ($10.3 million after tax) and $63.0 million ($44.9 million) during the third quarter and nine months ended September 30, 2013, respectively. During both the third quarter and nine months ended September 30, 2012, the company incurred charges of $3.8 million ($3.3 million after tax) related to advisory and legal fees.

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 and legal 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 and integration costs*

As a result of the Nalco merger completed in 2011, the company incurred charges of $5.3 million ($3.5 million after tax) and $17.9 million ($11.8 million after tax) during the third quarter of 2013 and 2012, respectively. During the nine months ended September 30, 2013 and 2012, the company incurred charges of $13.5 million ($9.2 million after tax) and $133.4 million ($98.3 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.

*Other special (gains) and charges*

During the third quarter of 2012, the company received additional payments related to the sale of an investment in a U.S. business, originally sold prior to 2012. The corresponding gain recognized during the third quarter of 2012 was recorded in special (gains) and charges.

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 was 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 third 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. A total of $63.0 million and $3.8 million was incurred during the first nine months of 2013 and 2012, respectively. Amounts included in cost of sales are related to recognition of fair value step-up in Champion international inventory, which is maintained on a FIFO basis. Amounts included in special (gains) and charges are related to acquisition costs, advisory and legal fees and integration costs. Amounts included in net interest expense are related to 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.

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 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 value of Champion assets acquired and liabilities assumed as of the acquisition date. Also summarized in the table, subsequent to the acquisition, net adjustments of $20.2 million have been made to the preliminary purchase price allocation of the assets acquired and liabilities assumed, with a corresponding adjustment to goodwill.

| **(millions)** | **Preliminary Allocation at Acquisition Date** | **Adjustments to Fair Value** | **Updated Allocation at September 30, 2013** |
|---|---|---|---|
| Current assets | $ 593.9 | $ 4.2 | $ 598.1 |
| Property, plant and equipment | 369.3 | (7.9) | 361.4 |
| Other assets | 43.4 | (14.3) | 29.1 |
| Identifiable intangible assets | | | |
| Customer relationships | 840.0 | | 840.0 |
| Trademarks | 120.0 | | 120.0 |
| Other technology | 36.5 | | 36.5 |
| Total assets acquired | 2,003.1 | (18.0) | 1,985.1 |
| | | | |
| Current liabilities | 418.2 | (19.4) | 398.8 |
| Long-term debt | 70.8 | | 70.8 |
| Net deferred tax liability | 433.2 | 22.4 | 455.6 |
| Noncontrolling interest and other liabilities | 17.1 | (0.8) | 16.3 |
| Total liabilities and noncontrolling interests assumed | 939.3 | 2.2 | 941.5 |
| | | | |
| Goodwill | 993.0 | 20.2 | 1,013.2 |
| Total aggregate purchase price | 2,056.8 | | 2,056.8 |
| Estimated future consideration payable to sellers | (83.9) | | (83.9) |
| Total consideration transferred | $ 1,972.9 | $ | $ 1,972.9 |

The adjustments to the purchase price allocation during 2013 primarily relate to an estimated indemnification receivable, income tax liabilities, updated property, plant and equipment values and deferred taxes.

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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

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. 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.

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 Quimiproductos S.A. de C.V. ( Quimiproductos ), a wholly-owned subsidiary of Fomento Economico Mexicano, S.A.B. de C.V. Quimiproductos 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 third 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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

*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.

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 nine 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 third quarter and first nine months of 2013 and 2012 are shown in the following table.

| (millions) | Third Quarter Ended September 30 2013 | Third Quarter Ended September 30 2012 | Nine Months Ended September 30 2013 | Nine Months Ended September 30 2012 |
|---|---|---|---|---|
| Net tangible assets acquired | $ | $ 0.3 | $ (2.3) | $ (1.0) |

| | | | | |
|---|---|---|---|---|
| Identifiable intangible assets | | | | |
| Customer relationships | | | 58.8 | 8.4 |
| Trademarks | | | 1.4 | 0.5 |
| Patents | | | | 2.8 |
| Other technology | | | 1.0 | 0.3 |
| Total intangible assets | | | 61.2 | 12.0 |
| Goodwill | | 0.1 | 41.2 | 23.3 |
| Total aggregate purchase price | | 0.4 | 100.1 | 34.3 |
| Contingent consideration | | | 9.8 | (2.6) |
| Liability for indemnification, net | | 15.2 | 2.4 | 16.0 |
| Net cash paid for acquisitions | $ | $ 15.6 | $ 112.3 | $ 47.7 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Acquisitions and Dispositions (continued)

The weighted average useful lives of identifiable intangible assets acquired during the first nine months of 2013 and 2012, as shown in the previous table, were 12 and 13 years, respectively.

Dispositions

*2013 Activity*

In August 2013, the company sold substantially all the capital equipment design and build business of its Mobotec air emissions control business. The Mobotec equipment design and build business had 2012 sales of approximately $27 million, which were within the company s Global Industrial reportable segment. An insignificant loss related to the sale was recorded in special (gains) and charges during the third quarter of 2013. The company has retained Mobotec s chemical business.

There were no other business disposals during the first nine months of 2013.

*2012 Activity*

During the third quarter of 2012, the company received additional payments related to the sale of an investment in a U.S. business, originally sold prior to 2012. The corresponding gain recognized in the third quarter of 2012 was recorded in special (gains) and charges.

There were no significant business disposals during the first nine months of 2012.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Balance Sheet Information

| (millions) | | September 30 2013 | | December 31 2012 |
|---|---|---|---|---|
| | | (unaudited) | | |
| Accounts receivable, net | | | | |
| Accounts receivable | $ | 2,565.5 | $ | 2,298.3 |
| Allowance for doubtful accounts | | (76.6) | | (73.2) |
| Total | $ | 2,488.9 | $ | 2,225.1 |
| | | | | |
| Inventories | | | | |
| Finished goods | $ | 989.0 | $ | 774.3 |
| Raw materials and parts | | 403.7 | | 338.3 |
| Inventories at FIFO cost | | 1,392.7 | | 1,112.6 |
| Excess of FIFO cost over LIFO cost | | (14.6) | | (24.5) |
| Total | $ | 1,378.1 | $ | 1,088.1 |
| | | | | |
| Property, plant and equipment, net | | | | |
| Land | $ | 182.8 | $ | 158.9 |
| Buildings and improvements | | 630.6 | | 562.1 |
| Leasehold improvements | | 86.4 | | 80.5 |
| Machinery and equipment | | 1,612.7 | | 1,281.2 |
| Merchandising and customer equipment | | 1,781.9 | | 1,812.5 |
| Capitalized software | | 413.1 | | 385.7 |
| Construction in progress | | 289.7 | | 207.2 |
| | | 4,997.2 | | 4,488.1 |
| Accumulated depreciation | | (2,211.1) | | (2,079.0) |
| Total | $ | 2,786.1 | $ | 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 | $ | 3,440.0 | $ | 2,588.6 |
| Trademarks | | 307.2 | | 185.2 |
| Patents | | 422.5 | | 414.7 |
| Other technology | | 210.8 | | 174.8 |
| | $ | 4,380.5 | $ | 3,363.3 |
| | | | | |
| Accumulated amortization | | | | |
| Customer relationships | $ | (529.8) | $ | (373.1) |
| Trademarks | | (65.0) | | (51.2) |
| Patents | | (88.2) | | (65.6) |
| Other technology | | (76.4) | | (59.3) |
| Other intangible assets, net | $ | 4,851.1 | $ | 4,044.1 |
| | | | | |
| Other assets | | | | |
| Deferred income taxes | $ | 73.8 | $ | 51.0 |
| Deferred financing costs | | 33.8 | | 40.8 |
| Pension | | 12.9 | | 7.0 |

| | | | | |
|---|---|---|---|---|
| Other | | 247.1 | | 207.8 |
| Total | $ | 367.6 | $ | 306.6 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Balance Sheet Information (continued)

| (millions) | | September 30 2013 | | December 31 2012 |
|---|---|---|---|---|
| | | (unaudited) | | |
| Other current liabilities | | | | |
| Discounts and rebates | $ | 254.5 | $ | 244.4 |
| Dividends payable | | 69.3 | | |
| Interest payable | | 71.7 | | 19.5 |
| Taxes payable, other than income | | 106.7 | | 97.3 |
| Derivative liabilities | | 14.5 | | 9.9 |
| Restructuring | | 99.0 | | 116.6 |
| Estimated future consideration payable to Champion sellers | | 83.9 | | |
| Other | | 286.3 | | 283.3 |
| Total | $ | 985.9 | $ | 771.0 |
| | | | | |
| Other liabilities | | | | |
| Deferred income taxes | $ | 1,574.4 | $ | 1,174.2 |
| Income taxes payable - non-current | | 83.9 | | 81.5 |
| Other | | 129.1 | | 147.2 |
| Total | $ | 1,787.4 | $ | 1,402.9 |
| | | | | |
| Accumulated other comprehensive loss | | | | |
| Unrealized loss on derivative financial instruments, net of tax | $ | (4.5) | $ | (13.6) |
| Unrecognized pension and postretirement benefit expense, net of tax | | (581.9) | | (613.8) |
| Cumulative translation, net of tax | | (114.0) | | 167.7 |
| Total | $ | (700.4) | $ | (459.7) |

5. Debt and Interest

| (millions) | | September 30 2013 | | December 31 2012 |
|---|---|---|---|---|
| | | (unaudited) | | |
| Short-term debt | | | | |
| Commercial paper | $ | 497.3 | $ | 593.7 |
| Notes payable | | 45.0 | | 44.5 |
| Long-term debt, current maturities | | 170.9 | | 167.6 |
| Total | $ | 713.2 | $ | 805.8 |

As of September 30, 2013, the company had in place a $1.5 billion multi-year credit facility, which expires in September 2016. In August 2013, the company s $500 million, 364 day credit facility expired and was not replaced. In conjunction with the expiration of the $500 million, 364 day credit facility, the company s U.S. commercial paper program was decreased from $2.0 billion to $1.5 billion, which is supported by the existing credit facility.

The company s U.S. commercial paper program, as shown in the previous table, had $497 million and $594 million outstanding as of September 30, 2013 and December 31, 2012, respectively.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Debt and Interest (continued)

| (millions) | | September 30 2013 | | December 31 2012 |
|---|---|---|---|---|
| | | (unaudited) | | |
| Long-term debt | | | | |
| Description / 2013 Principal Amount | | | | |
| Series A private placement senior euro notes (125 million euro) | $ | 165.3 | $ | 162.3 |
| Series B private placement senior euro notes (175 million euro) | | 231.4 | | 227.3 |
| Seven year 2008 senior notes ($250 million) | | 249.6 | | 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) | | 1,248.4 | | 1,248.1 |
| Ten year 2011 senior notes ($1.25 billion) | | 1,249.3 | | 1,249.3 |
| Thirty year 2011 senior notes ($750 million) | | 742.8 | | 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 ($800 million) | | 800.0 | | |
| Capital lease obligations | | 13.0 | | 13.8 |
| Other | | 9.0 | | 11.7 |
| Total debt | | 6,708.2 | | 5,903.7 |
| Long-term debt, current maturities | | (170.9) | | (167.6) |
| Total long-term debt | $ | 6,537.3 | $ | 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. In September 2013, the company repaid $100 million of term loan borrowings.

Further information related to the acquisition of Champion is included in Note 3.

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

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

| | Third Quarter Ended September 30 | Nine Months Ended September 30 |
|---|---|---|

| (millions) | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|
| Interest expense | $ 69.2 | $ 66.8 | $ 203.0 | $ 221.6 |
| Interest income | (2.2) | (2.6) | (8.3) | (7.4) |
| Interest expense, net | $ 67.0 | $ 64.2 | $ 194.7 | $ 214.2 |

The decrease in interest expense for the nine months ended September 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 the 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. Based on the current performance of the company s reporting units, updating the impairment testing during the third quarter of 2013 was not deemed necessary. 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 reasons that did not proportionately change 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:

- 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 for 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 nine months ended September 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 | | | | 1,021.1 | | | | 1,054.4 |
| Business divestitures | | (2.1) | | | | | | | | (2.1) |
| Effect of foreign currency translation | | (67.0) | | (17.3) | | (72.7) | | (3.0) | | (160.0) |
| Goodwill as of September 30, 2013 | $ | 2,715.8 | $ | 703.3 | $ | 3,273.7 | $ | 120.0 | $ | 6,812.8 |

(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 third quarter ended September 30, 2013 and 2012 was $79.0 million and $59.3 million, respectively. Total amortization expense related to other intangible assets during the nine months ended September 30, 2013 and 2012 was $214.1 million and $178.0 million, respectively. The increase from 2012 to 2013 is primarily due to the Champion acquisition.

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

| (millions) | | |
|---|---|---|
| 2013 (Remainder: three-month period) | $ | 78 |
| 2014 | | 304 |

| | |
|---|---|
| 2015 | 300 |
| 2016 | 295 |
| 2017 | 292 |
| 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:

| **September 30 (millions)** | **2013** | | | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value Measurements Level 1** | **Level 2** | **Level 3** |
| Assets: | | | | |
| Investments held in rabbi trusts | $ 5.1 | $ 5.1 | $ | $ |
| Foreign currency forward contracts | 24.7 | | 24.7 | |
| | | | | |
| Liabilities: | | | | |
| Foreign currency forward contracts | 14.5 | | 14.5 | |
| Contingent consideration obligations | 16.3 | | | 16.3 |
| Estimated future consideration payable to Champion sellers | 83.9 | | | 83.9 |

**December 31 (millions)** **2012**

| | Carrying Amount | Fair Value Measurements Level 1 | 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 | 27.3 | | | 27.3 |

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 nine months ended September 30, 2013 were as follows:

| **(millions)** | | |
|---|---|---|
| Contingent consideration, December 31, 2012 | $ | 27.3 |
| Liabilities recognized at acquisition date | | |
| Loss (gain) recognized in earnings | | (1.1) |
| Settlements | | (9.8) |
| Foreign currency translation | | (0.1) |
| Contingent consideration, September 30, 2013 | $ | 16.3 |

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)** | **September 30, 2013** | | | | **December 31, 2012** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying Amount** | | **Fair Value** | | **Carrying Amount** | | **Fair Value** | |
| Long-term debt (including current maturities) | $ | 6,708.2 | $ | 6,960.5 | $ | 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 September 30, 2013 or December 31, 2012.

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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.

| | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|
| **(millions)** | **September 30 2013** | **December 31 2012** | **September 30 2013** | **December 31 2012** |
| Derivatives designated as hedging instruments | | | | |
| Foreign currency forward contracts | $ 6.8 | $ 0.8 | $ 0.3 | $ 1.7 |
| | | | | |
| Derivatives not designated as hedging instruments | | | | |
| Foreign currency forward contracts | 17.9 | 5.7 | 14.2 | 8.2 |
| Total | $ 24.7 | $ 6.5 | $ 14.5 | $ 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 $10.2 million as of September 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 $1.7 billion at September 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 | Third Quarter Ended September 30 2013 | | Third Quarter Ended September 30 2012 | | Nine Months Ended September 30 2013 | | Nine Months Ended September 30 2012 | |
|---|---|---|---|---|---|---|---|---|---|
| Unrealized gain (loss) recognized into AOCI (effective portion) | | | | | | | | | |
| Foreign currency forward contracts | AOCI (equity) | $ | 1.4 | $ | (4.0) | $ | 8.0 | $ | (2.5) |
| Gain (loss) reclassified from AOCI into income (effective portion) | | | | | | | | | |
| Foreign currency forward contracts | Sales | $ | | $ | | $ | | $ | (0.1) |
| | Cost of sales | | 0.1 | | 0.6 | | (1.6) | | 1.6 |
| | SG&A | | 0.4 | | 0.2 | | 0.6 | | 0.5 |
| | | | 0.5 | | 0.8 | | (1.0) | | 2.0 |
| Interest rate swap | Interest expense, net | | (0.6) | | (0.7) | | (2.0) | | (2.0) |
| | | $ | (0.1) | $ | 0.1 | $ | (3.0) | $ | |
| Loss recognized in income on derivative (ineffective portion) | | | | | | | | | |
| Foreign currency forward contracts | Interest expense, net | $ | (0.4) | $ | (0.3) | $ | (1.2) | $ | (0.9) |

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:

| | | Third Quarter Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|---|
| **(millions)** | **Location** | **2013** | **2012** | **2013** | **2012** |
| Gain (loss) recognized in income | | | | | |
| Foreign currency forward contracts | SG&A | $ 8.9 | $ 2.7 | $ 4.4 | $ 1.9 |
| | Interest expense, net | (0.6) | (2.3) | (3.2) | (5.8) |
| | | $ 8.3 | $ 0.4 | $ 1.2 | $ (3.9) |

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 ($397 million as of September 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:

| | Third Quarter Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (millions) | 2013 | 2012 | 2013 | 2012 |
| Revaluation gains (losses), net of tax | $ (4.2) | $ (5.9) | $ (4.2) | $ 19.8 |

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) | Third Quarter Ended September 30 2013 | Third Quarter Ended September 30 2012 | Nine Months Ended September 30 2013 | Nine Months Ended September 30 2012 |
|---|---|---|---|---|
| Derivative & Hedging Instruments | | | | |
| Unrealized gains (losses) on derivative & hedging instruments | | | | |
| Amount recognized into AOCI | $ 1.4 | $ (4.0) | $ 8.0 | $ (2.5) |
| (Gains) losses reclassified from AOCI into income | | | | |
| Sales | | | | 0.1 |
| Cost of sales | (0.1) | (0.6) | 1.6 | (1.6) |
| SG&A | (0.4) | (0.2) | (0.6) | (0.5) |
| Interest expense, net | 0.6 | 0.7 | 2.0 | 2.0 |
| | 0.1 | (0.1) | 3.0 | |
| Translation & other insignificant activity | 0.2 | 0.2 | | 0.4 |
| Tax impact | (0.1) | 1.4 | (1.9) | 1.0 |
| Net of tax | $ 1.6 | $ (2.5) | $ 9.1 | $ (1.1) |
| Pension & Postretirement Benefits | | | | |
| Amount reclassified from AOCI | | | | |
| Actuarial losses | $ 18.6 | $ 12.3 | $ 55.8 | $ 37.1 |
| Prior service costs | (1.9) | (1.1) | (5.6) | (3.2) |
| | 16.7 | 11.2 | 50.2 | 33.9 |
| Tax impact | (6.3) | (4.2) | (18.9) | (12.3) |
| Net of tax | $ 10.4 | $ 7.0 | $ 31.3 | $ 21.6 |

See Note 8 for additional information related to the company s derivatives and hedging transactions. See Note 12 for additional information related to the company s recognition of net actuarial losses and amortization of prior service benefits.

10. Shareholders Equity

Champion acquisition

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 nine months of 2013, the company repurchased 2,375,529 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 September 30, 2013, 13,434,567 shares remained to be repurchased under the company s repurchase authorization and approximately $74 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:

| | Third Quarter Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| **(millions, except per share amounts)** | **2013** | **2012** | **2013** | **2012** |
| Net income attributable to Ecolab | $ 308.0 | $ 238.0 | $ 680.7 | $ 472.2 |
| Weighted-average common shares outstanding | | | | |
| Basic | 301.2 | 292.7 | 299.4 | 292.0 |
| Effect of dilutive stock options, units and awards | 6.0 | 5.9 | 5.9 | 6.3 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Diluted | | 307.2 | | 298.6 | | 305.3 | | 298.3 |
| | | | | | | | | |
| Earnings attributable to Ecolab per common share | | | | | | | | |
| Basic | $ | 1.02 | $ | 0.81 | $ | 2.27 | $ | 1.62 |
| Diluted | $ | 1.00 | $ | 0.80 | $ | 2.23 | $ | 1.58 |
| | | | | | | | | |
| Anti-dilutive securities excluded from computation of earnings per share | | | | 0.3 | | | | 2.6 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Pension and Postretirement Plans

The company has a non-contributory qualified defined benefit pension plan 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 third quarter ended September 30 are as follows:

| | U.S. Pension | | International Pension | | U.S. Postretirement Health Care | |
|---|---|---|---|---|---|---|
| **(millions)** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Service cost | $ 17.2 | $ 12.6 | $ 9.0 | $ 7.1 | $ 1.5 | $ 1.3 |
| Interest cost on benefit obligation | 21.2 | 22.3 | 11.7 | 11.6 | 2.7 | 3.2 |
| Expected return on plan assets | (32.5) | (31.8) | (11.6) | (10.4) | (0.3) | (0.3) |
| Recognition of net actuarial loss | 15.6 | 11.3 | 2.8 | 0.9 | 0.2 | 0.1 |
| Amortization of prior service benefit | (1.7) | (1.0) | (0.1) | (0.1) | (0.1) | |
| | $ 19.8 | $ 13.4 | $ 11.8 | $ 9.1 | $ 4.0 | $ 4.3 |

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

| | U.S. Pension | | International Pension | | U.S. Postretirement Health Care | |
|---|---|---|---|---|---|---|
| **(millions)** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Service cost | $ 51.5 | $ 37.8 | $ 27.0 | $ 21.8 | $ 4.5 | $ 3.9 |
| Interest cost on benefit obligation | 63.6 | 66.9 | 35.2 | 35.4 | 8.1 | 9.6 |
| Expected return on plan assets | (97.6) | (95.4) | (34.9) | (31.6) | (0.8) | (0.9) |
| Recognition of net actuarial loss | 46.8 | 33.9 | 8.5 | 2.9 | 0.5 | 0.3 |
| Amortization of prior service benefit | (5.2) | (3.0) | (0.1) | (0.2) | (0.3) | |
| Settlements/curtailments | | | 0.1 | 0.8 | | |
| | $ 59.1 | $ 40.2 | $ 35.8 | $ 29.1 | $ 12.0 | $ 12.9 |

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

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 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 nine months of 2013, the company made payments of $9 million to its U.S. non-contributory non-qualified defined benefit plans, and estimates that it will make payments of approximately $1 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 $38 million to its international pension benefit plans during the first nine months of 2013. The company currently estimates that it will contribute approximately $12 million more to the international pension benefit plans during the remainder of 2013.

During the first nine months of 2013, the company made payments of $15 million to its U.S. postretirement health care benefit plans, and estimates that it will make payments of approximately $5 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.

During the third quarter of 2013, the company s management made a change to the way it measures and reports certain segments operating income, with intangible asset amortization specific to the Champion transaction moving to the Global Energy reportable segment from the Corporate segment. To provide meaningful comparisons, this change was made retroactively, resulting in $14.0 million of amortization expense moving to the Global Energy reportable segment from the Corporate segment for the second quarter of 2013. No other segments were impacted by this change.

Consistent with the company s internal management reporting, and including the change discussed in the preceding paragraph, the Corporate segment includes amortization specifically from the Nalco merger and certain integration costs for both the Nalco and Champion transactions. The Corporate segment also includes special (gains) and charges reported on the Consolidated Statement of Income.

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. The nine month ended September 30, 2013 amounts also reflect the segment measurement change impacting Global Energy and Corporate discussed above.

| | Third Quarter Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| **(millions)** | **2013** | **2012** | **2013** | **2012** |
| Net Sales | | | | |
| Global Industrial | $ 1,261.1 | $ 1,225.3 | $ 3,622.0 | $ 3,533.9 |
| Global Institutional | 1,099.2 | 1,047.7 | 3,128.8 | 3,027.5 |
| Global Energy | 990.6 | 588.2 | 2,470.7 | 1,677.2 |
| Other | 185.0 | 190.4 | 532.5 | 554.8 |
| Subtotal at fixed currency rates | 3,535.9 | 3,051.6 | 9,754.0 | 8,793.4 |
| Effect of foreign currency translation | (51.9) | (28.3) | (60.1) | (0.5) |
| Consolidated | $ 3,484.0 | $ 3,023.3 | $ 9,693.9 | $ 8,792.9 |
| | | | | |
| Operating Income | | | | |
| Global Industrial | $ 181.3 | $ 164.1 | $ 455.7 | $ 396.3 |
| Global Institutional | 224.9 | 197.1 | 563.8 | 510.6 |
| Global Energy | 135.5 | 95.4 | 331.4 | 256.6 |
| Other | 26.9 | 30.0 | 73.7 | 77.3 |
| Corporate | (82.8) | (82.3) | (322.3) | (344.8) |
| Subtotal at fixed currency rates | 485.8 | 404.3 | 1,102.3 | 896.0 |
| Effect of foreign currency translation | (9.8) | (3.1) | (12.3) | (2.5) |
| Consolidated | $ 476.0 | $ 401.2 | $ 1,090.0 | $ 893.5 |

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*

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. Payment of the settlement funds is anticipated to take place in the fourth quarter of 2013. The company has established an accrual for the settlement amount, which is not material to its operations or financial position.

Fernando v. GCS Service, California State Court -Superior Court- Orange County, case no. 30-2011-00473162-UC-OE-CXC, is a wage hour suit involving a California class of technicians in the company s Equipment Care business (formerly GCS). A settlement, which received court approval on July 31, 2013, was reached with the plaintiffs. The class in this suit was certified for settlement purposes only. The settlement amount, which is not material to the company s operations or financial position, was paid out in the third quarter.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies (continued)

In Cooper v. Ecolab Inc., California State Court Superior Court- Los Angeles County, case no. BC486875, the plaintiffs seek 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. The company has reached a preliminary settlement with the plaintiffs, which remains subject to court approval. The settlement amount is not material to the company s operations or financial position.

The company is a defendant in three other pending wage hour lawsuits claiming violations of the Fair Labor Standards Act ( FLSA ) or a similar state law. Of these three suits, two have been certified for class action status. Icard v. Ecolab, California State Court Superior Court- San Francisco County, case no. CGC-09-495344, a California state action, has been certified for class treatment of California Institutional employees. In Cancilla v. Ecolab, U.S. District Court-Northern District of California, case no. CV 12-03001, the Court conditionally certified a nationwide class of Pest Elimination Service Specialists for alleged FLSA violations. The suit also seeks a purported California sub-class for alleged California wage hour law violations. A third pending suit, Charlot v. Ecolab Inc., U.S. District Court-Eastern District of New York, case no. CV 12-04543, seeks nationwide class certification of Institutional employees 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.

*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 September 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; Irelan 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 Esponge 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).

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 Esponge 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. In October 2013, Nalco Company was named, along with other unaffiliated defendants, in Shimer v. BP Exploration and Production, et al, Case No. 2:13-cv-4755 (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. Doung, Fitzgerald, Danos and Shimer 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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies (continued)

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.

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.

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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 September 30, 2013, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012 and the consolidated statement of cash flows for the nine month periods ended September 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
October 31, 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.

During the third quarter of 2013, we made a change to the way we measure and report certain segments operating income, with intangible asset amortization specific to the Champion transaction moving to the Global Energy reportable segment from the Corporate segment. To provide meaningful comparisons, this change was made retroactively, resulting in $14.0 million of amortization expense moving to the Global Energy reportable segment from the Corporate segment for the second quarter of 2013. No other segments were impacted by this change.

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 are updated annually based on translation into U.S. dollars at foreign currency exchange rates established by management at the beginning of 2013, with all periods presented using such rates.

ECOLAB INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Third Quarter Ended September 30, 2013

Third quarter 2013 sales increased 15% compared to third quarter 2012 sales. Third quarter fixed currency sales increased 16%. Acquisition adjusted fixed currency sales grew 5% in the third quarter of 2013, led by Global Specialty, Global Energy and the Latin America region.

Third quarter 2013 operating income and diluted earnings per share attributable to Ecolab increased 19% and 25%, respectively, compared to third 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, third quarter 2013 adjusted operating income increased 18% when compared to third 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 increasing 20% in the third quarter versus the prior year third quarter.

Sales Performance

As summarized in the tables on pages 46 and 56:

- Third quarter 2013 sales increased 15% to $3.5 billion. Acquisition adjusted fixed currency sales increased 5% comparing third quarter 2013 against third quarter 2012.

- Fixed currency sales for our Global Industrial segment increased 3% to $1,261 million when comparing third quarter 2013 against third quarter 2012, led by growth in Global Food & Beverage and Global Paper. Acquisitions did not have a significant impact on Global Industrial segment sales growth for the third quarter.

- Third quarter 2013 Global Institutional segment sales, when measured in fixed rates of currency exchange, increased 5% to $1,099 million. Within this segment, Global Specialty showed strong growth, Global Healthcare sales showed improvement, and Global Institutional reported moderate sales gains.

- Fixed currency sales for our Global Energy segment increased 68% to $991 million when comparing third quarter 2013 against third quarter 2012. Acquisition adjusted fixed currency sales increased 9%.

- Third quarter 2013 Other segment sales, when measured in fixed rates of currency exchange, decreased 3% to $185 million. When adjusting for the Vehicle Care divestiture, acquisition adjusted fixed currency sales increased 6%.

ECOLAB INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

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Overview of the Third Quarter Ended September 30, 2013 (continued)

Financial Performance

As summarized in the tables on pages 52 through 55:

- Third quarter 2013 operating income increased 19% to $476 million compared to third quarter 2012 operating income of $401 million. Excluding the impact of special (gains) and charges from both 2013 and 2012 reported results, 2013 adjusted operating income increased 18% when compared to 2012 adjusted operating income. Third quarter 2013 adjusted fixed currency operating income increased 19% when compared to 2012 adjusted fixed currency operating income.

- Third quarter 2013 net income attributable to Ecolab increased 29% to $308 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 23% compared to the prior year s third quarter.

- Third quarter 2013 diluted earnings per share attributable to Ecolab of $1.00 increased 25% compared to the third 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 20% to $1.04 for the third quarter of 2013 compared to $0.87 in the third quarter of 2012.

- Our effective income tax rate was 24.9% for the third quarter of 2013 compared to 29.0% for the third 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 28.4% and 29.4% for the third quarter of 2013 and 2012, respectively.

Results of Operations Third Quarter and Nine Months Ended September 30, 2013

Net Sales

| | Third Quarter Ended September 30 | | % | Nine Months Ended September 30 | | % |
|---|---|---|---|---|---|---|
| **(millions)** | **2013** | **2012** | **Change** | **2013** | **2012** | **Change** |
| Reported GAAP net sales | $ 3,484.0 | $ 3,023.3 | 15% | $ 9,693.9 | $ 8,792.9 | 10% |
| Effect of foreign currency translation | 51.9 | 28.3 | | 60.1 | 0.5 | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-GAAP fixed currency net sales | $ | 3,535.9 | $ | 3,051.6 | 16% | $ | 9,754.0 | $ | 8,793.4 | 11% |

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

| **(percent)** | **Third Quarter Ended September 30, 2013** | **Nine Months Ended September 30, 2013** |
|---|---|---|
| Volume | 4% | 3% |
| Price changes | 1 | 1 |
| Acquisition adjusted fixed currency sales increase | 5 | 4 |
| Acquisitions & divestitures | 11 | 6 |
| Fixed currency sales increase | 16 | 11 |
| Foreign currency exchange | (1) | (1) |
| Total net sales increase | 15% | 10% |

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

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Results of Operations Third Quarter and Nine Months Ended September 30, 2013 (continued)

Gross Profit Margin

| (percent) | Third Quarter Ended September 30 2013 | 2012 | Nine Months Ended September 30 2013 | 2012 |
|---|---|---|---|---|
| Reported GAAP gross margin | 46.0% | 46.5% | 45.6% | 45.0% |
| Special (gains) and charges | 0.1 | 0.1 | 0.2 | 0.9 |
| Non-GAAP adjusted gross margin | 46.1% | 46.6% | 45.8% | 45.9% |

Our gross profit margin ( gross margin ) is defined as sales less cost of sales divided by sales. Our reported gross margin was 46.0% and 46.5% for the third quarter of 2013 and 2012, respectively. Our reported gross margin for the first nine months of 2013 and 2012 was 45.6% and 45.0%, respectively.

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

Excluding the impact of these items, our third quarter 2013 adjusted gross margin was 46.1% and our adjusted gross margin for the first nine months of 2013 was 45.8%. These percentages compared against a third quarter 2012 adjusted gross margin of 46.6% and an adjusted gross margin of 45.9% for the first nine months of 2012.

Our adjusted gross margin decreased comparing the third quarter of 2013 against the third quarter of 2012. Our adjusted gross margin has remained consistent when comparing the nine month periods ended September 30, 2013 and 2012. Pricing gains, sales volume increases, synergies and cost savings were offset by unfavorable business mix within Global Energy, including the impact of the Champion acquisition, and other costs. The net impact of acquisitions and divestitures negatively impacted adjusted gross margins for the third quarter of 2013 and the first nine months of 2013 by 0.7 and 0.4 percentage points, respectively.

Selling, General and Administrative Expense

Selling, general and administrative ( SG&A ) expenses as a percentage of sales were 31.5% for the third quarter of 2013 compared to the 32.3% in 2012. For the nine month periods, SG&A expenses were 32.8% of sales in 2013 and 33.5% 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.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Results of Operations Third Quarter and Nine Months Ended September 30, 2013 (continued)

Special (Gains) and Charges

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

| (millions) | Third Quarter Ended September 30 2013 | Third Quarter Ended September 30 2012 | Nine Months Ended September 30 2013 | Nine Months Ended September 30 2012 |
|---|---|---|---|---|
| Cost of sales | | | | |
| Restructuring charges | $ 1.9 | $ 1.7 | $ 5.5 | $ 9.6 |
| Recognition of Champion inventory fair value step-up | 4.4 | | 18.0 | |
| Recognition of Nalco inventory fair value step-up | | 1.5 | | 72.7 |
| Subtotal | 6.3 | 3.2 | 23.5 | 82.3 |
| | | | | |
| Special (gains) and charges | | | | |
| Restructuring charges | 11.9 | 20.8 | 75.4 | 73.2 |
| Champion acquisition and integration costs | 10.7 | 3.8 | 42.5 | 3.8 |
| Nalco merger and integration costs | 5.3 | 16.4 | 13.5 | 47.0 |
| Venezuela currency devaluation | (0.1) | | 23.3 | |
| Gain on sale of business | | (13.0) | | (13.0) |
| Litigation related charges and other | | | (3.6) | |
| Subtotal | 27.8 | 28.0 | 151.1 | 111.0 |
| | | | | |
| Operating income subtotal | 34.1 | 31.2 | 174.6 | 193.3 |
| | | | | |
| Interest expense, net | | | | |
| Acquisition debt costs | | | 2.5 | |
| Debt extinguishment costs | | | | 18.2 |
| Subtotal | | | 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 | $ 34.1 | $ 31.2 | $ 176.6 | $ 207.0 |

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Results of Operations Third Quarter and Nine Months Ended September 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 global 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 under the Energy Restructuring Plan are expected to be approximately $80 million ($55 million after tax), with approximately $30 million ($20 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 write-downs and 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 $13.3 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 $8.4 million ($6.7 million after tax) or $0.02 per diluted share and $20.6 million ($14.3 million after tax) or $0.05 per diluted share during the third quarter and nine months ended September 30, 2013, respectively.

We anticipate cost savings from the Energy Restructuring Plan, along with synergies achieved in connection with the acquisition, of at least $25 million in 2013, with annual cost savings and synergies of $150 million by the end of 2015. Cumulative savings achieved under this Plan through the third quarter of 2013 were approximately $15 million.

*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.

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Results of Operations Third Quarter and Nine Months Ended September 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 determined 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 ) combines opportunities and initiatives from both plans and is expected to be mostly completed by the end of 2013, with carryover of some projects and expenditures into 2014. The Combined Plan continues 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. After combining the plans and through the completion of the Combined Plan, we expect to incur total pretax restructuring charges of approximately $100 million ($70 million after tax), of which approximately $70 million ($50 million after tax) will be incurred in 2013.

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

Net cash payments under the Combined Plan were $80.8 million, $65.3 million and $25.1 million for the first nine 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 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 $5.3 million ($2.1 million after tax) or $0.01 per diluted share and $60.5 million ($42.5 million after tax) or $0.14 per diluted share during the third quarter and first nine 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 at least $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 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 nine month period ended September 30, 2013, the Combined Plan has achieved approximately $80 million of savings as compared to 2012. The 2013 savings are consistent with the original goals established under the previously separate plans.

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Results of Operations Third Quarter and Nine Months Ended September 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 and integration costs*

As a result of our efforts to acquire Champion and post acquisition integration costs, we incurred charges of $15.1 million ($10.3 million after tax) or $0.03 per diluted share and $63.0 million ($44.9 million) or $0.15 per diluted share during the third quarter and nine months ended September 30, 2013, respectively. During both the third quarter and nine months ended September 30, 2012, we incurred charges of $3.8 million ($3.3 million after tax) or $0.01 per diluted share related to advisory and legal fees.

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 and legal 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 and integration costs*

As a result of the Nalco merger completed in 2011, we incurred charges of $5.3 million ($3.5 million after tax), or $0.01 per diluted share and $17.9 million ($11.8 million after tax), or $0.04 per diluted share, during the third quarter of 2013 and 2012, respectively. During the nine months ended September 30, 2013 and 2012, we incurred charges of $13.5 million ($9.2 million after tax), or $0.03 per diluted share and $133.4 million ($98.3 million after tax), or $0.33 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.

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Special (Gains) and Charges (continued)

*Other special (gains) and charges*

During the third quarter of 2012, we received additional payments related to the sale of an investment in a U.S. business originally sold prior to 2012. The corresponding gain of $13.0 million ($8.1 million after tax), or $0.03 per diluted share was recorded during the third quarter of 2012 in special (gains) and charges.

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.

Operating Income

| (millions) | Third Quarter Ended September 30 2013 | 2012 | % Change | Nine Months Ended September 30 2013 | 2012 | % Change |
|---|---|---|---|---|---|---|
| Reported GAAP operating income | $ 476.0 | $ 401.2 | 19% | $ 1,090.0 | $ 893.5 | 22% |
| Special (gains) and charges | 34.1 | 31.2 | | 174.6 | 193.3 | |
| Non-GAAP adjusted operating income | 510.1 | 432.4 | 18% | 1,264.6 | 1,086.8 | 16% |
| Effect of foreign currency translation | 9.8 | 3.1 | | 12.3 | 2.5 | |
| Non-GAAP adjusted fixed currency operating income | $ 519.9 | $ 435.5 | 19% | $ 1,276.9 | $ 1,089.3 | 17% |

Reported operating income increased 19% and 22% in the third quarter and first nine 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, third quarter 2013 adjusted operating income increased 18% when compared against third quarter 2012 adjusted operating income and adjusted operating income for the first nine months of 2013 increased 16% when compared against adjusted operating income for the first nine 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 4% and 2% to the third quarter and first nine months of 2013 adjusted fixed currency operating growth rates shown in the table above, respectively.

The third quarter and first nine 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 and a declining gross margin.

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Results of Operations Third Quarter and Nine Months Ended September 30, 2013 (continued)

Interest Expense, Net

| (millions) | Third Quarter Ended September 30 2013 | 2012 | % Change | Nine Months Ended September 30 2013 | 2012 | % Change |
|---|---|---|---|---|---|---|
| Reported GAAP net interest expense | $ 67.0 | $ 64.2 | 4% | $ 194.7 | $ 214.2 | (9)% |
| Adjustments: | | | | | | |
| Special (gains) and charges | | | | 2.5 | 18.2 | |
| Non-GAAP adjusted net interest expense | $ 67.0 | $ 64.2 | 4% | $ 192.2 | $ 196.0 | (2)% |

Reported net interest expense totaled $67 million in the third quarter of 2013, compared with $64 million in the third quarter of 2012. Reported net interest expense for the first nine months of 2013 and 2012 was $195 million and $214 million, respectively.

Special (gains) and charges did not impact interest expense for the third quarter of either 2013 or 2012. The increase in net interest expense when comparing the third quarter of 2013 against the third quarter of 2012 was driven primarily by the increased debt levels held during the third quarter of 2013 in connection with the close of the Champion acquisition, offset partially by decreased borrowings across our international operations.

Our reported interest expense for the first nine months of 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, adjusted interest expense for the first nine months of 2013 decreased 2% when compared against adjusted net interest expense for the first nine months of 2012.

The lower adjusted net interest expense for the first nine months of 2013 was driven primarily by decreased borrowings across our international operations, lower U.S. commercial paper borrowings and legacy Nalco debt pay downs in early 2012, partially offset by 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) | Third Quarter Ended September 30 2013 | 2012 | Nine Months Ended September 30 2013 | 2012 |
|---|---|---|---|---|
| Reported GAAP tax rate | 24.9% | 29.0% | 23.6% | 31.3% |
| Tax rate impact of: | | | | |
| Special gains and charges | 0.7 | 0.1 | 1.1 | (1.5) |
| Discrete tax net benefits | 2.8 | 0.3 | 3.7 | 0.3 |
| Non-GAAP adjusted effective tax rate | 28.4% | 29.4% | 28.4% | 30.1% |

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.

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Results of Operations Third Quarter and Nine Months Ended September 30, 2013 (continued)

Provision for Income Taxes (continued)

Our third quarter 2013 reported tax expense includes $11.5 million of net tax benefits on special gains and charges and $12.5 million of discrete tax net benefits. For the first nine months of 2013, our reported tax expense includes $53.1 million of net tax benefits on special gains and charges and $40.1 million of discrete tax net benefits. The corresponding impact of these items to the reported tax rate is shown in the above table.

Third quarter 2013 discrete tax net benefits are driven primarily by net benefits from filing our 2012 U.S. federal tax return and the recognition of settlements related to prior year income tax audits, partially offset by the remeasurement of certain deferred tax assets. Discrete tax net benefits for the first nine months of 2013 were also impacted by the release of a valuation allowance related to the realizability of foreign deferred tax assets, law changes within a foreign jurisdiction, recognition of settlements related to our 2009 through 2010 U.S. income tax returns, the remeasurement of certain deferred tax assets and liabilities and the retroactive extension during first quarter 2013 of the U.S. R&D credit, all of which were partially offset by foreign audit adjustments.

Our third quarter 2012 reported tax expense includes $9.6 million of net tax benefits on special gains and charges and $0.9 million of discrete tax net benefits. For the first nine months of 2012, our reported tax expense includes $53.6 million of net tax benefits on special gains and charges and $2.1 million of discrete tax net benefits. The corresponding impact of these items to the reported tax rate is shown in the above table.

The third quarter 2012 discrete tax net benefits are driven primarily by net benefits related to recognizing adjustments from filing our 2011 U.S. federal tax return as well as a release of a valuation allowance related to a capital loss carryforward, partially offset by the remeasurement of certain deferred tax assets and liabilities resulting from changes in local country tax rates. Discrete taxes for the first nine months of 2012 were also impacted by state and foreign country audit settlements and adjustments, along with the remeasurement of certain deferred tax assets and liabilities resulting from a changes local country tax rates and changing tax jurisdictions.

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.

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Results of Operations Third Quarter and Nine Months Ended September 30, 2013 (continued)

Net Income Attributable to Ecolab

| (millions) | Third Quarter Ended September 30 2013 | 2012 | % Change | Nine Months Ended September 30 2013 | 2012 | % Change |
|---|---|---|---|---|---|---|
| Reported GAAP net income | $ 308.0 | $ 238.0 | 29% | $ 680.7 | $ 472.2 | 44% |
| Adjustments: | | | | | | |
| Special (gains) and charges, net of tax | 22.6 | 21.6 | | 123.5 | 153.4 | |
| Discrete tax net expense (benefits) | (12.5) | (0.9) | | (40.1) | (2.1) | |
| Non-GAAP adjusted net income | $ 318.1 | $ 258.7 | 23% | $ 764.1 | $ 623.5 | 23% |

Diluted Earnings Per Share Attributable to Ecolab (EPS)

| (dollars) | Third Quarter Ended September 30 2013 | 2012 | % Change | Nine Months Ended September 30 2013 | 2012 | % Change |
|---|---|---|---|---|---|---|
| Reported GAAP diluted EPS | $ 1.00 | $ 0.80 | 25% | $ 2.23 | $ 1.58 | 41% |
| Adjustments: | | | | | | |
| Special (gains) and charges | 0.07 | 0.07 | | 0.40 | 0.51 | |
| Discrete tax net expense (benefits) | (0.04) | (0.00) | | (0.13) | (0.01) | |
| Non-GAAP adjusted diluted EPS | $ 1.04 | $ 0.87 | 20% | $ 2.50 | $ 2.09 | 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 $0.02 on diluted earnings per share for both the third quarter of 2013 compared to 2012, as well as the first nine months of 2013 compared to 2012.

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Segment Performance

As discussed at the beginning of this 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.

During the third quarter of 2013, we made a change to the way we measure and report certain segments operating income, with intangible asset amortization specific to the Champion transaction moving to the Global Energy reportable segment from the Corporate segment. To provide meaningful comparisons, this change was made retroactively, resulting in $14.0 million of amortization expense moving to the Global Energy reportable segment from the Corporate segment for the second quarter of 2013. No other segments were impacted by this change.

Sales by Reportable Segment

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

| | Third Quarter Ended September 30 | | % | Nine Months Ended September 30 | | % |
|---|---|---|---|---|---|---|
| **(millions)** | **2013** | **2012** | **Change** | **2013** | **2012** | **Change** |
| Global Industrial | $ 1,261.1 | $ 1,225.3 | 3% | $ 3,622.0 | $ 3,533.9 | 2% |
| Global Institutional | 1,099.2 | 1,047.7 | 5 | 3,128.8 | 3,027.5 | 3 |
| Global Energy | 990.6 | 588.2 | 68 | 2,470.7 | 1,677.2 | 47 |
| Other | 185.0 | 190.4 | (3) | 532.5 | 554.8 | (4) |
| Subtotal at fixed currency rates | 3,535.9 | 3,051.6 | 16 | 9,754.0 | 8,793.4 | 11 |
| Effect of foreign currency translation | (51.9) | (28.3) | | (60.1) | (0.5) | |
| Consolidated | $ 3,484.0 | $ 3,023.3 | 15% | $ 9,693.9 | $ 8,792.9 | 10% |

Global Industrial

Fixed currency sales for our Global Industrial segment increased 3% in the third quarter and 2% for the first nine months of 2013. Acquisitions did not have a significant impact on 2013 sales growth.

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

- Global Water Sales increased 1% in the both the third quarter and the first nine months of 2013. Sales growth was led by gains in heavy industries, which coupled with continued gains in light industries offset declines in mining. At a regional level, third quarter growth was led by Latin America and Asia Pacific, while North America and EMEA were flat against the prior year quarter.

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Segment Performance (continued)

- Global Food & Beverage    Sales increased 7% in the third quarter and 6% for the first nine months of 2013. Acquisition adjusted sales increased 4% in the both the third quarter and first nine months 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. All regions showed sales increases, led by strong growth in Latin America, with moderate growth in Asia Pacific and North America.

- Global Paper    Sales increased 3% in the third quarter and 1% for the first nine months of 2013. Sales increases were driven by increased product penetration, partially offset by continued lower customer plant utilization. At a regional level, third quarter growth was led by Asia Pacific and Latin America. North America showed modest growth, offset by decreased sales in EMEA.

- Global Textile Care    Sales increased 2% in the third quarter and were flat for the first nine months of 2013. Pricing gains and new accounts positively impacted North America results during the third quarter. EMEA also showed improving trends in the quarter.

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

Global Institutional

Fixed currency sales for our Global Institutional segment increased 5% in the third quarter and 3% for the first nine months of 2013.

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

- Global Institutional    Sales increased 3% in the third quarter and 2% for the first nine months of 2013. Demand from lodging customers showed modest growth, while foodservice foot traffic remained soft. Sales initiatives, targeting new accounts and effective product programs continued to lead results of the Global Institutional operating unit. At a regional level, continued strong results in Latin America and increased growth in North America led the sales increase. Asia Pacific showed modest gains and EMEA sales were down.

- Global Specialty Sales increased 14% in the third quarter and 12% for the first nine months of 2013. Our quick service and food retail businesses both produced double digit growth, benefiting from new accounts and increased product penetration. At a regional level, North America and Asia Pacific increased double digits, and EMEA had solid gains.

- Global Healthcare Sales increased 4% in the third quarter and 2% for the first nine months of 2013. Sales growth was led by growth in surgical drapes, contamination control, and improvements in hand hygiene which offset softness in chemical sales related to instrument reprocessing. Weakness in the U.S. and Europe healthcare markets continued to impact results. Despite this, North America and EMEA both showed improving sales trends.

When measured at public currency rates, third quarter 2013 Global Institutional segment sales increased 5% compared to third quarter sales in 2012. For the first nine months of 2013, Global Institutional segment sales increased 3% against the comparable period of 2012.

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Segment Performance (continued)

Global Energy

Fixed currency sales for our Global Energy segment increased 68% in the third quarter and 47% for the first nine months of 2013, largely driven by the Champion acquisition. Acquisition adjusted fixed currency sales increased 9% in the third quarter and 10% for the first nine months of 2013.

The increase in acquisition adjusted fixed currency sales reflected continued double-digit growth in our upstream business resulting from good share gains and continued focus on high growth energy sources, including deepwater, shale and oil sands accounts. Sales for our downstream business had good gains, resulting from strong share gains and increased North America refining. Sales growth in 2013 was also impacted by a difficult comparison against 2012, which included higher levels of episodic dispersant sales.

When measured at public currency rates, third quarter 2013 Global Energy segment sales increased 67% compared to third quarter sales in 2012. For the first nine months of 2013, Global Energy segment sales increased 46% against the comparable period of 2012.

Other

Fixed currency sales for our Other segment decreased 3% in the third quarter and 4% for the first nine months of 2013. When adjusting for the Vehicle Care divestiture, acquisition adjusted fixed currency sales increased 6% in the third quarter and 5% for the first nine months of 2013.

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

- Global Pest Elimination Sales increased 5% in both the third quarter and first nine 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 Asia Pacific, with good growth in North America and modest gains in EMEA and Latin America.

- Equipment Care Sales increased 9% in the third quarter and 7% in the first nine months of 2013. Service and installed parts sales increased, benefiting from product penetration 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 3% in the third quarter and 4% for the first nine months of 2013 against the comparable periods of 2012.

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Segment Performance (continued)

Operating Income by Reportable Segment

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

| (millions) | Third Quarter Ended September 30 2013 | 2012 | % Change | Nine Months Ended September 30 2013 | 2012 | % Change |
|---|---|---|---|---|---|---|
| Global Industrial | $ 181.3 | $ 164.1 | 10% | $ 455.7 | $ 396.3 | 15% |
| Global Institutional | 224.9 | 197.1 | 14 | 563.8 | 510.6 | 10 |
| Global Energy | 135.5 | 95.4 | 42 | 331.4 | 256.6 | 29 |
| Other | 26.9 | 30.0 | (10) | 73.7 | 77.3 | (5) |
| Corporate | (82.8) | (82.3) | | (322.3) | (344.8) | |
| Subtotal at fixed currency rates | 485.8 | 404.3 | 20 | 1,102.3 | 896.0 | 23 |
| Effect of foreign currency translation | (9.8) | (3.1) | | (12.3) | (2.5) | |
| Consolidated | $ 476.0 | $ 401.2 | 19% | $ 1,090.0 | $ 893.5 | 22% |

Global Industrial

Fixed currency operating income for our Global Industrial segment increased 10% and 15% for the third quarter and first nine months of 2013, respectively. Acquisition adjusted fixed currency operating income increased 9% in the third quarter and 14% for the first nine months of 2013.

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

When measured at public currency rates, third quarter 2013 Global Industrial segment operating income increased 9% compared to third quarter operating income in 2012. For the first nine months of 2013, Global Industrial segment operating income increased 14% against the comparable period of 2012.

Global Institutional

Fixed currency operating income for our Global Institutional segment increased 14% and 10% for the third quarter and first nine months of 2013, respectively.

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

When measured at public currency rates, third quarter 2013 Global Institutional segment operating income increased 13% compared to third quarter operating income in 2012. For the first nine months of 2013, Global Institutional segment operating income increased 10% against the comparable period of 2012.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF
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Segment Performance (continued)

Global Energy

Fixed currency operating income for our Global Energy segment, including the intangible asset amortization specific to the Champion transaction discussed previously in this MD&A, increased 42% and 29% for the third quarter and first nine months of 2013, respectively, with the largest impact from the Champion acquisition. Acquisition adjusted fixed currency operating income increased 20% in the third quarter and 17% for the first nine 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, third quarter 2013 Global Energy segment operating income increased 40% compared to third quarter operating income in 2012. For the first nine months of 2013, Global Energy segment operating income increased 28% against the comparable period of 2012.

Other

Fixed currency operating income for our Other segment decreased 10% and 5% for the third quarter and first nine months of 2013, respectively. When adjusting for the Vehicle Care divestiture, acquisition adjusted fixed currency operating income was flat in the third quarter and increased 9% for the first nine months of 2013.

Acquisition adjusted fixed currency operating income results were impacted by sales volume growth and pricing gains, offset by investments in the business and other cost increases.

When measured at public currency rates, third quarter 2013 Other segment operating income decreased 10% compared to third quarter operating income in 2012. For the first nine months of 2013, Other segment operating income decreased 5% against the comparable period of 2012.

Corporate

Consistent with the company s internal management reporting, and including the change discussed previously in this MD&A, the Corporate segment includes amortization specifically from the Nalco merger and certain integration costs for both the Nalco and Champion transactions. 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 48.

## Financial Position and Liquidity

### Financial Position

Total assets were $19.6 billion as of September 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 September 30, 2013 was largely due to the use of cash for the Champion acquisition. Foreign currency exchange rates negatively impacted the value of our international assets.

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Financial Position and Liquidity (continued)

Total liabilities were $12.8 billion and $11.4 billion as of September 30, 2013 and December 31, 2013, respectively. Total debt was $7.3 billion as of September 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) was 51% at September 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 $929 million for the first nine months of 2013 compared to $721 million for the first nine months of 2012. Year-over-year comparability was favorably impacted by increased income and lower pension and postretirement plan contributions, which were 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 $1.9 billion for the first nine months of 2013 compared to $415 million for the first nine 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 nine months of 2013 was $1.4 billion with the Champion transaction accounting for $1.3 billion of this total. Other acquisitions during the first nine months of 2013 included Quimiproductos S.A. de C.V. and OOO Master Chemicals. Acquisitions during the first nine 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 $194 million for the first nine months of 2013 compared to cash used for financing activities of $1.8 billion for the first nine months of 2012.

Our 2013 financing activities included $900 million of term loan borrowings initiated in connection with the Champion transaction, as well as $338 million of long-term debt repayments. Long-term debt repayments include the redemption of debt acquired through the Champion transaction and repayment of $100 million of term loan borrowings. During the first nine months of 2013, net repayments of commercial paper and notes payable led to a decrease of $91 million, and we had total share repurchases of $229 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 nine 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. Partially offsetting the repayment, we issued $500 million of senior notes in a public debt offering in August 2012. During the first nine months of 2012, net repayments of commercial paper and notes payable led to a decrease of $390 million, and we had total share repurchases of $193 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.

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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 September 30, 2013, we had $394 million of cash and cash equivalents on hand, of which $343 million was held outside of the U.S. We continue to expect our operating cash flow to remain strong.

As of September 30, 2013 we had a $1.5 billion multi-year credit facility, which expires in September 2016. In August, our $500 million, 364 day credit facility expired and was not replaced. Our credit facility has been established with a diverse portfolio of banks. There were no borrowings under our credit facilities as of September 30, 2013 or December 31, 2012.

The credit facility supports our $1.5 billion U.S. commercial paper program, which was decreased from $2.0 billion to $1.5 billion following the expiration of the $500 million 364 day facility, and our $200 million European commercial paper program. Combined borrowing under these two commercial paper programs may not exceed $1.5 billion. As of September 30, 2013, we had $497 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 September 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 September 30, 2013, the total notes payable and long-term debt due within one year decreased to $713 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. In September 2013, we repaid $100 million of the term loan borrowings.

Our gross liability for uncertain tax positions was $102 million as of September 30, 2013 and $93 million as of December 31, 2012. Additions as part of the Champion acquisition were offset by the settlement of the legacy Nalco 2009 through 2010 IRS audit, with corresponding adjustments to prior year reserves. 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.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF
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## 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 credit or market 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 nine 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

ECOLAB INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF
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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.

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Non-GAAP Financial Measures (continued)

Acquisition adjusted growth rates generally exclude the results of any acquired business from the first twelve months post acquisition and exclude the results of divested businesses from the previous twelve months prior to divestiture. Champion is an exception. 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 comparable period of the prior year have been included for purposes of providing acquisition adjusted growth rates.

These non-GAAP 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 MD&A and have provided reconciliations of reported GAAP amounts to the non-GAAP amounts on pages 46-55.

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; payment of litigation settlement funds; 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; global market risk; 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, estima 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.

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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 27.

Item 4. Controls and Procedures

As of September 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 July 1 through September 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 36, 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 65 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) |
|---|---|---|---|---|
| July 1-31, 2013 | 67,624 | 85.8221 | 66,700 | 13,931,281 |
| August 1-31, 2013 | 386,065 | 91.7124 | 374,829 | 13,556,452 |
| September 1-30, 2013 | 123,172 | 93.7260 | 121,885 | 13,434,567 |
| Total | 576,861 | 91.4518 | 563,414 | 13,434,567 |

(1) Includes 13,447 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 $74 million of shares remained as of September 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:

| | |
|---|---|
| (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: | October 31, 2013 | By: | /s/John J. Corkrean<br>John J. Corkrean<br>Senior Vice President & Corporate Controller (duly authorized Officer and Chief Accounting Officer) |

EXHIBIT INDEX

| Exhibit No. | Document | Method of Filing |
|---|---|---|
| (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 |