

ECOLAB INC
Form 10-Q
August 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File No. 1-9328

ECOLAB INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive offices) (Zip Code)

1-800-232-6522

(Registrant's telephone number, including area code)

(Not Applicable)

(Former name, former address and former fiscal year,

if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2015.

295,092,229 shares of common stock, par value \$1.00 per share.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ECOLAB INC.

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

| (millions, except per share amounts) | Second Quarter Ended | |
|---|----------------------|-----------------|
| | 2015 | June 30 2014 |
| Net sales | \$ 3,389.1 | \$ 3,568.2 |
| Cost of sales (including special charges of \$11.0 in 2015 and \$1.1 in 2014) | 1,806.5 | 1,909.4 |
| Selling, general and administrative expenses | 1,079.2 | 1,152.7 |
| Special (gains) and charges | 65.6 | (6.1) |
| Operating income | 437.8 | 512.2 |
| Interest expense, net | 61.2 | 66.2 |
| Income before income taxes | 376.6 | 446.0 |
| Provision for income taxes | 67.8 | 131.0 |
| Net income including noncontrolling interest | 308.8 | 315.0 |
| Less: Net income attributable to noncontrolling interest | 6.8 | 3.6 |
| Net income attributable to Ecolab | \$ 302.0 | \$ 311.4 |
| Earnings attributable to Ecolab per common share | | |
| Basic | \$ 1.02 | \$ 1.04 |
| Diluted | \$ 1.00 | \$ 1.02 |
| Dividends declared per common share | \$ 0.3300 | \$ 0.2750 |
| Weighted-average common shares outstanding | | |
| Basic | 296.2 | 299.6 |
| Diluted | 301.1 | 305.2 |

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

| (millions, except per share amounts) | Six Months Ended June 30 | |
|---|-----------------------------|------------|
| | 2015 | 2014 |
| Net sales | \$ 6,686.7 | \$ 6,904.8 |
| Cost of sales (including special charges of \$11.6 in 2015 and \$7.1 in 2014) | 3,571.8 | 3,728.6 |
| Selling, general and administrative expenses | 2,216.0 | 2,289.6 |
| Special (gains) and charges | 73.4 | 23.5 |
| Operating income | 825.5 | 863.1 |
| Interest expense, net | 123.7 | 131.3 |
| Income before income taxes | 701.8 | 731.8 |
| Provision for income taxes | 157.6 | 222.3 |
| Net income including noncontrolling interest | 544.2 | 509.5 |
| Less: Net income attributable to noncontrolling interest | 8.8 | 7.1 |
| Net income attributable to Ecolab | \$ 535.4 | \$ 502.4 |
| Earnings attributable to Ecolab per common share | | |
| Basic | \$ 1.80 | \$ 1.67 |
| Diluted | \$ 1.77 | \$ 1.64 |
| Dividends declared per common share | \$ 0.6600 | \$ 0.5500 |
| Weighted-average common shares outstanding | | |
| Basic | 297.2 | 300.1 |
| Diluted | 302.2 | 305.9 |

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

ECOLAB INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

| (millions) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|---|---------------------------------|----------|-----------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income including noncontrolling interest | \$ 308.8 | \$ 315.0 | \$ 544.2 | \$ 509.5 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustments | | | | |
| Foreign currency translation | (35.4) | 22.2 | (344.8) | (44.8) |
| Gain (loss) on net investment hedges | 21.8 | 1.9 | 78.8 | (1.8) |
| | (13.6) | 24.1 | (266.0) | (46.6) |
| Derivatives and hedging instruments | (2.9) | (4.1) | 4.9 | (4.1) |
| Pension and postretirement benefits | | | | |
| Amortization of net actuarial loss and prior service cost included in net periodic pension and postretirement costs | 8.1 | 2.5 | 16.1 | 5.1 |
| Subtotal | (8.4) | 22.5 | (245.0) | (45.6) |
| Total comprehensive income, including noncontrolling interest | 300.4 | 337.5 | 299.2 | 463.9 |
| Less: Comprehensive income attributable to noncontrolling interest | 6.0 | 3.6 | 7.0 | 7.1 |
| Comprehensive income attributable to Ecolab | \$ 294.4 | \$ 333.9 | \$ 292.2 | \$ 456.8 |

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

ECOLAB INC.
CONSOLIDATED BALANCE SHEET
(unaudited)

| (millions) | June 30 2015 | December 31 2014 |
|------------------------------------|--------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 310.6 | \$ 209.6 |
| Accounts receivable, net | 2,494.8 | 2,626.7 |
| Inventories | 1,462.7 | 1,466.9 |
| Deferred income taxes | 164.6 | 183.2 |
| Other current assets | 538.4 | 366.6 |
| Total current assets | 4,971.1 | 4,853.0 |
| Property, plant and equipment, net | 3,123.4 | 3,050.6 |
| Goodwill | 6,513.4 | 6,717.0 |
| Other intangible assets, net | 4,231.0 | 4,456.8 |
| Other assets | 378.4 | 371.2 |
| Total assets | \$ 19,217.3 | \$ 19,448.6 |

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

(Continued)

ECOLAB INC.

CONSOLIDATED BALANCE SHEET (continued)

(unaudited)

| (millions, except shares and per share amounts) | June 30 2015 | December 31 2014 |
|---|-----------------|---------------------|
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Short-term debt | \$ 2,185.3 | \$ 1,705.4 |
| Accounts payable | 961.0 | 1,162.4 |
| Compensation and benefits | 425.1 | 560.4 |
| Income taxes | 45.8 | 88.6 |
| Other current liabilities | 828.9 | 851.7 |
| Total current liabilities | 4,446.1 | 4,368.5 |
| Long-term debt | 5,124.2 | 4,864.0 |
| Postretirement health care and pension benefits | 1,139.6 | 1,188.5 |
| Other liabilities | 1,627.9 | 1,645.5 |
| Total liabilities | 12,337.8 | 12,066.5 |
| Equity (a) | | |
| Common stock | 349.3 | 347.7 |
| Additional paid-in capital | 5,001.6 | 4,874.5 |
| Retained earnings | 5,894.7 | 5,555.1 |
| Accumulated other comprehensive loss | (1,195.1) | (951.9) |
| Treasury stock | (3,238.9) | (2,509.5) |
| Total Ecolab shareholders' equity | 6,811.6 | 7,315.9 |
| Noncontrolling interest | 67.9 | 66.2 |
| Total equity | 6,879.5 | 7,382.1 |
| Total liabilities and equity | \$ 19,217.3 | \$ 19,448.6 |

(a) Common stock, 800 million shares authorized, \$1.00 par value per share, 295.1 million shares outstanding at June 30, 2015, 299.9 million shares outstanding at December 31, 2014. 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

(unaudited)

| (millions) | Six Months Ended June 30 | |
|---|-----------------------------|----------|
| | 2015 | 2014 |
| OPERATING ACTIVITIES | | |
| Net income including noncontrolling interest | \$ 544.2 | \$ 509.5 |
| Adjustments to reconcile net income including noncontrolling interest to cash provided by operating activities: | | |
| Depreciation | 285.8 | 276.1 |
| Amortization | 149.9 | 159.3 |
| Deferred income taxes | (34.9) | (50.6) |
| Share-based compensation expense | 47.1 | 42.7 |
| Excess tax benefits from share-based payment arrangements | (31.4) | (30.9) |
| Pension and postretirement plan contributions | (38.0) | (45.0) |
| Pension and postretirement plan expense | 58.1 | 43.5 |
| Restructuring, net of cash paid | (4.6) | (9.3) |
| Venezuela currency devaluation | 30.2 | |
| Loss (gain) on sale of businesses | 13.7 | (1.6) |
| Other, net | 7.0 | 8.7 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable | 22.2 | (79.4) |
| Inventories | (66.0) | (107.2) |
| Other assets | (58.4) | (34.8) |
| Accounts payable | (145.7) | (20.0) |
| Other liabilities | (142.6) | (129.1) |
| Cash provided by operating activities | \$ 636.6 | \$ 531.9 |

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

(Continued)

ECOLAB INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(unaudited)

| (millions) | Six Months Ended June 30 | |
|--|-----------------------------|------------|
| | 2015 | 2014 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | \$ (327.5) | \$ (321.7) |
| Capitalized software expenditures | (14.3) | (15.5) |
| Property and other assets sold | 6.8 | 5.3 |
| Acquisitions and investments in affiliates, net of cash acquired | (14.7) | (34.4) |
| Divestiture of businesses | 0.3 | 5.6 |
| Release from acquisition related escrow | 9.4 | 1.4 |
| Cash used for investing activities | (340.0) | (359.3) |
| FINANCING ACTIVITIES | | |
| Net issuances (repayments) of commercial paper and notes payable | 449.6 | 477.6 |
| Long-term debt borrowings | 599.7 | |
| Long-term debt repayments | (380.0) | (256.5) |
| Reacquired shares | (726.3) | (336.6) |
| Dividends paid | (202.5) | (172.3) |
| Exercise of employee stock options | 49.0 | 30.9 |
| Excess tax benefits from share-based payment arrangements | 31.4 | 30.9 |
| Acquisition related liabilities and contingent consideration | (0.8) | (86.6) |
| Acquisition of noncontrolling interest | | (7.3) |
| Other, net | (4.1) | |
| Cash used for financing activities | (184.0) | (319.9) |
| Effect of exchange rate changes on cash and cash equivalents | (11.6) | (4.9) |
| Increase (decrease) in cash and cash equivalents | 101.0 | (152.2) |
| Cash and cash equivalents, beginning of period | 209.6 | 339.2 |
| Cash and cash equivalents, end of period | \$ 310.6 | \$ 187.0 |

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

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Consolidated Financial Information

The unaudited consolidated financial information for the second quarter and six months ended June 30, 2015 and 2014 reflect, in the opinion of company 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. Any adjustments consist of normal, recurring items.

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, 2014 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, 2014.

With respect to the unaudited financial information of the company for the second quarter and six months ended June 30, 2015 and 2014 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. Their separate report dated August 6, 2015 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.

2. Special (Gains) and Charges

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

| (millions) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--------------------------------|---------------------------------|--------|-----------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of sales | | | | |
| Restructuring charges | \$ 1.6 | \$ 1.1 | \$ 2.2 | \$ 7.1 |
| Venezuela currency devaluation | 9.4 | | 9.4 | |
| Subtotal | 11.0 | 1.1 | 11.6 | 7.1 |
| Special (gains) and charges | | | | |
| Restructuring charges | 18.9 | 6.0 | 21.0 | 28.6 |

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| | | | | |
|--|---------|----------|---------|---------|
| Champion acquisition and integration costs | 4.3 | 5.2 | 9.5 | 11.7 |
| Nalco merger and integration costs | 0.2 | 1.5 | 0.7 | 2.8 |
| Venezuela currency devaluation | 20.8 | | 20.8 | |
| Loss on sale of business, litigation related charges and other settlements | 21.4 | (18.8) | 21.4 | (19.6) |
| Subtotal | 65.6 | (6.1) | 73.4 | 23.5 |
| Total special (gains) and charges | \$ 76.6 | \$ (5.0) | \$ 85.0 | \$ 30.6 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

2. Special (Gains) and Charges (continued)

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's restructuring activities are associated with plans to enhance its efficiency and effectiveness and sharpen its competitiveness. Its 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 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.

Restructuring charges have been included as a component of both cost of sales and special (gains) and charges within the Consolidated Statement of Income. Amounts included within 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 both other current and other non-current liabilities on the Consolidated Balance Sheet.

Energy Restructuring Plan

In April 2013, following the completion of the acquisition of privately held Champion Technologies and its related company Corsicana Technologies (collectively "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 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. Actions also include leveraging and simplifying its global supply chain, including the reduction of plant, distribution center and redundant facility locations and product line optimization.

The company expects to incur total pre-tax restructuring charges of approximately \$80 million (\$55 million after tax). The restructuring charges are expected to be substantially complete by the end of 2015, although certain actions will likely continue into 2016. Approximately \$40 million (\$25 million after tax) of charges are expected to be incurred in 2015. The company anticipates that approximately three-fourths of the

remaining Energy Plan pre-tax charges will represent cash expenditures. No decisions have been made for any asset disposals and estimates could vary depending on the actual actions taken.

The company recorded restructuring charges related to the Energy Restructuring Plan of \$13.1 million (\$9.1 million after tax) and \$2.7 million (\$2.2 million after tax) during the second quarter of 2015 and 2014, respectively. During the six months ended June 30, 2015 and 2014, the company incurred charges of \$14.1 million (\$9.9 million after tax) and \$7.6 million (\$5.2 million after tax), respectively.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

2. Special (Gains) and Charges (continued)

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

| (millions) | Energy Restructuring Plan | | | | Total |
|--|----------------------------|-----------------|--------|----|--------|
| | Employee Termination Costs | Asset Disposals | Other | | |
| 2013 - 2014 Activity: | | | | | |
| Recorded expense and accrual | \$ 30.8 | \$ 4.2 | \$ 1.9 | \$ | 36.9 |
| Cash payments | (29.6) | | (1.8) | | (31.4) |
| Non-cash charges | | (4.2) | | | (4.2) |
| Effect of foreign currency translation | 0.8 | | | | 0.8 |
| Restructuring liability, December 31, 2014 | 2.0 | | 0.1 | | 2.1 |
| 2015 Activity: | | | | | |
| Recorded expense and accrual | 13.4 | 0.1 | 0.6 | | 14.1 |
| Net cash payments | (4.7) | 3.9 | (0.6) | | (1.4) |
| Non-cash charges | | (4.0) | | | (4.0) |
| Effect of foreign currency translation | (0.1) | | | | (0.1) |
| Restructuring liability, June 30, 2015 | \$ 10.6 | \$ | \$ 0.1 | \$ | 10.7 |

As shown in the previous table, net cash payments under the Energy Restructuring Plan were \$1.4 million during the first six months of 2015 and \$31.4 million from 2013 through 2014. 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.

Combined Restructuring Plan

In February 2011, the company commenced a comprehensive plan to substantially improve the efficiency and effectiveness of its European business, as well as undertake certain restructuring activities outside of Europe, historically referred to as the 2011 Restructuring Plan .

Additionally, 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, historically referred to as the Merger Restructuring Plan .

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During the first quarter of 2013, the company determined that the objectives of the plans discussed above were aligned, and consequently, the previously separate restructuring plans were combined into one plan.

The combined restructuring plan (the Combined Plan) combines opportunities and initiatives from both plans and 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 the global workforce, plant and distribution center locations.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

2. Special (Gains) and Charges (continued)

The total pre-tax restructuring charges under the Combined Plan are expected to be approximately \$400 million (\$300 million after tax). The restructuring charges are expected to be substantially complete by the end of 2015, although certain actions will likely continue into 2016. Approximately \$50 million (\$40 million after tax) of charges are expected to be incurred in 2015. The company anticipates that approximately two-thirds of the remaining Combined Plan pre-tax charges will represent net cash expenditures. No decisions have been made regarding any additional non-cash charges and estimates could vary depending on the actual actions taken.

The company recorded restructuring charges related to the Combined Plan of \$7.3 million (\$5.5 million after tax) and \$4.3 million (\$3.9 million after tax) during the second quarter of 2015 and 2014, respectively. During the six months ended June 30, 2015 and 2014, the company incurred charges of \$9.0 million (\$6.3 million after tax) and \$28.0 million (\$23.7 million after tax), respectively.

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

| (millions) | Combined Plan | | | |
|--|----------------------------|-----------------|---------|----------|
| | Employee Termination Costs | Asset Disposals | Other | Total |
| 2011 - 2014 Activity: | | | | |
| Recorded net expense and accrual | \$ 308.8 | \$ (1.2) | \$ 43.6 | \$ 351.2 |
| Net cash payments | (242.4) | 11.7 | (30.3) | (261.0) |
| Non-cash net charges | | (10.5) | (4.3) | (14.8) |
| Effect of foreign currency translation | (1.9) | | | (1.9) |
| Restructuring liability, December 31, 2014 | 64.5 | | 9.0 | 73.5 |
| 2015 Activity: | | | | |
| Recorded net expense and accrual | 8.3 | 0.2 | 0.5 | 9.0 |
| Net cash payments | (16.7) | 0.2 | (5.8) | (22.3) |
| Non-cash net charges | | (0.4) | | (0.4) |
| Effect of foreign currency translation | (4.4) | | | (4.4) |
| Restructuring liability, June 30, 2015 | \$ 51.7 | \$ | \$ 3.7 | \$ 55.4 |

As shown in the previous table, net cash payments under the Combined Plan were \$22.3 million during the first six months of 2015 and \$261.0 million from 2011 through 2014. 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.

Non-restructuring Special (Gains) and Charges

Champion acquisition and integration costs

As a result of the Champion acquisition completed in 2013, the company incurred net charges of \$4.3 million (\$2.8 million after tax) and \$5.2 million (\$3.4 million after tax) during the second quarter of 2015 and 2014, respectively. During the six months ended June 30, 2015 and 2014, the company incurred charges of \$9.5 million (\$6.0 million after tax) and \$11.7 million (\$7.5 million after tax), respectively.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

2. Special (Gains) and Charges (continued)

Champion related special charges for 2015 and 2014 include integration costs and have been included as a component of special (gains) and charges on the Consolidated Statement of Income.

Nalco merger and integration costs

As a result of the Nalco merger completed in 2011, the company incurred net charges of \$0.2 million (\$0.1 million after tax) and \$1.5 million (\$1.1 million after tax) during the second quarter of 2015 and 2014, respectively. During the six months ended June 30, 2015 and 2014, the company incurred charges of \$0.7 million (\$0.6 million after tax) and \$2.8 million (\$2.0 million after tax), respectively. Nalco related special charges for 2015 and 2014 include integration costs and have been included as a component of special (gains) and charges on the Consolidated Statement of Income.

Venezuelan currency devaluation

Venezuela is a country experiencing a highly inflationary economy as defined under U.S. GAAP. As a result, the U.S. dollar is the functional currency for the company's subsidiaries in Venezuela. Any currency remeasurement adjustments for non-dollar denominated monetary assets and liabilities held by the company's subsidiaries and other transactional foreign exchange gains and losses are reflected in earnings.

In 2013, the Venezuelan government established a new foreign exchange mechanism known as the Complementary System of Foreign Currency Acquirement (SICAD 1). It operates similar to an auction system and allows entities to exchange a limited number of Bolivares Fuertes (bolivares) for U.S. dollars at a bid rate established via weekly auctions. As of May 31, 2015, the fiscal quarter end for the company's international operations, the SICAD 1 exchange rate closed at 12.0 bolivares to 1 U.S. dollar. The company does not use the SICAD 1 rate or expect to use the SICAD 1 currency exchange mechanism.

In January 2014, the Venezuelan government announced the replacement of the Commission for the Administration of Foreign Exchange (CADIVI) with a new foreign currency administration, the National Center for Foreign Commerce (CENCOEX), which did not impact the fixed currency exchange rate of 6.3 bolivares to 1 U.S. dollar. In March 2014, the Venezuelan government introduced an additional currency exchange auction mechanism (SICAD 2), which operated similar to SICAD 1. In February 2015, SICAD 2 was replaced by a free-floating rate, the Marginal Currency System (SIMADI), with an exchange rate at May 31, 2015 of 199.0 bolivares to 1 U.S. dollar.

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The company closely monitors the complex economic and political conditions with respect to its operations in Venezuela, which are aligned to five of its ten operating units. During the second quarter of 2015, the company concluded that it was appropriate to apply the SIMADI exchange rate to its Venezuelan Water and Paper operating units, as the company believes that the SIMADI rate best represents the economics of those operating units, based on the underlying transactions within those operating units. As a result, the company recorded a devaluation charge of \$30.2 million (\$30.2 million after tax), including the remeasurement of its Water and Paper monetary assets and impairment of certain other net assets.

During the first six months of 2015, within the Energy, Food & Beverage and Institutional operating units, the company continued to transact business at the CENCOEX fixed currency exchange rate of 6.3 bolivares to 1 U.S. dollar, including transactions with Petróleos de Venezuela (PDVSA), the Venezuelan state-owned oil and natural gas company, through its Energy operating unit. As the fixed currency exchange rate of 6.3 bolivares to 1 U.S. dollar remained legally available to the company, and it continued to transact at this rate, the company continued to remeasure the net monetary assets of its Energy, Food & Beverage and Institutional operating units at this rate throughout the first six months of 2015.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

2. Special (Gains) and Charges (continued)

As of May 31, 2015, the company had approximately \$100 million of net monetary assets denominated in bolivares within its Energy, Food & Beverage and Institutional operating units that were required to be remeasured to U.S. dollars. Approximately 80% of the net monetary assets are aligned to the Energy business unit. As of May 31, 2015, the company had other net assets of approximately \$120 million within the Energy, Food & Beverage and Institutional operating units, largely comprised of accounts receivable (denominated in U.S. dollars), inventory, property, plant and equipment and other intangible assets, excluding goodwill. Approximately 85% of the other net assets are aligned to the Energy business unit.

Net sales within Venezuela are approximately 1% of the company's consolidated net sales. Assets held in Venezuela at May 31, 2015 represented less than 2% of the company's consolidated assets.

Other special (gains) and charges

The company recognized charges of \$21.4 million (\$13.4 million after tax) during both the second quarter and first six months of 2015, related to recognition of a loss on the sale of a portion of its Ecovation business, and other litigation related charges.

The company recognized gains of \$18.8 million (\$15.9 million after tax) and \$19.6 million (\$16.4 million after tax) in the second quarter and the first six months of 2014, respectively, related to a favorable licensing settlement and other settlement gains.

3. Acquisitions and Dispositions

Acquisitions

2015 Activity

During the first six months of 2015, the company completed three business combination transactions. In addition, one transaction was completed subsequent to the end of the second quarter.

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In December 2014, subsequent to the company's fiscal year end for international operations, the company entered into a licensing agreement and business acquisition with Aseptix Health Sciences NV. With pre-acquisition annual sales of less than \$1 million, the acquired business became part of the company's Global Institutional reportable segment during the first quarter of 2015.

Also in December 2014, subsequent to the company's fiscal year end for international operations, the company acquired Commercial Pest Control Pty Ltd, an Australian commercial pest control company. With pre-acquisition annual sales of less than \$1 million, the acquired business became part of the company's Other segment during the first quarter of 2015.

In April 2015, the company acquired certain assets from Clariant AG, based in Brazil and Argentina. With pre-acquisition annual sales of approximately \$4 million, the acquired business became part of the company's Global Industrial reportable segment during the second quarter of 2015.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

3. Acquisitions and Dispositions (Continued)

In June 2015, subsequent to the company's quarter end for international operations, the company acquired Jianghai Environmental Protection Co. Ltd, an industrial water treatment company headquartered in Changzhou, China. The purchase price of the acquired business is approximately \$190 million. Significant assets acquired include customer relationships, trademarks and other technology, with goodwill calculated as the excess of consideration transferred over the fair value of identifiable net assets acquired. With pre-acquisition annual sales of approximately \$90 million, the acquired business will become part of the company's Global Industrial reportable segment during the third quarter of 2015.

2014 Activity

During the first six months of 2014, the company completed three business combination transactions.

In December 2013, subsequent to the company's year end for international operations, the company completed the acquisition of AkzoNobel's Purate business, which specializes in global antimicrobial water treatment. Pre-acquisition annual sales of the business were approximately \$23 million. The acquired business became part of the company's Global Industrial reportable segment during the first quarter of 2014.

In March 2014, the company acquired AK Kraus & Hiller Schädlingsbekämpfung, one of Germany's leading commercial pest elimination service providers. Pre-acquisition annual sales of the business were approximately \$4 million. The business became part of the company's Other segment during the second quarter of 2014.

In March 2014, the company purchased the remaining interest in a joint venture held in South Africa. The transaction was not significant to the company's operations.

Acquisition summary

Acquisitions during the first six months of 2015 and all of 2014 were not material to the company's consolidated financial statements. The aggregate purchase price of acquisitions has been reduced for any cash or cash equivalents acquired with the acquisitions. Based upon purchase price allocations, the components of the aggregate purchase prices of completed acquisitions during the second quarter and first six months of 2015 and 2014 are shown in the following table.

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| (millions) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|---------|-----------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Net tangible assets acquired | \$ 2.4 | \$ 10.9 | \$ 3.5 | \$ 23.7 |
| Identifiable intangible assets | | | | |
| Customer relationships | 2.0 | 1.0 | 2.6 | 2.9 |
| Patents | | | 2.5 | |
| Trademarks | | | 0.1 | 0.8 |
| Other technology | | | 0.2 | 2.9 |
| Non-compete | | 0.1 | | 0.1 |
| Total intangible assets | 2.0 | 1.1 | 5.4 | 6.7 |
| Goodwill | 0.4 | 4.4 | 6.7 | 11.3 |
| Total aggregate purchase price | 4.8 | 16.4 | 15.6 | 41.7 |
| Acquisition related liabilities and contingent consideration | | (1.0) | (0.1) | 0.2 |
| Net cash paid for acquisitions, including contingent consideration | \$ 4.8 | \$ 15.4 | \$ 15.5 | \$ 41.9 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

3. Acquisitions and Dispositions (Continued)

The weighted average useful lives of identifiable intangible assets acquired during the first six months of 2015 and 2014, as shown in the previous table, were 9 and 10 years, respectively.

Champion acquisition

On April 10, 2013, the company completed its acquisition of Champion, a global energy specialty products and services company delivering its offerings to the oil and gas industry.

During the first quarter of 2014 purchase price allocations were finalized, resulting in net adjustments of \$16.9 million to the value of Champion assets acquired and liabilities assumed, with an offset to goodwill. The adjustments primarily related to estimated liabilities, updated property, plant and equipment values and deferred taxes. As the adjustments were not significant, they were recorded in 2014 upon identification.

In accordance with the acquisition agreement, except under limited circumstances, the company was required to pay an additional amount in cash, up to \$100 million in the aggregate, equal to 50% of the incremental tax on the merger consideration as a result of increases in applicable gains and investment taxes after December 31, 2012. In January 2014, in accordance with the above discussion, an additional payment of \$86.4 million was made to the acquired entity's former stockholders.

The company deposited approximately \$100 million of the original Champion purchase price consideration in an escrow account to fund post-closing adjustments to the consideration, and covenant and other indemnification obligations of the acquired entities' former stockholders for a period of two years following the effective date of the acquisition. As of the end of the second quarter of 2015, the company is actively working to resolve indemnification obligations of the acquired entities' former stockholders, with the potential future recovery of amounts from the escrow account by the company expected to be reflected within cost of sales, selling, general and administrative expenses, and/or special (gains) and charges within the Consolidated Statement of Income.

Dispositions

In June 2015, the company sold a portion of its Ecovation business, resulting in a loss of \$13.7 million (\$8.6 after tax), recorded in special (gains) and charges. The business was part of the company's Global Industrial reportable segment.

In April 2014, the company sold an immaterial business in Italy that was part of the company's Global Institutional reportable segment.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

4. Balance Sheet Information

| (millions) | June 30 2015 | December 31 2014 |
|---|-----------------|---------------------|
| Accounts receivable, net | | |
| Accounts receivable | \$ 2,571.1 | \$ 2,704.2 |
| Allowance for doubtful accounts | (76.3) | (77.5) |
| Total | \$ 2,494.8 | \$ 2,626.7 |
| Inventories | | |
| Finished goods | \$ 1,015.2 | \$ 1,044.1 |
| Raw materials and parts | 451.9 | 447.3 |
| Inventories at FIFO cost | 1,467.1 | 1,491.4 |
| Excess of FIFO cost over LIFO cost | (4.4) | (24.5) |
| Total | \$ 1,462.7 | \$ 1,466.9 |
| Other current assets | | |
| Prepaid assets | \$ 111.7 | \$ 104.7 |
| Taxes receivable | 228.2 | 133.0 |
| Derivative assets | 128.9 | 57.4 |
| Other | 69.6 | 71.5 |
| Total | \$ 538.4 | \$ 366.6 |
| Property, plant and equipment, net | | |
| Land | \$ 208.1 | \$ 199.9 |
| Buildings and improvements | 880.7 | 759.9 |
| Leasehold improvements | 83.1 | 84.6 |
| Machinery and equipment | 1,876.2 | 1,858.1 |
| Merchandising and customer equipment | 1,954.7 | 1,917.5 |
| Capitalized software | 469.6 | 443.9 |
| Construction in progress | 318.4 | 277.5 |
| | 5,790.8 | 5,541.4 |
| Accumulated depreciation | (2,667.4) | (2,490.8) |
| Total | \$ 3,123.4 | \$ 3,050.6 |
| 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 | \$ 3,273.2 | \$ 3,385.7 |
| Trademarks | 297.1 | 311.1 |
| Patents | 414.8 | 434.5 |
| Other technology | 203.8 | 214.0 |
| | \$ 4,188.9 | \$ 4,345.3 |
| Accumulated amortization | | |
| Customer relationships | \$ (866.1) | \$ (794.6) |
| Trademarks | (94.0) | (91.5) |

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| | | | | |
|--------------------------|----|---------|----|---------|
| Patents | | (115.0) | | (124.9) |
| Other technology | | (112.8) | | (107.5) |
| Total | \$ | 4,231.0 | \$ | 4,456.8 |
| Other assets | | | | |
| Deferred income taxes | \$ | 60.3 | \$ | 71.5 |
| Deferred financing costs | | 27.4 | | 27.1 |
| Pension | | 22.2 | | 15.9 |
| Other | | 268.5 | | 256.7 |
| Total | \$ | 378.4 | \$ | 371.2 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

4. Balance Sheet Information (continued)

| (millions) | June 30 2015 | December 31 2014 |
|--|-----------------|---------------------|
| Other current liabilities | | |
| Discounts and rebates | \$ 269.2 | \$ 255.4 |
| Dividends payable | 97.6 | 99.1 |
| Interest payable | 23.7 | 18.9 |
| Taxes payable, other than income | 107.1 | 122.6 |
| Derivative liabilities | 17.4 | 34.0 |
| Restructuring | 54.5 | 66.3 |
| Other | 259.4 | 255.4 |
| Total | \$ 828.9 | \$ 851.7 |
| Other liabilities | | |
| Deferred income taxes | \$ 1,405.4 | \$ 1,415.8 |
| Income taxes payable - non-current | 79.7 | 86.4 |
| Restructuring | 11.6 | 9.3 |
| Other | 131.2 | 134.0 |
| Total | \$ 1,627.9 | \$ 1,645.5 |
| Accumulated other comprehensive loss | | |
| Unrealized gain (loss) on derivative financial instruments, net of tax | \$ 2.2 | \$ (2.7) |
| Unrecognized pension and postretirement benefit expense, net of tax | (514.2) | (552.5) |
| Cumulative translation, net of tax | (683.1) | (396.7) |
| Total | \$ (1,195.1) | \$ (951.9) |

5. Debt and Interest

The following table provides the components of the company's short-term debt obligations as of June 30, 2015 and December 31, 2014.

| (millions) | June 30 2015 | December 31 2014 |
|------------------------------------|-----------------|---------------------|
| Short-term debt | | |
| Commercial paper | \$ 1,331.9 | \$ 887.8 |
| Notes payable | 63.0 | 62.1 |
| Long-term debt, current maturities | 790.4 | 755.5 |
| Total | \$ 2,185.3 | \$ 1,705.4 |

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As of June 30, 2015, the company had in place a \$2.0 billion multi-year credit facility which expires in December 2019. The credit facility has been established with a diverse syndicate of banks and supports the company's \$2.0 billion U.S. commercial paper program and the company's \$200 million European commercial paper program. The company's U.S. commercial paper program, as shown in the previous table, had \$1,332 million and \$888 million outstanding as of June 30, 2015 and December 31, 2014, respectively.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

5. Debt and Interest (continued)

The following table provides the components of the company's long-term debt obligations, including current maturities, as of June 30, 2015 and December 31, 2014.

| (millions) | Maturity by year | June 30 2015 | December 31 2014 |
|---|---------------------|-------------------|---------------------|
| Long-term debt | | | |
| Description / 2015 Principal Amount | | | |
| Seven year 2008 senior notes (\$0 million) | 2015 | \$ | \$ 250.0 |
| Three year 2012 senior notes (\$500 million) | 2015 | 500.0 | 500.0 |
| Term loan (\$275 million) | 2016 | 275.0 | 400.0 |
| Series B private placement senior euro notes (175 million) | 2016 | 192.2 | 217.9 |
| Five year 2011 senior notes (\$1.25 billion) | 2016 | 1,249.4 | 1,249.1 |
| Five year 2012 senior notes (\$500 million) | 2017 | 500.5 | 497.6 |
| Three year 2015 senior notes (\$300 million) | 2018 | 299.8 | |
| Series A private placement senior notes (\$250 million) | 2018 | 249.0 | 250.0 |
| Five year 2015 senior notes (\$300 million) | 2020 | 299.9 | |
| Ten year 2011 senior notes (\$1.25 billion) | 2021 | 1,249.5 | 1,249.4 |
| Series B private placement senior notes (\$250 million) | 2023 | 250.0 | 250.0 |
| Thirty year 2011 senior notes (\$750 million) | 2041 | 743.2 | 743.1 |
| Capital lease obligations | | 9.2 | 9.3 |
| Other | | 96.9 | 3.1 |
| Total debt | | 5,914.6 | 5,619.5 |
| Long-term debt, current maturities | | (790.4) | (755.5) |
| Total long-term debt | | \$ 5,124.2 | \$ 4,864.0 |

In January 2015, the company issued \$600 million of debt securities in a public offering consisting of a three-year 1.55% fixed rate note for a par amount of \$300 million and a five-year 2.25% fixed rate note for a par amount of \$300 million. The proceeds were used to repay a portion of the company's outstanding commercial paper and for general corporate purposes.

In July 2015, subsequent to the company's second quarter end, the company issued a ten-year 2.63% fixed rate euro note for a par amount of 575 million. The proceeds were used to repay a portion of the company's outstanding commercial paper.

The notes issued by the company in January and July of 2015, pursuant to public debt offerings (the "Public Notes") may be redeemed by the company at its option at redemption prices that include accrued and unpaid interest and a make-whole premium. Upon the occurrence of a change of control accompanied by a downgrade of the Public Notes below investment grade rating, within a specified time period, the company will be required to offer to repurchase the Public Notes at a price equal to 101% of the aggregate principal amount thereof, plus any accrued and unpaid interest to the date of repurchase. The Public Notes are senior unsecured and unsubordinated obligations of the company and rank equally

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with all other senior and unsubordinated indebtedness of the company.

During the first quarter of 2015, the company acquired the beneficial interest in the trust owning the leased Naperville facility resulting in debt assumption of \$100.2 million and the addition of \$135.2 million in property, plant and equipment. Certain administrative, divisional, and research and development personnel are based at the Naperville facility. Cash paid as a result of the transaction was \$19.8 million. The assumed debt is reflected in the "Other" line the table above. The assumption of debt and the majority of the property, plant and equipment addition represent non-cash financing and investing activities, respectively.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

5. Debt and Interest (continued)

During the first quarter of 2015, the company repaid its \$250 million 4.88% seven year senior notes at maturity and \$125 million of its term loan borrowings.

The company is in compliance with its debt covenants as of June 30, 2015.

Interest expense and interest income recognized during the second quarter and the first six months of 2015 and 2014 were as follows:

| (millions) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|-----------------------|---------------------------------|---------|-----------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest expense | \$ 63.5 | \$ 68.6 | \$ 128.7 | \$ 135.9 |
| Interest income | (2.3) | (2.4) | (5.0) | (4.6) |
| Interest expense, net | \$ 61.2 | \$ 66.2 | \$ 123.7 | \$ 131.3 |

6. Goodwill and Other Intangible AssetsGoodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination. The company's reporting units are its operating segments.

The company tests goodwill for impairment on an annual basis during the second quarter. During 2014, the company elected to perform a qualitative assessment for its annual impairment test. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the company would be required to perform a quantitative impairment test for goodwill. During 2015, in order to refresh the relative fair values of all ten of its reporting units, the company elected to bypass the qualitative assessment and perform a quantitative impairment test. The two-step process involved comparing the estimated fair value of each reporting unit to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not to be impaired, and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its

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fair value, the second step of the goodwill impairment test would be performed to measure the amount of impairment loss to be recorded, if any.

In performing its quantitative impairment test, the company estimated the fair value of its reporting units using a market based approach. The company estimated fair value based on multiples of earnings before interest, taxes, depreciation and amortization (EBITDA) determined by current trading market multiples of earnings for companies operating in businesses similar to each of the company s reporting units.

The company s goodwill impairment assessment for 2015 indicated the fair value of each of its reporting units exceeded its carrying amount by a significant margin. Based on the company s qualitative assessment of goodwill in 2014, it concluded that it was more likely than not that the fair value of each of the company s reporting units was greater than their carrying values, and therefore no further testing was required. If circumstances change significantly, the company would also test a reporting unit s goodwill for impairment during interim periods between its annual tests. There has been no impairment of goodwill since the adoption of FASB guidance for goodwill and other intangibles on January 1, 2002.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

6. Goodwill and Other Intangible Assets (Continued)

The changes in the carrying amount of goodwill for each of the company's reportable segments during the six months ended June 30, 2015 were as follows:

| (millions) | Global Industrial | Global Institutional | Global Energy | Other | Total |
|--|----------------------|-------------------------|------------------|----------|------------|
| Goodwill as of December 31, 2014 | \$ 2,642.2 | \$ 691.2 | \$ 3,262.1 | \$ 121.5 | \$ 6,717.0 |
| Current year business combinations(a) | | 6.1 | | 0.9 | 7.0 |
| Prior year business combinations(b) | (0.3) | | | | (0.3) |
| Dispositions | (0.4) | | | | (0.4) |
| Reclassifications(c) | (23.7) | 2.9 | 20.8 | | |
| Effect of foreign currency translation | (81.8) | (21.9) | (102.4) | (3.8) | (209.9) |
| Goodwill as of June 30, 2015 | \$ 2,536.0 | \$ 678.3 | \$ 3,180.5 | \$ 118.6 | \$ 6,513.4 |

- (a) For 2015, \$0.9 million of the goodwill related to businesses acquired is expected to be tax deductible.
- (b) Represents purchase price allocation adjustments for 2014 acquisitions deemed preliminary as of December 31, 2014.
- (c) Represents immaterial reclassifications of beginning balances to conform to the current year presentation.

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 2015, 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 intangible assets subject to amortization primarily include customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections and other acceptable valuation methods. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Total amortization expense related to other intangible assets during the second quarter ended June 30, 2015 and 2014 was \$72.9 million and \$76.7 million, respectively. Total amortization expense related to other intangible assets during the first six months of 2015 and 2014 was \$146.0 million and \$154.8 million, respectively.

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As of June 30, 2015, future estimated expense related to amortizable other identifiable intangible assets is expected to be:

| (millions) | | |
|------------------------------------|----|-----|
| 2015 (Remainder: six-month period) | \$ | 142 |
| 2016 | | 286 |
| 2017 | | 283 |
| 2018 | | 278 |
| 2019 | | 266 |
| 2020 | | 262 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

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, commercial paper, notes payable, foreign currency forward contracts, interest rate swap contracts and long-term debt.

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

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

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

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

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

| June 30 (millions) | Carrying Amount | 2015 Fair Value Measurements | | |
|------------------------------------|--------------------|---------------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments held in rabbi trusts | \$ 2.1 | \$ 2.1 | \$ | \$ |
| Foreign currency forward contracts | 187.4 | | 187.4 | |
| Interest rate swap contracts | 0.9 | | 0.9 | |
| Contingent consideration | 0.3 | | | 0.3 |
| Liabilities: | | | | |
| Foreign currency forward contracts | 36.3 | | 36.3 | |
| Interest rate swap contracts | 23.5 | | 23.5 | |

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Contingent consideration 0.8 0.8

| December 31 (millions) | Carrying Amount | 2014 Fair Value Measurements | | |
|------------------------------------|--------------------|---------------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments held in rabbi trusts | \$ 3.4 | \$ 3.4 | \$ | \$ |
| Foreign currency forward contracts | 75.5 | | 75.5 | |
| Contingent consideration | 0.3 | | | 0.3 |
| Liabilities: | | | | |
| Foreign currency forward contracts | 27.9 | | 27.9 | |
| Interest rate swap contracts | 24.2 | | 24.2 | |
| Contingent consideration | 1.6 | | | 1.6 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

7. Fair Value Measurements (Continued)

The carrying value of investments held in rabbi trusts is at fair value, which is determined using quoted prices in active markets, and is classified within level 1. 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 carrying value of interest rate swap contracts is at fair value, which is determined based on current interest rates and forward interest rates as of the balance sheet date and is classified within level 2. For purposes of fair value disclosure above, derivative values are presented gross. See further discussion of gross versus net presentation of the company's derivatives within Note 8.

Contingent consideration obligations are recognized and measured at fair value at the acquisition date. Contingent consideration is classified within level 3 as the underlying 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 net fair value of contingent consideration for the six months ended June 30, 2015 were as follows:

| | | |
|---|----|-------|
| (millions) | | |
| Contingent consideration, December 31, 2014 | \$ | 1.3 |
| Amount recognized at acquisition date | | |
| Loss (gain) recognized in earnings | | |
| Settlements | | (0.8) |
| Foreign currency translation | | |
| Contingent consideration, June 30, 2015 | \$ | 0.5 |

The carrying values of accounts receivable, accounts payable, 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. The carrying amount and the estimated fair value of long-term debt, including current maturities, held by the company were:

| (millions) | June 30, 2015 | | December 31, 2014 | |
|---|------------------------|-------------------|--------------------------|-------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt (including current maturities) | \$ 5,914.6 | \$ 6,154.2 | \$ 5,619.5 | \$ 5,980.9 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions

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. Cash flows from derivatives are classified in the statement of cash flows in the same category as the cash flows from the items subject to designated hedge or undesignated (economic) hedge relationships. 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.

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 accumulated other comprehensive income (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 cash flow hedged transactions are forecasted to occur within the next twelve months.

The company occasionally enters into forward starting interest rate swap agreements to manage interest rate exposure.

During 2014, the company entered into a series of forward starting interest rate swap agreements in connection with both its U.S. public debt issuance completed in January 2015 and its euro public debt issuance completed in July 2015. The interest rate swap agreements were designated and effective as cash flow hedges of the expected interest payments related to the debt issuances. The swap agreements closed in January 2015 and July 2015, in conjunction with the respective U.S. and euro debt issuances discussed in Note 5.

During 2011, the company entered into and subsequently closed a series of forward starting swap agreements in connection with the issuance of its private placement debt. During 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 the 2015, 2011 and 2006 transactions are recognized as part of interest expense over the remaining life of the notes as the forecasted interest transactions occur.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions (continued)

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

| (millions) | Location | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|---|-----------------------|---------------------------------|----------|-----------------------------|----------|
| | | 2015 | 2014 | 2015 | 2014 |
| <u>Unrealized gain (loss) recognized into AOCI (effective portion)</u> | | | | | |
| Foreign currency forward contracts | AOCI (equity) | \$ (5.4) | \$ (2.9) | \$ 19.9 | \$ (2.7) |
| Interest rate swap contracts | AOCI (equity) | \$ 7.9 | \$ | \$ (6.5) | \$ |
| <u>Gain (loss) reclassified from AOCI into income (effective portion)</u> | | | | | |
| Foreign currency forward contracts | Cost of sales | \$ 5.1 | \$ 2.7 | \$ 9.9 | \$ 2.5 |
| | SG&A | 0.4 | 0.4 | 0.9 | 1.0 |
| | | 5.5 | 3.1 | 10.8 | 3.5 |
| Interest rate swap contracts | Interest expense, net | (1.4) | (1.0) | (2.6) | (2.0) |
| | | \$ 4.1 | \$ 2.1 | \$ 8.2 | \$ 1.5 |

Gains and losses recognized in income related to the ineffective portion of the company's cash flow hedges were insignificant during first six months of 2015 and 2014.

Fair Value Hedges

The company manages interest expense using a mix of fixed and floating rate debt. To help manage exposure to interest rate movements and to reduce borrowing costs, the company may enter into interest rate swaps under which the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed upon notional principal amount. The mark-to-market of these fair value hedges is recorded as gains or losses in interest expense and is offset by the gain or loss of the underlying debt instrument, which is also recorded in interest expense. These fair value hedges are highly effective and thus, there is no impact on earnings due to hedge ineffectiveness.

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In May 2014, the company entered into an interest rate swap agreement that converted its \$500 million 1.45% debt from a fixed rate to a floating interest rate. In January 2015, the company entered into interest rate swap agreements that converted its \$300 million 1.55% debt, its \$250 million 3.69% debt and a portion of its \$1.25 billion 3.00% debt from fixed rates to floating interest rates. The interest rate swaps were designated as fair value hedges.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions (continued)

The impact on earnings from derivative contracts that qualified as fair value hedges was as follows:

| (millions) | Location | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|-----------------------|---------------------------------|----------|-----------------------------|----------|
| | | 2015 | 2014 | 2015 | 2014 |
| <u>Gain (loss) on derivative recognized in income</u> | | | | | |
| Interest rate swap | Interest expense, net | \$ 0.9 | \$ (1.0) | \$ 1.9 | \$ (1.0) |
| <u>Gain (loss) on hedged item recognized in income</u> | | | | | |
| Interest rate swap | Interest expense, net | \$ (0.9) | \$ 1.0 | \$ (1.9) | \$ 1.0 |

Net Investment Hedges

The company designates its outstanding 175 million (\$192 million as of June 30, 2015) senior notes (euro notes) and related accrued interest as a hedge of existing foreign currency exposures related to net investments the company has in certain euro denominated functional currency subsidiaries. The 575 million issued in July 2015, and related accrued interest, will also be designated as a net investment hedge.

The company also enters into euro denominated forward contracts to hedge additional portions of its net investments in euro denominated functional currency subsidiaries.

During the second half of 2014, the company entered into forward contracts with notional values of 495 million. In July 2015, subsequent to the company's second quarter end, the company closed the 495 million net investment hedge.

During the first quarter of 2015, the company entered into forward contracts with notional values of 360 million and 80 million. During the second quarter of 2015, the company de-designated the 360 million net investment hedges and initiated undesignated hedges for 360 million to offset the impact of the original 360 million forward contract.

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The revaluation gains and losses on the euronotes and of the forward contracts, 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:

| (millions) | Second Quarter Ended June 30 | | | Six Months Ended June 30 | | | | |
|--|---------------------------------|------|------|-----------------------------|----|------|----|-------|
| | 2015 | | 2014 | 2015 | | 2014 | | |
| Revaluation gains (losses), net of tax | \$ | 21.8 | \$ | 1.9 | \$ | 78.8 | \$ | (1.8) |

ECOLAB INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

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.

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

| (millions) | Location | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|---|--------------------------|---------------------------------|--------|-----------------------------|--------|
| | | 2015 | 2014 | 2015 | 2014 |
| <u>Gain (loss) recognized in income</u> | | | | | |
| Foreign currency forward contracts | SG&A | \$ (5.5) | \$ 3.7 | \$ (0.7) | \$ 6.8 |
| | Interest expense, net | (5.7) | (3.0) | (10.6) | (5.4) |
| | | \$ (11.2) | \$ 0.7 | \$ (11.3) | \$ 1.4 |

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.

Derivative Summary

Certain of 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 and as of the applicable dates presented below, no cash collateral had been received or pledged related to the underlying derivatives.

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During 2015, the company made an accounting policy election regarding the presentation of derivatives subject to master netting arrangements with the same counterparties within its Consolidated Balance Sheet. The company previously presented all derivative positions on a gross basis and began presenting derivatives subject to master netting arrangements with the same counterparties on a net basis during the first quarter of 2015. The company reclassified the presentation of derivatives subject to master netting arrangements with the same counterparty as of December 31, 2014 to conform to the new accounting policy which resulted in a reduction in other current assets and other current liabilities of \$18.1 million. The immaterial reclassification had no impact on previously reported earnings or cash flows.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions (continued)

The respective net amounts are included in other current assets, other non-current assets and other current liabilities on the Consolidated Balance Sheet.

| (millions) | Asset Derivatives | | Liability Derivatives | |
|--|-------------------|---------------------|-----------------------|---------------------|
| | June 30 2015 | December 31 2014 | June 30 2015 | December 31 2014 |
| Gross value of derivatives | \$ 188.3 | \$ 75.5 | \$ 59.8 | \$ 52.1 |
| Gross amounts offset in the Consolidated Balance Sheet | (42.4) | (18.1) | (42.4) | (18.1) |
| Net value of derivatives presented in the Consolidated Balance Sheet | \$ 145.9 | \$ 57.4 | \$ 17.4 | \$ 34.0 |

The following table summarizes the gross fair value of the company's outstanding derivatives.

| (millions) | Asset Derivatives | | Liability Derivatives | |
|--|-------------------|---------------------|-----------------------|---------------------|
| | June 30 2015 | December 31 2014 | June 30 2015 | December 31 2014 |
| <u>Derivatives designated as hedging instruments</u> | | | | |
| Foreign currency forward contracts | \$ 49.8 | \$ 17.9 | \$ 4.2 | \$ 0.6 |
| Interest rate swap contracts | 0.9 | | 23.5 | 24.2 |
| <u>Derivatives not designated as hedging instruments</u> | | | | |
| Foreign currency forward contracts | 137.6 | 57.6 | 32.1 | 27.3 |
| Total | \$ 188.3 | \$ 75.5 | \$ 59.8 | \$ 52.1 |

The following table summarizes the notional values of the company's outstanding derivatives.

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| (millions) | Notional Values | | | |
|------------------------------------|-----------------|-----------------|----|---------------------|
| | | June 30 2015 | | December 31 2014 |
| Foreign currency forward contracts | \$ | 3,300 | \$ | 2,800 |
| Interest rate swap agreements | \$ | 1,425 | \$ | 725 |
| | | 400 | | 400 |
| Net investment hedge contracts(a) | | 575 | | 495 |

(a) The net investment hedge contracts exclude the euro denominated debt.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

9. Other Comprehensive Income Information

Comprehensive income (loss) includes net income, foreign currency translation adjustments, unrecognized gains and losses on securities, defined benefit pension and postretirement plan adjustments, gains and losses on derivative instruments designated and effective as cash flow hedges and non-derivative instruments designated and effective as foreign currency net investment hedges that are charged or credited to the accumulated other comprehensive loss account in shareholders' equity.

The following tables provide other comprehensive income information related to the company's derivatives and hedging instruments and pension and postretirement benefits. See Note 8 for additional information related to the company's derivatives and hedging transactions. See Note 13 for additional information related to the company's recognition of net actuarial losses and amortization of prior service benefits.

| (millions) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|---|---------------------------------|----------|-----------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Derivative & Hedging Instruments | | | | |
| Unrealized gains (losses) on derivative & hedging instruments | | | | |
| Amount recognized into AOCI | \$ 2.5 | \$ (2.9) | \$ 13.4 | \$ (2.7) |
| (Gains) losses reclassified from AOCI into income | | | | |
| Cost of sales | (5.1) | (2.7) | (9.9) | (2.5) |
| SG&A | (0.4) | (0.4) | (0.9) | (1.0) |
| Interest expense, net | 1.4 | 1.0 | 2.6 | 2.0 |
| | (4.1) | (2.1) | (8.2) | (1.5) |
| Translation & other insignificant activity | (0.1) | (0.4) | (0.5) | 0.3 |
| Tax impact | (1.2) | 1.3 | 0.2 | (0.2) |
| Net of tax | \$ (2.9) | \$ (4.1) | \$ 4.9 | \$ (4.1) |
| Pension & Postretirement Benefits | | | | |
| Amounts reclassified from AOCI into income | | | | |
| Actuarial losses | \$ 14.5 | \$ 5.7 | \$ 29.0 | \$ 11.5 |
| Prior service costs | (2.0) | (1.7) | (3.7) | (3.4) |
| | 12.5 | 4.0 | 25.3 | 8.1 |
| Tax impact | (4.4) | (1.5) | (9.2) | (3.0) |
| Net of tax | \$ 8.1 | \$ 2.5 | \$ 16.1 | \$ 5.1 |

The following table summarizes the derivative and pension and postretirement benefit amounts reclassified from AOCI into income.

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| (millions) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|----------|-----------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Derivative gains reclassified from AOCI into income, net of tax | \$ (3.1) | \$ (1.6) | \$ (6.3) | \$ (1.3) |
| Pension and Postretirement Benefits net actuarial losses and prior services costs reclassified from AOCI into income, net of tax | \$ 8.1 | \$ 2.5 | \$ 16.1 | \$ 5.1 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

10. Shareholders' Equity

Share repurchases

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 10 million common shares, including shares to be repurchased under Rule 10b5-1, which was contingent upon completion of the merger with Nalco. In February 2015, the company's Board of Directors authorized the repurchase of up to 20 million additional shares of its common stock, including shares to be repurchased under Rule 10b5-1. As of June 30, 2015, 22,968,599 shares remained to be repurchased under the company's repurchase authorization. The company intends to repurchase all shares under its authorization, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.

In February 2015, under the existing repurchase authorization discussed above, the company announced a \$1.0 billion share repurchase program, of which \$390 million remains to be repurchased as of June 30, 2015. The company expects the program to be completed by mid-2016.

As part of this program, the company entered into an accelerated stock repurchase (ASR) agreement with a financial institution to repurchase \$300 million of its common stock. Under the ASR, the company received 2,066,293 shares of its common stock in February 2015, which was approximately 80% of the total number of shares the company expected to be repurchased under the ASR, based on the price of the company's common stock at that time.

The final per share purchase price and the total number of shares to be repurchased under the ASR agreement generally were based on the volume-weighted average price of the company's common stock during the term of the agreement. Upon final settlement of the ASR agreement, under certain circumstances, the financial institution was obligated to deliver additional shares to the company or the company was obligated to deliver additional shares of common stock or make a cash payment, at the company's election, to the financial institution. In connection with the finalization of the ASR in April 2015, the company received an additional 555,511 shares of common stock. All shares acquired under the ASR agreement were recorded as treasury stock.

From February 2015 through settlement in April 2015, the ASR was not dilutive to the company's earnings per share calculation. Additionally, the ASR agreement did not trigger the two-class earnings per share methodology. From February 2015 through settlement in April 2015, the unsettled portion of the ASR met the criteria to be accounted for as a forward contract indexed to the company's stock and qualified as an equity transaction.

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The initial delivery of shares, as well as the additional receipt of shares at settlement resulted in a reduction to the company's common stock outstanding used to calculate earnings per share, the impact of which was not material.

During the first six months of 2015, including the ASR discussed above, the company reacquired 6,421,757 shares of its common stock, of which 6,197,699 related to share repurchases through open market or private purchases and 224,058 related to shares withheld for taxes on the exercise of stock options and the vesting of stock awards and units.

During all of 2014, the company reacquired 3,547,334 shares of its common stock through open market and private purchases and 489,854 of shares withheld for taxes related to the exercise of stock options and the vesting of stock awards and units.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

11. Earnings Attributable to Ecolab Per Common Share

The difference in the weighted average common shares outstanding for calculating basic and diluted earnings attributable to Ecolab per common share is a result of the dilution associated with the company's equity compensation plans. As noted in the table below, certain stock options, units and awards outstanding under these equity compensation plans were not included in the computation of diluted earnings attributable to Ecolab per common share because they would not have had a dilutive effect.

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

| (millions, except per share amounts) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|----------|-----------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income attributable to Ecolab | \$ 302.0 | \$ 311.4 | \$ 535.4 | \$ 502.4 |
| Weighted-average common shares outstanding | | | | |
| Basic | 296.2 | 299.6 | 297.2 | 300.1 |
| Effect of dilutive stock options, units and awards | 4.9 | 5.6 | 5.0 | 5.8 |
| Diluted | 301.1 | 305.2 | 302.2 | 305.9 |
| Earnings attributable to Ecolab per common share | | | | |
| Basic | \$ 1.02 | \$ 1.04 | \$ 1.80 | \$ 1.67 |
| Diluted | \$ 1.00 | \$ 1.02 | \$ 1.77 | \$ 1.64 |
| Anti-dilutive securities excluded from computation of earnings per share | 1.9 | 1.9 | 1.9 | 1.9 |

12. Income Taxes

The company's tax rate was 18.0% and 29.4% for the second quarter of 2015 and 2014, respectively, and 22.5% and 30.4% for the first six months of 2015 and 2014, respectively. The changes in the company's tax rate for the second quarter and first six months of 2015 compared to the second quarter and first six months of 2014 were primarily driven by the tax rate impact of special gains and charges and discrete tax items, with lesser impacts from global tax planning actions and favorable geographic income mix.

The company recognized discrete tax net benefits of \$39.4 million during the second quarter of 2015 and \$36.8 million during the first six months of 2015.

Second quarter net benefits related to discrete items resulted primarily from the company's ability to recognize a worthless stock deduction for the tax basis in a wholly-owned domestic subsidiary. First quarter 2015 net expense related to discrete items was driven primarily by the change to a deferred tax liability resulting from the Naperville facility transaction discussed further in Note 5.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

12. Income Taxes (continued)

The company recognized discrete tax net expense of \$8.3 million during the second quarter of 2014 and \$18.2 million during the first six months of 2014.

Second quarter 2014 net expense related to discrete items was driven primarily by an update to non-current tax liabilities for global tax audits and an adjustment related to the re-characterization of intercompany payments between the company's U.S. and foreign affiliates which more than offset the change of valuation allowances based on the realizability of foreign deferred tax assets. First quarter 2014 net expense related to discrete items was driven primarily by the rate differential on certain prior year shared costs, the remeasurement of certain deferred tax assets and liabilities resulting from a change in the state tax rate for certain entities following the merger of Champion operations and the change of a valuation allowance related to the realizability of foreign deferred tax assets, which collectively more than offset benefits from a foreign country audit settlement.

The company had valuation allowances on certain deferred tax assets of \$67 million and \$74 million at June 30, 2015 and December 31, 2014, respectively. The reduction in the June 30, 2015 balance as compared to year end 2014 is largely due to foreign currency translation. The company anticipates that approximately one-half of the June 30, 2015 balance may be released by the end of 2015 based on the income trends of the underlying foreign entities.

13. 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. On January 1, 2014, certain legacy Champion employees became eligible to participate in the U.S. qualified and non-qualified pension plans. Various international subsidiaries also have defined benefit pension plans. The company provides postretirement health care benefits to certain U.S. employees and retirees.

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

| (millions) | U.S. Pension | | International Pension | | U.S. Postretirement Health Care | |
|--------------|--------------|---------|-----------------------|--------|---------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 19.1 | \$ 16.6 | \$ 8.2 | \$ 8.2 | \$ 1.0 | \$ 1.1 |

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| | | | | | | |
|--|---------|---------|--------|--------|--------|--------|
| Interest cost on benefit obligation | 22.8 | 22.5 | 9.9 | 12.6 | 2.4 | 2.7 |
| Expected return on plan assets | (33.1) | (32.1) | (13.7) | (13.8) | (0.3) | (0.3) |
| Recognition of net actuarial (gain) loss | 12.2 | 5.9 | 3.8 | 1.8 | (1.5) | (2.0) |
| Amortization of prior service cost (benefit) | (1.8) | (1.7) | (0.1) | 0.1 | (0.1) | (0.1) |
| Settlements/curtailments | | | | 0.1 | | |
| Total Expense | \$ 19.2 | \$ 11.2 | \$ 8.1 | \$ 9.0 | \$ 1.5 | \$ 1.4 |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

13. Pension and Postretirement Plans (continued)

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

| (millions) | U.S. Pension | | International Pension | | U.S. Postretirement Health Care | |
|--|--------------|---------|-----------------------|---------|---------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 38.2 | \$ 33.2 | \$ 16.7 | \$ 16.6 | \$ 1.9 | \$ 2.2 |
| Interest cost on benefit obligation | 45.6 | 45.0 | 20.2 | 25.3 | 4.8 | 5.4 |
| Expected return on plan assets | (66.3) | (64.2) | (27.8) | (27.6) | (0.5) | (0.6) |
| Recognition of net actuarial (gain) loss | 24.3 | 11.8 | 7.8 | 3.7 | (3.1) | (4.0) |
| Amortization of prior service cost (benefit) | (3.5) | (3.4) | (0.1) | 0.2 | (0.1) | (0.2) |
| Settlements/curtailments | | | | 0.1 | | |
| Total Expense | \$ 38.3 | \$ 22.4 | \$ 16.8 | \$ 18.3 | \$ 3.0 | \$ 2.8 |

As of June 30, 2015, the company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans.

During the first six months of 2015, the company made payments of \$5 million to its U.S. non-contributory non-qualified defined benefit plans, and estimates that it will make payments of approximately an additional \$3 million to such plans during the remainder of 2015.

The company contributed \$25 million to its international pension benefit plans during the first six months of 2015. The company currently estimates that it will contribute approximately an additional \$20 million to the international pension benefit plans during the remainder of 2015.

During the first six months of 2015, the company made payments of \$8 million to its U.S. postretirement health care benefit plans, and estimates that it will make payments of approximately an additional \$10 million to such plans during the remainder of 2015.

14. Operating Segments

The company's organizational structure consists of global business unit and global regional leadership teams. The company's ten operating units, which are also operating segments, follow its commercial and product-based activities and are based on engagement in business activities,

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availability of discrete financial information and review of operating results by the Chief Operating Decision Maker at the identified operating unit level.

Eight of the company's ten operating units have been aggregated into three reportable segments based on similar economic characteristics and future prospects, nature of the products and production processes, end-use markets, channels of distribution and regulatory environment. The company's reportable segments are Global Industrial, Global Institutional and Global Energy. The company's two operating units that are primarily fee-for-service businesses have been combined into the Other segment and do not meet the quantitative criteria to be separately reported. The company provides similar information for the Other segment as compared to its three reportable segments as the company considers the information regarding its two underlying operating units as useful in understanding its consolidated results.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

14. Operating Segments (continued)

The company evaluates the performance of its international operations based on fixed currency exchange rates which eliminate the impact of exchange rate fluctuations on its international operations. The international amounts included within each of the company's reportable segments are based on translation into U.S. dollars at the fixed currency exchange rates used by management for 2015. The difference between the fixed currency exchange rates and the actual currency exchange rates is reported as Effect of foreign currency translation in the following tables.

Financial information for each of the company's reportable segments is as follows:

| (millions) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|------------|-----------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net Sales | | | | |
| Global Industrial | \$ 1,195.4 | \$ 1,147.4 | \$ 2,325.1 | \$ 2,224.6 |
| Global Institutional | 1,099.6 | 1,037.7 | 2,117.6 | 1,994.4 |
| Global Energy | 964.8 | 1,014.1 | 1,946.7 | 1,987.8 |
| Other | 195.4 | 185.9 | 373.5 | 354.4 |
| Subtotal at fixed currency rates | 3,455.2 | 3,385.1 | 6,762.9 | 6,561.2 |
| Effect of foreign currency translation | (66.1) | 183.1 | (76.2) | 343.6 |
| Consolidated | \$ 3,389.1 | \$ 3,568.2 | \$ 6,686.7 | \$ 6,904.8 |
| Operating Income | | | | |
| Global Industrial | \$ 163.9 | \$ 150.8 | \$ 283.1 | \$ 264.4 |
| Global Institutional | 234.7 | 194.0 | 404.2 | 346.0 |
| Global Energy | 134.6 | 152.4 | 263.3 | 280.0 |
| Other | 33.0 | 29.7 | 56.4 | 51.1 |
| Corporate | (120.8) | (38.8) | (173.0) | (118.5) |
| Subtotal at fixed currency rates | 445.4 | 488.1 | 834.0 | 823.0 |
| Effect of foreign currency translation | (7.6) | 24.1 | (8.5) | 40.1 |
| Consolidated | \$ 437.8 | \$ 512.2 | \$ 825.5 | \$ 863.1 |

The profitability of the company's operating units is evaluated by management based on operating income. The company has no intersegment revenues.

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Consistent with the company's internal management reporting, the Corporate segment includes amortization specifically from the Nalco merger. The Corporate segment also includes special (gains) and charges, as discussed in Note 2, reported within the Consolidated Statement of Income.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

15. Commitments and Contingencies

The company is subject to various claims and contingencies related to, among other things, workers' compensation, general liability (including 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 has contractual obligations related to legal commitments.

The company records liabilities when 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.

Insurance

Globally, the company has high deductible insurance policies for property and casualty losses. The company is insured for losses in excess of these deductibles, subject to policy terms and conditions and has recorded both a liability and an offsetting receivable for amounts in excess of these deductibles. The company is self-insured for health care claims for eligible participating employees, subject to certain deductibles and limitations. The company determines its liabilities for claims on an actuarial basis.

Litigation and Environmental Matters

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 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.

Environmental Matters

The company is currently participating in environmental assessments and remediation at approximately 35 locations, most of which are in the U.S., and environmental liabilities have been accrued reflecting management's best estimate of future costs. Potential insurance reimbursements are not anticipated in the company's accruals for environmental liabilities.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

15. Commitments and Contingencies (continued)

Matters Related to Wage Hour Claims

The company is a defendant in six pending wage hour lawsuits claiming violations of the Fair Labor Standards Act (FLSA) or a similar state law. Of these six suits, two have been certified for class action status. Ross (formerly Icard) v. Ecolab, U.S. District Court Northern District of California, case no. C 13-05097 PJH, an action under California state law, 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 and certifications of classes for state law violations in Washington, Colorado, Maryland, Illinois, Missouri, Wisconsin and North Carolina. The Cancilla lawsuit has been settled pending court approval. 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 New York, New Jersey, Washington and Pennsylvania alleging violations of state wage hour laws. A fourth pending suit, Schneider v. Ecolab, Circuit Court of Cook County, Illinois, case no. 2014 CH 193, seeks certification of a class of Institutional employees for alleged violations of Illinois wage and hour laws. A fifth pending suit, Martino v. Ecolab, Santa Clara County California Superior Court, seeks certification of a California state class of Institutional employees for alleged violations of California wage and hour laws. The Martino case has been removed to the United States District Court for the Northern District of California. A sixth pending suit, LaValley v. Ecolab, United States District Court for the District of Minnesota, seeks certification of a class of Territory Representatives for alleged violations of the FLSA and New York state wage and hour laws. The LaValley lawsuit has also been settled pending court approval.

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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

15. Commitments and Contingencies (continued)

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 was 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.

Cases arising out of the Deepwater Horizon accident were 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, Case No. 10-md-02179 (E.D. La.) (MDL 2179).

Putative Class Action Litigation

Nalco Company was named, along with other unaffiliated defendants, in six putative class action complaints related to the Deepwater Horizon oil spill: Adams v. Louisiana, et al., Case No. 11-cv-01051 (E.D. La.); Elrod, et al. v. BP Exploration & Production Inc., et al., 12-cv-00981 (E.D. La.); Harris, et al. v. BP, plc, et al., Case No. 2:10-cv-02078-CJBSS (E.D. La.); Irelan v. BP Products, Inc., et al., Case No. 11-cv-00881 (E.D. La.); Petitjean, et al. v. BP, plc, et al., Case No. 3:10-cv-00316-RS-EMT (N.D. Fla.); and, Wright, et al. v. BP, plc, et al., Case No. 1:10-cv-00397-B (S.D. Ala.). The cases were filed on behalf of various potential classes of persons who live and work in or derive income from the effected Coastal region. Each of the actions contains substantially similar allegations, generally alleging, among other things, negligence relating to the use of the company's COREXIT dispersant in connection with the Deepwater Horizon oil spill. The plaintiffs in these putative class action lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys' fees and costs. These cases have been consolidated in MDL 2179.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

15. Commitments and Contingencies (continued)*Other Related Claims Pending in MDL 2179*

Nalco Company was also named, along with other unaffiliated defendants, in 23 complaints filed by individuals: Alexander, et al. v. BP Exploration & Production, et al., Case No. 11-cv-00951 (E.D. La.); Best v. British Petroleum plc, et al., Case No. 11-cv-00772 (E.D. La.); Black v. BP Exploration & Production, Inc., et al. Case No. 2:11-cv- 867, (E.D. La.); Brooks v. Tidewater Marine LLC, et al., Case No. 11-cv- 00049 (S.D. Tex.); Capt Ander, Inc. v. BP, plc, et al., Case No. 4:10-cv-00364-RH-WCS (N.D. Fla.); Coco v. BP Products North America, Inc., et al. (E.D. La.); Danos, et al. v. BP Exploration et al., Case No. 00060449 (25th Judicial Court, Parish of Plaquemines, Louisiana); Doom v. BP Exploration & Production, et al. , Case No. 12-cv-2048 (E.D. La.); Duong, et al., v. BP America Production Company, et al., Case No. 13-cv-00605 (E.D. La.); Esponge v. BP, P.L.C., et al., Case No. 0166367 (32nd Judicial District Court, Parish of Terrebonne, Louisiana); Ezell v. BP, plc, et al., Case No. 2:10-cv-01920-KDE-JCW (E.D. La.); Fitzgerald v. BP Exploration, et al., Case No. 13-cv-00650 (E.D. La.); Hill v. BP, plc, et al., Case No. 1:10-cv-00471-CG-N (S.D. Ala.); Hogan v. British Petroleum Exploration & Production, Inc., et al., Case No. 2012-22995 (District Court, Harris County, Texas); Hudley v. BP, plc, et al., Case No. 10-cv-00532-N (S.D. Ala.); In re of Jambon Supplier II, L.L.C., et al., Case No. 12-426 (E.D. La.); Kolian v. BP Exploration & Production, et al. , Case No. 12-cv-2338 (E.D. La.); Monroe v. BP, plc, et al., Case No. 1:10-cv-00472-M (S.D. Ala.); Pearson v. BP Exploration & Production, Inc., Case No. 2:11-cv-863, (E.D. La.); Shimer v. BP Exploration and Production, et al, Case No. 2:13-cv-4755 (E.D. La.); Top Water Charters, LLC v. BP, P.L.C., et al., No. 0165708 (32nd Judicial District Court, Parish of Terrebonne, Louisiana); Toups, et al. v Nalco Company, et al., Case No. 59-121 (25th Judicial District Court, Parish of Plaquemines, Louisiana); and, Trehern v. BP, plc, et al., Case No. 1:10-cv-00432-HSO-JMR (S.D. Miss.). The cases were filed on behalf of individuals and entities that own property, live, and/or work in or derive income from the effected Coastal region. Each of the 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 these lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys fees and costs.

Pursuant to orders issued by the court in MDL 2179, the claims were consolidated in several master complaints, including one naming Nalco Company and others who responded to the Gulf Oil Spill (known as the B3 Master Complaint). 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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

15. 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.

In December 2012 and January 2013, the MDL 2179 court issued final orders approving two settlements between BP and Plaintiffs Class Counsel: (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.

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. The Franks case was dismissed in May 2014.

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

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

16. New Accounting Pronouncements

| Standard | Date of Issuance | Description | Date of Adoption | Effect on the Financial Statements |
|---|------------------|---|------------------|---|
| Standards that are not yet adopted: | | | | |
| ASU 2015-01 Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items | January 2015 | Entities should no longer segregate extraordinary and unusual items from the results of ordinary operations on the Income Statement and should no longer disclose the applicable income taxes and earnings-per-share data for applicable extraordinary items. | January 1, 2016 | The company does not expect the updated guidance to have an impact on future financial statements. |
| ASU 2015-02 Consolidation (Topic 810): Amendments to the Consolidation Analysis | February 2015 | Certain factors that previously required reporting entities to consolidate a given legal entity have been eliminated, requiring fewer legal entities to be consolidated under the new guidance. | January 1, 2016 | The company does not expect the updated guidance to have a significant impact on future financial statements. |
| ASU 2015-03 Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs | April 2015 | Debt issuance costs should no longer be recognized as a deferred charge (asset) but rather should be recorded as a direct deduction from the carrying amount of the debt liability. | January 1, 2016 | Presentation impact related to the company's deferred financing costs and debt. The company does not expect the updated guidance to have a significant impact on future financial statements. |
| ASU 2015-05 Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement | April 2015 | An entity that is the customer in a cloud computing arrangement that includes a software license should account for the software license element of the arrangement consistent | January 1, 2016 | The company does not expect the updated guidance to have an impact on future financial statements. |

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| | | | | | |
|---|----------|--|--|-----------------|--|
| | | | with the acquisition of other software licenses. | | |
| ASU 2015-07 Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) (a consensus of the Emerging Issues Taskforce) | May 2015 | | Investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient of ASC 820 should not be categorized in the fair value hierarchy. However, the reporting entity should continue to disclose information on such investments. | January 1, 2016 | Presentation impact related to pension plan asset disclosures. |

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

16. New Accounting Pronouncements (continued)**Standards that are not yet adopted (continued):**

| | | | | |
|--|-------------|---|-----------------|---|
| ASU 2014-09 Revenue from Contracts with Customers (Topic 606) | May 2014 | Recognition standard contains principles for entities to apply to determine the measurement of revenue and timing of when the revenue is recognized. The underlying principle of the updated guidance will have entities recognize revenue to depict the transfer of goods or services to customers at an amount that is expected to be received in exchange for those goods or services. | January 1, 2018 | The company is currently evaluating the impact of adoption. |
| ASU 2014-15 Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern | August 2014 | Management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern and to provide related footnote disclosures. | January 1, 2017 | The company does not expect the guidance to have an impact on future financial statements. |

Standards that were adopted:

| | | | | |
|---|---------------|---|-----------------|--|
| ASU 2014-08 Presentation of Financial Statements (Topic 205): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity | April 2014 | Updated criteria for determining which disposals should be presented as discontinued operations as well as modifications to the related disclosure requirements. | January 1, 2015 | The adoption of the updated guidance had no impact on the company's financial statements. |
| ASU 2014-16 Derivatives and Hedging (Topic 815): Determining Whether the Host | November 2014 | For hybrid financial instruments issued in the form of a share, an entity | January 1, 2015 | The adoption of the updated guidance had no impact on the company's |

Contract in a Hybrid Financial
Instrument Issued in the Form of a
Share is More Akin to Debt or to
Equity

(an issuer or an investor)
should determine the
nature of the host contract
by considering all stated
and implied substantive
terms and features of the
basis of relevant facts and
circumstances.

financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Ecolab Inc.

We have reviewed the accompanying consolidated balance sheet of Ecolab Inc. and its subsidiaries as of June 30, 2015, and the related consolidated statements of income and comprehensive income for the three-month and six-month period ended June 30, 2015 and 2014 and the consolidated statement of cash flows for the six-month periods ended June 30, 2015 and 2014. 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, 2014, 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 27, 2015, 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, 2014, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
August 6, 2015

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. We provide quantitative information about the material sales drivers including the impact of changes in volume and pricing and the effect of acquisitions and changes in foreign currency at the corporate level, and the quantitative impact of acquisitions and changes in foreign currency at the segment level. We also provide quantitative information regarding special (gains) and charges, discrete tax items and other significant factors we believe are useful for understanding our results. Such quantitative drivers are supported by comments meant to be qualitative in nature. Qualitative factors are generally ordered based on estimated significance.

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, 2014. 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 Results

We evaluate the sales and operating income 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 at the beginning of each year based on translation into U.S. dollars at foreign currency exchange rates established by management, with all periods presented using such rates. Fixed currency exchange rates are generally based on existing market rates at the time they are established.

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.

Overview of the Second Quarter Ended June 30, 2015

Second quarter 2015 sales, operating income and diluted earnings per share attributable to Ecolab decreased 5%, 15% and 2%, respectively compared to second quarter 2014 results.

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Foreign currency negatively impacted our second quarter 2015 results when compared with the second quarter of 2014. In addition, both 2015 and 2014 results of operations included special (gains) and charges as well as discrete tax items which impact the period-over-period comparisons.

Second quarter 2015 fixed currency sales increased 2%, with growth led by our Institutional, Industrial and Other segments. Our Middle East & Africa (MEA), Latin America and Asia Pacific regions all showed good growth.

Second quarter 2015 fixed currency operating income decreased 9% compared to second quarter 2014. Excluding special (gains) and charges from both 2015 and 2014 results, second quarter 2015 adjusted fixed currency operating income increased 8% when compared to second quarter 2014 adjusted fixed currency operating income.

ECOLAB INC.

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

Overview of the Second Quarter Ended June 30, 2015 (continued)

Excluding special (gains) and charges and discrete tax items, adjusted diluted earnings per share attributable to Ecolab increased 5% in the second quarter of 2015 versus the prior year second quarter. Currency translation had an unfavorable impact of approximately \$0.08 on diluted earnings per share for the second quarter of 2015 compared to the same period of 2014.

Sales Performance

As summarized in the tables on pages 45 and 53:

- Second quarter 2015 sales decreased 5%, fixed currency sales increased 2%.
- Fixed currency sales for our Global Industrial segment increased 4% to \$1,195 million when comparing second quarter 2015 against second quarter 2014, led by growth in Food & Beverage and Water. Acquisition adjusted fixed currency sales increased 3%.
- Second quarter 2015 Global Institutional segment sales, when measured in fixed rates of currency exchange, increased 6% to \$1,100 million, led by strong growth in Specialty and good growth in Institutional.
- Fixed currency sales for our Global Energy segment decreased 5% to \$965 million when comparing second quarter 2015 against second quarter 2014. Sales growth in the downstream and production businesses was more than offset by a decline in the well stimulation business.
- Second quarter 2015 Other segment sales, when measured in fixed rates of currency exchange, increased 5% to \$195 million. Both Pest Elimination and Equipment Care had good sales growth.

Financial Performance

As summarized in the tables on pages 50 through 52:

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- Second quarter 2015 operating income decreased 15% to \$438 million compared to second quarter 2014 operating income of \$512 million. Second quarter 2015 fixed currency operating income decreased 9% compared to second quarter 2014. Excluding the impact of special (gains) and charges from both 2015 and 2014 reported results, 2015 adjusted operating income increased 1% when compared to 2014 adjusted operating income. Adjusted fixed currency operating income increased 8% when compared to 2014 adjusted fixed currency operating income.
- Second quarter 2015 net income attributable to Ecolab decreased 3% to \$302 million. Excluding the impact of special (gains) and charges and discrete tax items from 2015 and 2014 reported results, adjusted net income attributable to Ecolab increased 3% compared to the prior year's second quarter.
- Second quarter 2015 diluted earnings per share attributable to Ecolab of \$1.00 decreased 2% compared to the second quarter of 2014. Excluding the impact of special (gains) and charges and discrete tax items from 2015 and 2014 reported results, adjusted diluted earnings per share attributable to Ecolab increased 5% to \$1.08 for the second quarter of 2015 compared to \$1.03 in the second quarter of 2014.
- Our reported tax rate was 18.0% for the second quarter of 2015 compared to 29.4% for the second quarter of 2014. Excluding the tax rate impact of special (gains) and charges and discrete tax items from 2015 and 2014 results, our adjusted tax rate was 27.1% and 27.9% for the second quarter of 2015 and 2014, respectively.

ECOLAB INC.

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

Results of Operations - Second Quarter and Six Months Ended June 30, 2015

Net Sales

| (millions) | Second Quarter Ended June 30 | | | % Change | Six Months Ended June 30 | | | % Change |
|--|---------------------------------|------------|--|-------------|-----------------------------|------------|--|-------------|
| | 2015 | 2014 | | | 2015 | 2014 | | |
| Reported GAAP net sales | \$ 3,389.1 | \$ 3,568.2 | | (5)% | \$ 6,686.7 | \$ 6,904.8 | | (3)% |
| Effect of foreign currency translation | 66.1 | (183.1) | | | 76.2 | (343.6) | | |
| Non-GAAP fixed currency sales | \$ 3,455.2 | \$ 3,385.1 | | 2% | \$ 6,762.9 | \$ 6,561.2 | | 3% |

As shown in the table above, foreign currency exchange negatively impacted sales growth during both the second quarter and first six months of 2015. The percentage components of the period-over-period 2015 sales change are shown below:

| (percent) | Second Quarter Ended June 30 | Six Months Ended June 30 |
|-------------------------------|---------------------------------|-----------------------------|
| Volume | 2% | 2% |
| Price changes | <1 | <1 |
| Acquisitions & divestitures | <1 | <1 |
| Fixed currency sales increase | 2 | 3 |
| Foreign currency exchange | (7) | (6) |
| Total net sales decrease | (5)% | (3)% |

Note: Percentages in the above table do not necessary sum due to rounding.

Cost of Sales (COS) and Gross Profit Margin

| (millions / percent) | Second Quarter Ended | | | |
|------------------------------------|----------------------|--------------|------------|--------------|
| | 2015 | | 2014 | |
| | COS | Gross Margin | COS | Gross Margin |
| Reported GAAP COS and gross margin | \$ 1,806.5 | 46.7% | \$ 1,909.4 | 46.5% |
| Special (gains) and charges | 11.0 | 0.3 | 1.1 | |

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| | | | | | | |
|--|----|---------|-------|----|---------|-------|
| Non-GAAP adjusted COS and gross margin | \$ | 1,795.5 | 47.0% | \$ | 1,908.3 | 46.5% |
|--|----|---------|-------|----|---------|-------|

| (millions / percent) | Six Months Ended | | | | | |
|--|------------------|--------------|-------|--------------|---------|-------|
| | 2015 | | 2014 | | | |
| | COS | Gross Margin | COS | Gross Margin | | |
| Reported GAAP COS and gross margin | \$ | 3,571.8 | 46.6% | \$ | 3,728.6 | 46.0% |
| Special (gains) and charges | | 11.6 | 0.2 | | 7.1 | 0.1 |
| Non-GAAP adjusted COS and gross margin | \$ | 3,560.2 | 46.8% | \$ | 3,721.5 | 46.1% |

Our COS and corresponding gross profit margin (gross margin) are shown in the table above. Our gross margin is defined as sales less cost of sales divided by sales.

ECOLAB INC.

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

Results of Operations – Second Quarter Ended June 30, 2015 (continued)

Cost of Sales (COS) and Gross Profit Margin (continued)

Our reported gross margin was 46.7% and 46.5% for the second quarter of 2015 and 2014, respectively. Our reported gross margin for the first six months of 2015 and 2014 was 46.6% and 46.0%, respectively.

Our second quarter and first six months of 2015 reported COS included special (gains) and charges of \$11.0 million and \$11.6 million, respectively, and our second quarter and first six months of 2014 reported COS included special (gains) and charges of \$1.1 million and \$7.1 million, respectively. Special (gains) and charges included within COS are shown within the table below, and the corresponding impact to our gross margin is shown in the previous table.

Excluding the impact of these items, our second quarter 2015 adjusted gross margin was 47.0% and our adjusted gross margin for the first six months of 2015 was 46.8%. These percentages compared against a second quarter 2014 adjusted gross margin of 46.5% and an adjusted gross margin of 46.1% for the first six months of 2014.

Our adjusted gross margin increase when comparing the second quarter of 2015 against the second quarter of 2014 and the comparable periods for the first six months of 2015 and 2014 was driven primarily by delivered product cost savings and synergies.

Selling, General and Administrative Expense

Selling, general and administrative (SG&A) expenses as a percentage of sales were 31.8% for the second quarter of 2015 compared to 32.3% in 2014. For the six month periods, SG&A expenses were 33.1% of sales in 2015 compared to 33.2% in 2014. The decrease in SG&A ratio to sales during 2015 was driven primarily by synergies, cost savings actions and lower variable compensation, which more than offset higher comparable pension costs.

Special (Gains) and Charges

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

| (millions) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|----------|-----------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of sales | | | | |
| Restructuring charges | \$ 1.6 | \$ 1.1 | \$ 2.2 | \$ 7.1 |
| Venezuela currency devaluation | 9.4 | | 9.4 | |
| Subtotal | 11.0 | 1.1 | 11.6 | 23.5 |
| Special (gains) and charges | | | | |
| Restructuring charges | 18.9 | 6.0 | 21.0 | 28.6 |
| Champion acquisition and integration costs | 4.3 | 5.2 | 9.5 | 11.7 |
| Nalco merger and integration costs | 0.2 | 1.5 | 0.7 | 2.8 |
| Venezuela currency devaluation | 20.8 | | 20.8 | |
| Loss on sale of business, litigation related charges and other settlements | 21.4 | (18.8) | 21.4 | (19.6) |
| Subtotal | 65.6 | (6.1) | 73.4 | 23.5 |
| Total special (gains) and charges | \$ 76.6 | \$ (5.0) | \$ 85.0 | \$ 30.6 |

ECOLAB INC.

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

Results of Operations - Second Quarter Ended June 30, 2015 (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 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. Actions also include leveraging and simplifying our global supply chain, including the reduction of plant, distribution center and redundant facility locations and product line optimization.

The total pre-tax restructuring charges under the Energy Restructuring Plan are expected to be approximately \$80 million (\$55 million after tax). The restructuring charges are expected to be substantially complete by the end of 2015, although certain actions will likely continue into 2016. Approximately \$40 million (\$25 million after tax) of charges are expected to occur in 2015. We anticipate that approximately three-fourths of the remaining Energy Plan pre-tax charges will represent cash expenditures. No decisions have been made for any remaining asset disposals and estimates could vary depending on the actual actions taken.

We recorded restructuring charges related to the Energy Restructuring Plan of \$13.1 million (\$9.1 million after tax) or \$0.03 per diluted share and \$2.7 million (\$2.2 million after tax) or \$0.01 per diluted share during the second quarter of 2015 and 2014, respectively. During the six months ended June 30, 2015 and 2014, we incurred charges of \$14.1 million (\$9.9 million after tax) or \$0.03 per diluted share and \$7.6 million (\$5.2 million after tax) or \$0.02 per diluted share, respectively.

Net cash payments under the Energy Restructuring Plan during 2015 were \$1.4 million, primarily related to severance, offset partially by proceeds from the sale of facilities. The majority of historical 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. We anticipate the remaining cash expenditures will continue to be funded from operating activities.

For the first six months of 2015, the Energy Plan has achieved approximately \$20 million in incremental savings as compared to 2014. We anticipate cumulative cost savings from the Energy Restructuring Plan, along with synergies achieved in connection with the acquisition, of at least \$125 million in 2015, with annual cost savings and synergies of \$150 million by the end of 2016.

Combined Restructuring Plan

In February 2011, we commenced a comprehensive plan to substantially improve the efficiency and effectiveness of our European business, as well as to undertake certain restructuring activities outside of Europe, historically referred to as the 2011 Restructuring Plan .

Additionally, in January 2012 and following the merger with Nalco, we formally commenced plans to undertake restructuring actions related to the reduction of our global workforce and optimization of our supply chain and office facilities, including planned reduction of plant and distribution center locations, historically referred to as the Merger Restructuring Plan .

ECOLAB INC.

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

Results of Operations - Second Quarter Ended June 30, 2015 (continued)

Restructuring charges (continued)

During the first quarter of 2013, we determined that the objectives of the plans discussed above were aligned and consequently, the previously separate restructuring plans were combined into one plan.

The combined restructuring plan (the Combined Plan) combines opportunities and initiatives from both plans and 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 the global workforce, plant and distribution center locations.

The total pre-tax restructuring charges under the Combined Plan are expected to be approximately \$400 million (\$300 million after tax). The restructuring charges are expected to be substantially complete by the end of 2015, although certain actions will likely continue into 2016. Approximately \$50 million (\$40 million after tax) of charges are expected to be incurred in 2015. We anticipate that approximately two-thirds of the remaining Combined Plan pre-tax charges will represent net cash expenditures. No decisions have been made regarding any additional non-cash charges and estimates could vary depending on the actual actions taken.

We recorded restructuring charges related to the Combined Plan of \$7.3 million (\$5.5 million after tax) or \$0.02 per diluted share and \$4.3 million (\$3.9 million after tax) or \$0.01 per diluted share during the second quarter of 2015 and 2014, respectively. During the six months ended June 30, 2015 and 2014, we incurred charges of \$9.0 million (\$6.3 million after tax) or \$0.02 per diluted share and \$28.0 million (\$23.7 million after tax) or \$0.08 per diluted share, respectively.

Net cash payments under the Combined Plan during 2015 were \$22.3 million. 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. We anticipate the remaining cash expenditures will continue to be funded from operating activities.

For the first six months of 2015, the Combined Plan achieved approximately \$30 million of incremental savings as compared to 2014. We anticipate cumulative cost savings from the Combined Plan of \$395 million in 2015, with annual cost savings and synergies of \$420 million by the end of 2016.

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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 the Champion acquisition completed in 2013, we incurred charges of \$4.3 million (\$2.8 million after tax) or \$0.01 per diluted share and \$5.2 million (\$3.4 million after tax) or \$0.01 per diluted share during the second quarter of 2015 and 2014, respectively. During the six months ended June 30, 2015 and 2014, we incurred charges of \$9.5 million (\$6.0 million after tax) or \$0.02 per diluted share and \$11.7 million (\$7.5 million after tax) or \$0.02 per diluted share, respectively.

Champion related special charges for 2015 and 2014 include integration costs and have been included as a component of special (gains) and charges on the Consolidated Statement of Income.

ECOLAB INC.

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

Results of Operations – Second Quarter Ended June 30, 2015 (continued)

Non-restructuring special (gains) and charges (continued)

Nalco merger and integration costs

As a result of the Nalco merger completed in 2011, we incurred charges of \$0.2 million (\$0.1 million after tax), and \$1.5 million (\$1.1 million after tax), both of which are less than \$0.01 per diluted share, during the second quarter of 2015 and 2014, respectively. During the six months ended June 30, 2015 and 2014, we incurred charges of \$0.7 million (\$0.6 million after tax) or less than \$0.01 per diluted share and \$2.8 million (\$2.0 million after tax) or \$0.01 per diluted share, respectively.

Nalco related special charges for 2015 and 2014 include integration costs and have been included as a component of special (gains) and charges on the Consolidated Statement of Income.

Venezuelan currency devaluation

We closely monitor the complex economic and political conditions with respect to our operations in Venezuela, which are aligned to five of our ten operating units.

During the second quarter of 2015, we concluded that it was appropriate to apply the SIMADI exchange rate to our Venezuelan Water and Paper operating units, as we believe that the SIMADI rate best represents the economics of those operating units, based on the underlying transactions within those operating units. As a result, we recorded a charge of \$30.2 million (\$30.2 million after tax), or \$0.10 per diluted share, during the second quarter of 2015, including the remeasurement of our Water and Paper monetary assets and impairment of certain other net assets.

Further details related to Venezuela's foreign currency are included in the "Global Economic and Political Environment" section of this MD&A, beginning on page 62.

Other special (gains) and charges

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We recognized charges of \$21.4 million (\$13.4 million after tax) or \$0.05 per diluted share, during both the second quarter and first six months of 2015, related to recognition of a loss on the sale of a portion of our Ecovation business, and other litigation related charges.

We recognized gains of \$18.8 million (\$15.9 million after tax), or \$0.05 per diluted share and \$19.6 million (\$16.4 million after tax), or \$0.05 per diluted share in the second quarter and the first six month of 2014, respectively, related to a favorable licensing settlement and other settlement gains.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSResults of Operations – Second Quarter Ended June 30, 2015 (continued)Operating Income and Operating Income Margin

| Operating Income (millions) | Second Quarter Ended June 30 | | | Six Months Ended June 30 | | |
|---|---------------------------------|----------|-------------|-----------------------------|----------|-------------|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Reported GAAP operating income | \$ 437.8 | \$ 512.2 | (15)% | \$ 825.5 | \$ 863.1 | (4)% |
| Special (gains) and charges | 76.6 | (5.0) | | 85.0 | 30.6 | |
| Non-GAAP adjusted operating income | 514.4 | 507.2 | 1% | 910.5 | 893.7 | 2% |
| Effect of foreign currency translation | 7.6 | (24.1) | | 8.5 | (40.1) | |
| Non-GAAP adjusted fixed currency operating income | \$ 522.0 | \$ 483.1 | 8% | \$ 919.0 | \$ 853.6 | 8% |

| Operating Income Margin (percent) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|-------|-----------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Reported operating income / reported net sales | 12.9% | 14.4% | 12.3% | 12.5% |
| Non-GAAP adjusted operating income/ reported net sales | 15.2% | 14.2% | 13.6% | 12.9% |
| Non-GAAP adjusted fixed currency operating income / fixed currency sales | 15.1% | 14.3% | 13.6% | 13.0% |

Our operating income and corresponding operating income margin are shown in the previous tables. Our operating income margin is defined as operating income divided by sales.

Reported operating income decreased 15% and 4% in the second quarter and first six months of 2015, respectively, versus the comparable periods of 2014.

Excluding the impact of special (gains) and charges from 2015 and 2014 reported results, our second quarter adjusted operating income increased 1% and our first six months of 2015 adjusted operating income increased 2%, against the comparable periods of 2014.

As shown in the tables above, foreign currency had a negative impact on operating income growth, as adjusted fixed currency operating income increased 8% in both the second quarter and first six months of 2015 against the comparable periods of 2014.

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The second quarter and first six months of 2015 adjusted fixed currency operating income increase and the improving trend in our adjusted fixed currency operating income margin was driven primarily by synergies, delivered product cost savings, lower variable compensation and pricing, which more than offset investments in the business and other costs, including higher comparable pension costs.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSResults of Operations – Second Quarter Ended June 30, 2015 (continued)Interest Expense, Net

Net interest expense was \$61.2 million and \$66.2 million in the second quarter of 2015 and 2014, respectively. Net interest expense in the first six months of 2015 and 2014 was \$123.7 million and \$131.3 million, respectively. The decrease in net interest expense when comparing 2015 against 2014 was driven primarily by lower interest rates paid on outstanding debt.

Provision for Income Taxes

The following table provides a summary of our tax rate:

| (percent) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|----------------------------|---------------------------------|-------|-----------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Reported GAAP tax rate | 18.0% | 29.4% | 22.5% | 30.4% |
| Tax rate impact of: | | | | |
| Special gains and charges | 0.4 | 0.4 | (0.1) | (0.1) |
| Discrete tax items | 8.7 | (1.9) | 4.7 | (2.4) |
| Non-GAAP adjusted tax rate | 27.1% | 27.9% | 27.1% | 27.9% |

Our reported tax rate for 2015 and 2014 includes the tax rate impact of special gains and charges and discrete tax items. Depending on the nature of our special gains and charges and discrete tax items, our reported tax rate may not be consistent on a period to period basis, as amounts included in our special gains and charges are derived from tax jurisdictions with rates that vary from our overall non-GAAP adjusted tax rate.

Our second quarter 2015 reported tax expense includes \$15.5 million of net tax benefits on special gains and charges and net benefits of \$39.4 million associated with discrete tax items. For the first six months of 2015, our reported tax expense includes \$18.6 million of net tax benefits on special gains and charges and net benefits of \$36.8 million associated with discrete tax items. The corresponding impact of these items to the reported tax rate is shown in the previous table.

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Second quarter 2015 net benefits related to discrete tax items resulted primarily from our ability to recognize a worthless stock deduction for the tax basis in a wholly-owned domestic subsidiary. First quarter 2015 net expense related to discrete tax items was driven primarily by the change to a deferred tax liability resulting from the Naperville facility transaction discussed further in Note 5.

First quarter 2015 net expense related to discrete tax items was driven primarily by the change to a deferred tax liability resulting from the Naperville facility transaction discussed further in Note 5.

Our second quarter 2014 reported tax expense includes \$0.3 million of net tax benefits on special gains and charges and net expense of \$8.3 million associated with discrete tax items. For the first six months of 2014, our reported tax expense includes \$8.6 million of net tax benefits on special gains and charges and net expense of \$18.2 million associated with discrete tax items. The corresponding impact of these items to the reported tax rate is shown in the previous table.

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ECOLAB INC.

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

Results of Operations - Second Quarter Ended June 30, 2015 (continued)

Provision for Income Taxes (continued)

Second quarter 2014 net expense related to discrete items was driven primarily by an update to non-current tax liabilities for global tax audits and an adjustment related to the re-characterization of intercompany payments between our U.S. and foreign affiliates which more than offset the change of valuation allowances based on the realizability of foreign deferred tax assets. First quarter 2014 net expense related to discrete tax items was driven primarily by the rate differential on certain prior year shared costs, the remeasurement of certain deferred tax assets and liabilities resulting from a change in the state tax rate for certain entities following the merger of Champion operations and the change of a valuation allowance related to the realizability of foreign deferred tax assets, which collectively more than offset benefits from a foreign country audit settlement.

The decrease in the 2015 adjusted effective tax rate compared to 2014 was due primarily to the impact of global tax planning projects and favorable geographic income mix.

Net Income Attributable to Ecolab

| (millions) | Second Quarter Ended June 30 | | | % Change | Six Months Ended June 30 | | |
|---|---------------------------------|----------|--|-------------|-----------------------------|----------|--------|
| | 2015 | 2014 | | | 2015 | 2014 | Change |
| Reported GAAP net income | \$ 302.0 | \$ 311.4 | | (3)% | \$ 535.4 | \$ 502.4 | 7% |
| Adjustments: | | | | | | | |
| Special (gains) and charges, net of tax | 61.1 | (5.3) | | | 66.4 | 22.0 | |
| Discrete tax net expense (benefits) | (39.4) | 8.3 | | | (36.8) | 18.2 | |
| Non-GAAP adjusted net income | \$ 323.7 | \$ 314.4 | | 3% | \$ 565.0 | \$ 542.6 | 4% |

Diluted Earnings Per Share Attributable to Ecolab (EPS)

| (dollars) | Second Quarter Ended June 30 | | | % Change | Six Months Ended June 30 | | |
|---------------------------|---------------------------------|---------|--|-------------|-----------------------------|---------|--------|
| | 2015 | 2014 | | | 2015 | 2014 | Change |
| Reported GAAP diluted EPS | \$ 1.00 | \$ 1.02 | | (2)% | \$ 1.77 | \$ 1.64 | 8% |

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Adjustments:

| | | | | | |
|-------------------------------------|---------|---------|----|---------|------------|
| Special (gains) and charges | 0.20 | (0.02) | | 0.22 | 0.07 |
| Discrete tax net expense (benefits) | (0.13) | 0.03 | | (0.12) | 0.06 |
| Non-GAAP adjusted diluted EPS | \$ 1.08 | \$ 1.03 | 5% | \$ 1.87 | \$ 1.77 6% |

Note: Per share amounts in the above tables do not necessary sum due to rounding.

Currency translation had an unfavorable impact of approximately \$0.08 and \$0.12 on diluted earnings per share for the second quarter and first six months of 2015, compared to the same periods of 2014.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSSegment Performance

Fixed currency sales and operating income for the second quarter and first six months of 2015 and 2014 for each of our reportable segments were as follows:

| (millions) | Net Sales Second Quarter Ended June 30 | | | % Change | Net Sales Six Months Ended June 30 | | | % Change |
|--|--|------------|--|-------------|--|------------|--|-------------|
| | 2015 | 2014 | | | 2015 | 2014 | | |
| Global Industrial | \$ 1,195.4 | \$ 1,147.4 | | 4% | \$ 2,325.1 | \$ 2,224.6 | | 5% |
| Global Institutional | 1,099.6 | 1,037.7 | | 6% | 2,117.6 | 1,994.4 | | 6% |
| Global Energy | 964.8 | 1,014.1 | | (5)% | 1,946.7 | 1,987.8 | | (2)% |
| Other | 195.4 | 185.9 | | 5% | 373.5 | 354.4 | | 5% |
| Subtotal at fixed currency rates | 3,455.2 | 3,385.1 | | 2% | 6,762.9 | 6,561.2 | | 3% |
| Effect of foreign currency translation | (66.1) | 183.1 | | | (76.2) | 343.6 | | |
| Consolidated | \$ 3,389.1 | \$ 3,568.2 | | (5)% | \$ 6,686.7 | \$ 6,904.8 | | (3)% |

| (millions) | Operating Income Second Quarter Ended June 30 | | | % Change | Operating Income Six Months Ended June 30 | | | % Change |
|--|---|----------|--|-------------|---|----------|--|-------------|
| | 2015 | 2014 | | | 2015 | 2014 | | |
| Global Industrial | \$ 163.9 | \$ 150.8 | | 9% | \$ 283.1 | \$ 264.4 | | 7% |
| Global Institutional | 234.7 | 194.0 | | 21% | 404.2 | 346.0 | | 17% |
| Global Energy | 134.6 | 152.4 | | (12)% | 263.3 | 280.0 | | (6)% |
| Other | 33.0 | 29.7 | | 11% | 56.4 | 51.1 | | 10% |
| Corporate | (120.8) | (38.8) | | | (173.0) | (118.5) | | |
| Subtotal at fixed currency rates | 445.4 | 488.1 | | (9)% | 834.0 | 823.0 | | 1% |
| Effect of foreign currency translation | (7.6) | 24.1 | | | (8.5) | 40.1 | | |
| Consolidated | \$ 437.8 | \$ 512.2 | | (15)% | \$ 825.5 | \$ 863.1 | | (4)% |

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSSegment Performance (continued)Global Industrial

| (millions / percent) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|------------|-----------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net Sales | | | | |
| Sales at fixed currency | \$ 1,195.4 | \$ 1,147.4 | \$ 2,325.1 | \$ 2,224.6 |
| Percentage change at fixed currency | 4% | | 5% | |
| Acquisition adjusted percentage change at fixed currency | 3% | | 3% | |
| Percentage change at public currency | (5)% | | (4)% | |
| Operating Income | | | | |
| Operating income at fixed currency | \$ 163.9 | \$ 150.8 | \$ 283.1 | \$ 264.4 |
| Percentage change at fixed currency | 9% | | 7% | |
| Acquisition adjusted percentage change at fixed currency | 9% | | 7% | |
| Percentage change at public currency | (1)% | | (2)% | |
| Operating income margin | 13.7% | 13.1% | 12.2% | 11.9% |

Net Sales

Fixed currency sales for our Global Industrial segment increased 4% in the second quarter of 2015 and 5% in the first six months of 2015. As shown in the previous table, acquisition adjusted sales growth was 3% for both the second quarter and first six months of 2015. Sales growth was driven by both volume gains and pricing. At a regional level, both the second quarter and six month periods were impacted by good growth in Latin America, MEA and North America and modest growth in Europe and Asia Pacific.

At an operating unit level, **Water** fixed currency sales increased 4% (3% acquisition adjusted) in the second quarter of 2015 and 5% (3% acquisition adjusted) in first six months of 2015, with good growth in the light and heavy industries, and modest growth in mining. **Food & Beverage** fixed currency sales increased 7% (6% acquisition adjusted) in the second quarter of 2015 and 6% (5% acquisition adjusted) in the first six months of 2015, benefiting from share gains. Growth continued to be led by the beverage & brewing and agri markets, with modest gains in dairy and food. **Paper** fixed currency sales increased 1% in the second quarter of 2015 and 2% in first six months of 2015, impacted by continued technology penetration and new account gains. **Textile Care** fixed currency sales increased 1% in the second quarter of 2015 and 3% in the first six months of 2015, as sales growth in North America and Asia Pacific more than offset lower sales in Europe.

Operating Income

Fixed currency operating income for our Global Industrial segment increased 9% in the second quarter of 2015 and 7% in the first six months of 2015, with minimal impact from acquisitions. The operating income margin increased 0.6 percentage points in the second quarter and 0.3 percentage points in the first six months of 2015. The increase in fixed currency operating income and improved operating margin benefited from pricing gains and synergies, which more than offset investments in the business and other costs.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSSegment Performance (continued)Global Institutional

| (millions / percent) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|------------|-----------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net Sales | | | | |
| Sales at fixed currency | \$ 1,099.6 | \$ 1,037.7 | \$ 2,117.6 | \$ 1,994.4 |
| Percentage change at fixed currency | 6% | | 6% | |
| Acquisition adjusted percentage change at fixed currency | 6% | | 6% | |
| Percentage change at public currency | (1)% | | 1% | |
| Operating Income | | | | |
| Operating income at fixed currency | \$ 234.7 | \$ 194.0 | \$ 404.2 | \$ 346.0 |
| Percentage change at fixed currency | 21% | | 17% | |
| Acquisition adjusted percentage change at fixed currency | 21% | | 17% | |
| Percentage change at public currency | 16% | | 13% | |
| Operating income margin | 21.3% | 18.7% | 19.1% | 17.3% |

Net Sales

Fixed currency sales for our Global Institutional segment increased 6% in both the second quarter and first six months of 2015, impacted by both volume and pricing gains. At a regional level, both the second quarter and six month periods were led by good growth in MEA, North America, Latin America and Asia Pacific and a modest increase in Europe.

At an operating unit level, **Institutional** fixed currency sales increased 5% (increase of 6% when adjusting for a small divestiture) in the second quarter of 2015 and 6% in first six months of 2015, benefiting from sales initiatives, new accounts and globalization of our leading technologies. Global lodging demand continues to show positive trends, while foodservice trends remain mixed. **Specialty** fixed currency sales increased 11% in the second quarter of 2015 and 9% in the first six months of 2015. Both our quick service and our food retail businesses continued to produce strong sales gains. **Healthcare** fixed currency sales increased 3% in the second quarter of 2015 and 4% in the first six months of 2015, benefiting from new account growth, customer penetration and product introductions.

Operating Income

Fixed currency operating income for our Global Institutional segment increased 21% for the second quarter and 17% for the first six months of 2015. Our operating income margin increased 2.6 percentage points in the second quarter and 1.8 percentage points in the first six months of 2015. The increase in fixed currency operating income and improved operating margin benefited from the impact of sales volume increases, pricing gains and cost efficiency actions, which more than offset investments in the business and other costs.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSSegment Performance (continued)Global Energy

| (millions / percent) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|------------|-----------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net Sales | | | | |
| Sales at fixed currency | \$ 964.8 | \$ 1,014.1 | \$ 1,946.7 | \$ 1,987.8 |
| Percentage change at fixed currency | (5)% | | (2)% | |
| Acquisition adjusted percentage change at fixed currency | (5)% | | (2)% | |
| Percentage change at public currency | (10)% | | (7)% | |
| Operating Income | | | | |
| Operating income at fixed currency | \$ 134.6 | \$ 152.4 | \$ 263.3 | \$ 280.0 |
| Percentage change at fixed currency | (12)% | | (6)% | |
| Acquisition adjusted percentage change at fixed currency | (12)% | | (6)% | |
| Percentage change at public currency | (17)% | | (11)% | |
| Operating income margin | 14.0% | 15.0% | 13.5% | 14.1% |

Net Sales

Fixed currency sales for our Global Energy segment decreased 5% in the second quarter of 2015 and 2% in the first six months of 2015, as both periods were negatively impacted by volume reductions and lower pricing.

The decrease in fixed currency sales reflected reductions in our well stimulation business, which more than offset growth in our downstream and production businesses. Strong growth in our international regions was offset by soft North America results, reflecting the reduction in North America drilling and well completion activity, customer spending reductions and price reductions.

Operating Income

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Fixed currency operating income for our Global Energy segment decreased 12% for the second quarter and 6% for the first six months of 2015. Our operating income margin decreased 1.0 percentage points in the second quarter and 0.6 percentage points in the first six months of 2015.

The decrease in fixed currency operating income and operating margin reductions were driven by sales volume declines and lower pricing, which more than offset delivered product cost savings and synergies.

ECOLAB INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONSSegment Performance (continued)Other

| (millions / percent) | Second Quarter Ended June 30 | | Six Months Ended June 30 | |
|--|---------------------------------|----------|-----------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net Sales | | | | |
| Sales at fixed currency | \$ 195.4 | \$ 185.9 | \$ 373.5 | \$ 354.4 |
| Percentage change at fixed currency | 5% | | 5% | |
| Acquisition adjusted percentage change at fixed currency | 6% | | 6% | |
| Percentage change at public currency | 0% | | 1% | |
| Operating Income | | | | |
| Operating income at fixed currency | \$ 33.0 | \$ 29.7 | \$ 56.4 | \$ 51.1 |
| Percentage change at fixed currency | 11% | | 10% | |
| Acquisition adjusted percentage change at fixed currency | 12% | | 11% | |
| Percentage change at public currency | 9% | | 8% | |
| Operating income margin | 16.9% | 16.0% | 15.1% | 14.4% |

Net Sales

Fixed currency sales for our Other segment increased 5% in both the second quarter and first six months of 2015, driven by both pricing and volume gains. Acquisition adjusted fixed currency sales increased 6% in both the second quarter and first six months of 2015, when adjusting for the divestiture of a non-core cleaning service business. At a regional level, both the second quarter and six month periods were led by good growth in Latin America and North America.

At an operating unit level, *Pest Elimination* fixed currency sales increased 6% in both the second quarter and first six months of 2015, impacted by gains in the foodservice and food and beverage markets. *Equipment Care* sales increased 7% in both the second quarter and first six months of 2015, driven by increases in both service and parts sales, benefiting from new customer additions.

Operating Income

Fixed currency operating income for our Other segment increased 11% for the second quarter and 10% in the first six months of 2015. Acquisition adjusted fixed currency operating income increased 12% in the second quarter of 2015 and 11% in the first six months of 2015, again adjusting for the non-core cleaning service divestiture discussed above. Our operating income margin increased 0.9 percentage points in the second quarter and 0.7 percentage points in the first six months of 2015. Fixed currency operating income results and the corresponding margin improvements were impacted primarily by sales volume growth and pricing gains.

Corporate

Consistent with our internal management reporting, the Corporate segment includes intangible asset amortization specifically from the Nalco merger. 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 46.

ECOLAB INC.

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

Financial Position and Liquidity

Financial Position

Total assets were \$19.2 billion and \$19.4 billion as of June 30, 2015 and December 31, 2014, respectively. The negative impact of foreign currency exchange rates on the value of our foreign assets translated into U.S. dollars as of June 30, 2015 and the impact of intangible asset amortization more than offset the increase in assets from ongoing business activities.

Total liabilities were \$12.3 billion and \$12.1 billion as of June 30, 2015 December 31, 2014, respectively. Total debt was \$7.3 billion as of June 30, 2015 and \$6.6 billion as of December 31, 2014.

Our net debt to EBITDA and net debt to adjusted EBITDA are shown in the following table. We view our net debt to EBITDA and net debt to adjusted EBITDA ratios as important indicators of our creditworthiness.

EBITDA and adjusted EBITDA are non-GAAP measures. As shown below, EBITDA is defined as net income including non-controlling interest plus provision for income taxes, net interest expense, depreciation and amortization. Adjusted EBITDA is defined as the sum of EBITDA and special (gains) and charges impacting EBITDA. The inputs to EBITDA reflect the trailing twelve months of activity for the period presented.

| (ratio) | Trailing Twelve Months Ended June 30 | |
|-----------------------------|---|------|
| | 2015 | 2014 |
| Net debt to EBITDA | 2.5 | 2.6 |
| Net debt to adjusted EBITDA | 2.4 | 2.5 |

| (millions) | June 30 2015 | June 30 2014 |
|------------|-----------------|-----------------|
| Net debt | | |
| Total debt | \$ 7,309.5 | \$ 7,128.8 |
| Cash | 310.6 | 187.0 |
| Net debt | \$ 6,998.9 | \$ 6,941.8 |

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| (millions) | Trailing Twelve Months Ended June 30 | |
|---|---|------------|
| | 2015 | 2014 |
| EBITDA | | |
| Net income including non-controlling interest | \$ 1,256.9 | \$ 1,106.3 |
| Provision for income taxes | 411.5 | 437.5 |
| Interest expense, net | 249.0 | 265.9 |
| Depreciation | 567.8 | 539.9 |
| Amortization | 304.5 | 321.8 |
| EBITDA | 2,789.7 | 2,671.4 |
| Special (gains) and charges impacting EBITDA | 137.5 | 102.6 |
| Adjusted EBITDA | \$ 2,927.2 | \$ 2,774.0 |

ECOLAB INC.

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

Financial Position and Liquidity (continued)

Cash Flows

Cash provided by operating activities totaled \$637 million for the first six months of 2015 compared to \$532 million for the first six months of 2014.

Year-over-year comparability was positively impacted by higher income. We continue to generate strong cash flow from operations which has allowed us to fund our ongoing operations, debt repayments, investments in the business, acquisitions and pension obligations, and return cash to shareholders through share repurchases and dividend payments.

Cash used for investing activities was \$340 million for the first six months of 2015 compared to \$359 million for the first six months of 2014.

The fluctuation across the periods was impacted by capital expenditures as we continue to make investments in our business, including a \$20 million payment made as a result of acquiring the beneficial interest in the trust owning the leased Naperville facility. See Note 5 for further information regarding this transaction. Cash paid for business acquisitions decreased comparing the second quarter of 2015 against second quarter of 2014. See Note 3 for further information on our business acquisition activity.

Cash used by financing activities was \$184 million for the first six months of 2015 compared to cash used by financing activities of \$320 million for the first six months of 2014.

Our 2015 financing activities included the issuance of \$300 million 1.55% and \$300 million 2.25% senior notes, repayment of \$250 million 4.88% senior notes and repayment of \$125 million of term loan borrowings. Our 2014 financing activities included the repayment of \$250 million of term loan borrowings. During the first six months of 2015, net issuances and repayments of commercial paper and notes payable led to a net increase of \$450 million, compared to a net increase of \$478 million in 2014.

In February 2015, we announced a \$1.0 billion share repurchase program, of which \$390 million remains to be repurchased as of June 30, 2015. We expect the program to be completed by mid-2016. During the first six months of 2015, we repurchased \$726 million shares, including \$300 million shares through the ASR program discussed further in Note 10. During the first six months of 2014 we repurchased \$337 million shares.

The first six months of 2014 includes an acquisition related contingent consideration payment of \$86 million made to Champion's former shareholders.

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. We continue to expect our operating cash flow to remain strong.

As of June 30, 2015, we had \$311 million of cash and cash equivalents on hand, of which \$297 million was held outside of the U.S. Cash and cash equivalents held in Venezuela as of June 30, 2015 make up less than one-fourth of the amount held outside of the U.S. See the further discussion regarding Venezuela on pages 62 through 63, within the section entitled Global Economic and Political Environment.

ECOLAB INC.

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

Financial Position and Liquidity (continued)

As of June 30, 2015 we had a \$2.0 billion multi-year credit facility, which expires in December 2019. The credit facility has been established with a diverse syndicate of banks. There were no borrowings under our credit facility as of June 30, 2015 or December 31, 2014.

The credit facility supports our \$2.0 billion U.S. commercial paper program and \$200 million European commercial paper program. Combined borrowing under these two commercial paper programs may not exceed \$2.0 billion. As of June 30, 2015, we had \$1.3 billion in outstanding U.S. commercial paper, with an average annual interest rate of 0.6%, and no amounts outstanding under our European commercial paper program. As of June 30, 2015, both programs were rated A-2 by Standard & Poor's and P-2 by Moody's.

In January 2015 we issued a three-year 1.55% fixed rate note for a par amount of \$300 million and a five-year 2.25% fixed rate note for a par amount of \$300 million. In July 2015, subsequent to our second quarter end, we issued a ten-year 2.63% fixed rate euro note for a par amount of \$75 million. In February 2015, we repaid our \$250 million senior notes, originally issued in 2008 and in March 2015 we repaid \$125 million of term loan borrowings. Also in February 2015, we assumed \$100 million of debt as a result of acquisition of the beneficial interest in the trust owning the leased Naperville facility.

We are in compliance with our debt covenants and believe we have sufficient borrowing capacity to meet our foreseeable operating needs.

As of June 30, 2015, Standard & Poor's and Moody's rated our long-term credit at BBB+ (positive outlook) and Baa1 (stable outlook), respectively.

The schedule of contractual obligations included in the Financial Position and Liquidity section of our Form 10-K for the year ended December 31, 2014 disclosed total notes payable and long-term debt due within one year of \$1.7 billion. As of June 30, 2015, the total notes payable and long-term debt due within one year increased to \$2.2 billion. The increase reflected additional commercial paper borrowing during the first six months of 2015.

Our gross liability for uncertain tax positions was \$73 million as of June 30, 2015 and \$79 million as of December 31, 2014. We are not able to reasonably estimate the amount by which the liability will increase or decrease over time; however, at this time, we do not expect significant payments related to these obligations within the next year.

Global Economic and Political Environment

Oil Markets and Global Energy Investments

Approximately 30% of our sales are generated from our Global Energy segment, the results of which, as noted further below, are subject to volatility in the oil and gas commodity markets.

Energy Markets

Oil prices remained comparably lower during the first six months of 2015 against the comparable period of 2014, with continued supply pressures driving down the comparable rig count, and negatively impacting exploration and production investments, particularly in North America. Demand for oil and energy consumption has remained consistent.

ECOLAB INC.

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

Global Economic and Political Environment (continued)

As demonstrated in the first half of 2015, lower oil prices slowed our Global Energy segment results, with an expectation of lower comparable sales within the segment throughout the remainder of 2015, assuming oil prices remain at their current levels. Our global footprint and broad business portfolio within the Global Energy segment, as well as our strong execution capabilities are expected to provide the required resilience to outperform in the current market, as such we continue to remain confident in the long-term growth prospects of the segment.

Additionally, as petroleum based materials are key inputs to many of our chemical products, lower oil prices will continue to provide benefits across our segments in the form of lower raw material costs. In addition, it is likely we will experience continued improved Institutional markets as consumers have more discretionary income due to lower energy prices.

Energy Investments

We have a joint venture in Kazakhstan, which we acquired as part of the Champion transaction that holds a contract to supply production chemicals for use in the Kashagan oil project, a Caspian Sea shallow water oil field. The startup of production at the Kashagan project has been significantly delayed and output was indefinitely halted after pipeline failures were discovered in October 2013. We have approximately \$25 million invested in this joint venture related to inventory, imported in anticipation of production. We anticipate that the pipelines will be repaired and production restarted; however, if this does not occur, or does not occur in a timely manner, we believe the impact of such events would not have a material adverse effect on our consolidated financial position or results of operations.

Global Economies

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.

Global Foreign Currency Markets

The U.S. dollar remained very strong against most global currencies during the first six months of 2015, impacting our comparative results against 2014. We anticipate the trend to continue throughout 2015. As described in Note 8, we utilize our derivative program to mitigate risks associated with foreign currency exposure and our investments in foreign operations.

European Environment

Economic conditions in Europe have remained challenging, with sovereign debt issues, particularly in Greece as noted below, high levels of unemployment and large trade deficits leading to weakness in respective European currencies, diminished credit availability and general turmoil throughout the region.

While such factors could negatively impact our customers located both within Europe and other geographic areas, we currently do not foresee any specific credit or market risks that would have a significant impact to our future results of operations.

ECOLAB INC.

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

Global Economic and Political Environment (continued)

Greece

The economic crisis in Greece and corresponding European bailout and austerity discussions have made operating in Greece difficult and uncertain. We will continue to monitor the economic and political developments within the country. Net sales within Greece are approximately 0.2% of our consolidated net sales. Assets held in Greece at May 31, 2015 represented approximately 0.1% of our consolidated assets.

Russia and Ukraine

The ongoing political turmoil, economic sanctions, as well as the depressed oil markets, have led to foreign currency pressure as well as higher localized interest rates within Russia and Ukraine. We have experienced no significant impact from these trends, and will continue to monitor the economic and political trends within the region. Net sales within Russia and Ukraine are approximately 1% of our consolidated net sales. Assets held in Russia and Ukraine at May 31, 2015 represented less than 1% of our consolidated assets.

Venezuela Foreign Currency Translation

Venezuela is a country experiencing a highly inflationary economy as defined 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 our subsidiaries and other transactional foreign exchange gains and losses are reflected in earnings.

In 2013, the Venezuelan government established a new foreign exchange mechanism known as SICAD 1. It operates similar to an auction system and allows entities to exchange a limited number of bolivares for U.S. dollars at a bid rate established via weekly auctions. As of May 31, 2015, the fiscal quarter end for our international operations, the SICAD 1 exchange rate closed at 12.0 bolivares to 1 U.S. dollar. We do not use the SICAD 1 rate or expect to use the SICAD 1 currency exchange mechanism.

In January 2014, the Venezuelan government announced the replacement of CADIVI with a new foreign currency administration, CENCOEX, which did not impact the fixed currency exchange rate of 6.3 bolivares to 1 U.S. dollar. In March 2014, the Venezuelan government established SICAD 2, which operated similar to SICAD 1. In February 2015, SICAD 2 was replaced by SIMADI, a free-floating rate, with an exchange rate at May 2015 of 199.0 bolivares to 1 U.S. dollar.

We closely monitor the complex economic and political conditions with respect to our operations in Venezuela, which are aligned to five of our ten operating units. As previously discussed within the MD&A, during the second quarter of 2015, we concluded that it was appropriate to apply the SIMADI exchange rate to our Venezuelan Water and Paper operating units, as we believe that the SIMADI rate best represents the economics of those operating units, based on the underlying transactions within those operating units. As a result, we recorded a devaluation charge of \$30.2 million (\$30.2 million after tax), including the remeasurement of our Water and Paper monetary assets and impairment of certain other net assets.

During the first six months of 2015, within the Energy, Food & Beverage and Institutional operating units, we continued to transact business at the CENCOEX fixed currency exchange rate of 6.3 bolivares to 1 U.S. dollar, including transactions with PDVSA through our Energy operating unit. As the fixed currency exchange rate of 6.3 bolivares to 1 U.S. dollar remained legally available to us, and we continued to transact at this rate, we continued to remeasure the net monetary assets of our Energy, Food & Beverage and Institutional operating units at this rate throughout the first six months of 2015.

ECOLAB INC.

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

Global Economic and Political Environment (continued)

Depending on the ultimate transparency, liquidity and availability of the various Venezuelan exchange markets, and the corresponding impact to the exchange rates used to transact our business, the remeasurement of an additional portion or substantially all of the remaining net monetary balances during the remainder of 2015 at a rate other than the official rate of 6.3 bolivares to 1 U.S. dollar currently being used is possible. Under current contract agreements, certain Energy transactions are completed in U.S. dollars, making that portion of our business in Venezuela less dependent on a bolivar to U.S. dollar exchange rate.

We will continue to evaluate the remeasurement of an additional portion or substantially all of the remaining monetary assets during the remainder of 2015 depending on the rate at which we transact business in Venezuela. Assuming these rates are higher than the official exchange rate at the time our net monetary assets are remeasured, this will likely result in a devaluation charge. In addition, operating results translated using a higher rate than the official rate could result in a reduction in earnings.

As of May 31, 2015, we had approximately \$100 million of net monetary assets denominated in bolivares within our Energy, Food & Beverage and Institutional operating units that were required to be remeasured to U.S. dollars. Approximately 80% of the net monetary assets are aligned to our Energy business unit. If we determine our Energy, Food & Beverage and Institutional Venezuelan net monetary assets should be remeasured in a subsequent period, we could recognize a currency devaluation pre-tax loss of up to \$100 million based on the May 31, 2015 net monetary assets. This loss would be a component of special (gains) and charges within our Consolidated Statement of Income.

As of May 31, 2015, we had other net assets of approximately \$120 million within the Energy, Food & Beverage and Institutional operating units, largely comprised of accounts receivable (denominated in U.S. dollars), inventory, property, plant and equipment and other intangible assets, excluding goodwill. Approximately 85% of the other net assets are aligned to our Energy business unit.

Based on our operating income performance within the Energy, Food & Beverage and Institutional operating units in Venezuela during the first six months of 2015, and our ability to use the fixed currency exchange rate of 6.3 bolivares to 1 U.S. dollar, no impairment of these assets was recognized. If future cash flows of our Energy, Food & Beverage, and Institutional operating units in Venezuela were to significantly decline, either as a result of a currency devaluation or other economic events, additional evaluation of the corresponding other net assets for potential impairment will be performed.

As discussed in Note 6, goodwill is aligned to our ten reporting units, and is tested for impairment on an annual basis during the second quarter. Based on the quantitative impairment testing performed at the global reporting unit level during the second quarter, no adjustment to the carrying value of goodwill was necessary.

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Net sales within Venezuela are approximately 1% of our consolidated net sales. Assets held in Venezuela at May 31, 2015 represented less than 2% of our consolidated assets.

New Accounting Pronouncements

For information on new accounting pronouncements, see Note 16 to the Consolidated Financial Statements.

ECOLAB INC.

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

Subsequent Events

In June 2015, subsequent to our quarter end for international operations, we acquired Jianghai Environmental Protection Co. Ltd, an industrial water treatment company headquartered in Changzhou, China. With pre-acquisition sales of approximately \$90 million, the acquired business will become part of our Global Industrial reportable segment during the third quarter of 2015.

In July 2015, we issued \$575 million of debt securities in a public offering that mature in 2025 at a rate of 2.625%. The proceeds were used to repay a portion of our outstanding commercial paper.

In July 2015, we closed our \$495 million net investment hedge.

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 cost of sales
- Adjusted gross margin
- Fixed currency operating income
- Adjusted operating income
- Adjusted operating income margin
- Adjusted fixed currency operating income

- Adjusted fixed currency operating income margin
- EBITDA
- Adjusted EBITDA
- Adjusted tax rate
- Adjusted net income
- Adjusted diluted earnings per share

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 cost of sales, adjusted gross margin, adjusted operating income, adjusted operating income margin, adjusted fixed currency operating income, adjusted fixed currency operating income margin, adjusted EBITDA, adjusted net income and adjusted diluted earnings per share, which exclude special (gains) and charges and/or 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.

ECOLAB INC.

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

Non-GAAP Financial Measures (Continued)

EBITDA is defined as the sum of net income including non-controlling interest and provision for income taxes, net interest expense, depreciation and amortization. Adjusted EBITDA is defined as the sum of EBITDA and special (gains) and charges impacting operating income. EBITDA and adjusted EBITDA are used as inputs to our net debt to EBITDA and net debt to adjusted EBITDA ratios, which we view as important indicators of our creditworthiness.

The adjusted 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 and adjusted fixed currency operating income measures eliminate the impact of exchange rate fluctuations on our 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 2015.

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.

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 45-52 and page 58.

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 our restructuring initiatives; contingent consideration obligations; payments and 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 lawsuits, claims and environmental matters; payments related to uncertain tax positions; timing of hedged transactions; borrowing capacity; potential additional Venezuelan devaluation and asset impairment charges; impact of oil price fluctuations; the

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impact of delay or shutdown of Kashagan operations; global foreign currency markets; global credit or market risk; future cash flow; cash requirements and sources of funding; anticipated future debt issuances; and nonperformance of financial counterparties.

ECOLAB INC.

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

Forward-Looking Statements (continued)

Without limiting the foregoing, words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "we believe," "we expect," "estimate," "project" (including the negative or variations thereof) or similar terminology, generally identify forward-looking statements. Forward-looking statements may also represent challenging goals for us. These statements, which represent our 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 statements are set forth under Item 1A, entitled Risk Factors, of our Form 10-K for the year ended December 31, 2014, and this Form 10-Q, and include the vitality of the markets we serve including the impact of oil price fluctuations on the markets served by our Global Energy segment; the impact of economic factors such as the worldwide economy, capital flows, interest rates and foreign currency risk including potential additional Venezuelan devaluation and asset impairments charges and reduced sales and earnings in our international operations resulting from the weakening of local currencies versus the U.S. dollar; our ability to attract and retain high caliber management talent to lead our business; our ability to execute key business initiatives; potential information technology infrastructure failures; exposure to global economic, political and legal risks related to our international operations including with respect to our operations in Russia; the costs and effects of complying with laws and regulations, including those relating to the environment and to the manufacture, storage, distribution, sale and use of our products; the occurrence of litigation or claims, including related to the Deepwater Horizon oil spill; our ability to develop competitive advantages through innovation; difficulty in procuring raw materials or fluctuations in raw material costs; our substantial indebtedness; our ability to acquire complementary businesses and to effectively integrate such businesses; restraints on pricing flexibility due to contractual obligations; pressure on operations from consolidation of customers, vendors or competitors; public health epidemics; potential losses arising from the impairment of goodwill or other assets; potential loss of deferred tax assets; potential chemical spill or release; potential class action lawsuits; the loss or insolvency of a major customer or distributor; acts of war or terrorism; natural or man-made disasters; water shortages; severe weather conditions; and other uncertainties or risks reported from time to time in our reports to the SEC. There can be no assurances that our earnings levels will meet investors' expectations. Except as may be required under applicable law, we do not undertake, and expressly disclaim, any duty to update our Forward-Looking Statements.

ECOLAB INC.

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

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 24.

Item 4. Controls and Procedures

As of June 30, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chairman of the Board and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective.

During the period April 1 through June 30, 2015, 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 15, entitled "Commitments and Contingencies" located under Part I, Item 1 of this Form 10-Q beginning on page 35, is incorporated herein by reference.

Item 1A. Risk Factors

In our report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on February 27, 2015, 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 pages 65-66 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.

The discussion below includes updates to these risk factors.

Our results are impacted by general worldwide economic factors: Economic factors such as the worldwide economy, capital flows, interest rates and currency movements, including, in particular, our exposure to foreign currency risk, have affected our business in the past and may have a material adverse impact on our business in the future. In 2008 and 2009, the global economy experienced considerable disruption and volatility, and the disruption was particularly acute in the global credit markets. In 2011 and 2012, the European Union's sovereign debt crisis negatively impacted economic activity in that region as well as the strength of the euro versus the U.S. dollar, and the 2015 Greek crisis resulted in additional market disruption. Other regions of the world, including emerging market areas, also expose us to foreign currency risk. For example, we do business in Venezuela, which experienced a currency devaluation in 2010 and again in 2013. As discussed at pages 62 and 63 in the Management's Discussion and Analysis section of this Form 10-Q, we experienced a currency devaluation charge for a portion of our Venezuelan net assets during the quarterly period ended June 30, 2015, and we will evaluate the appropriateness of devaluing an additional portion of our Venezuelan net assets during the remainder of 2015 depending on the rate at which we transact business in Venezuela. Similar currency devaluations, credit market disruptions or other economic turmoil in other countries could have a material adverse impact on our consolidated results of operations, financial position and cash flows by negatively impacting economic activity, including in our key end-markets, and by further weakening the local currency versus the U.S. dollar, resulting in reduced sales and earnings from our foreign operations, which are generated in the local currency, and then translated to U.S. dollars.

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

(c) Issuer Purchases of Equity Securities

| Period | (a) Total number of shares purchased(1) | (b) Average price paid per share(2) | (c) Number of shares purchased as part of publicly announced plans or programs(3) | (d) Maximum number of shares that may yet be purchased under the plans or programs(3) |
|------------------|---|--|--|--|
| April 1-30, 2015 | 556,683 | 116.0680 | 555,511 | 25,664,494 |
| May 1-31, 2015 | 1,333,882 | 114.3277 | 1,310,000 | 24,354,494 |
| June 1-30, 2015 | 1,392,764 | 115.5791 | 1,385,895 | 22,968,599 |
| Total | 3,283,329 | 115.1536 | 3,251,406 | 22,968,599 |

(1) Represents 31,923 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 August 23, 2011, the Finance Committee of our Board of Directors, via delegation by our Board of Directors, authorized the repurchase of up to 10,000,000 shares of Common Stock contingent upon completion of the merger with Nalco. As announced on February 24, 2015, our Board of Directors authorized the repurchase of up to an additional 20,000,000 shares. The Company also announced on February 24, 2015 a \$1.0 billion share repurchase program under the existing share repurchase authorizations. Subject to market conditions, we expect to repurchase all shares under these authorizations, for which no expiration date has been established, in open market or privately negotiated transactions, including pursuant to Rule 10b5-1 and accelerated share repurchase programs.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5.

Other Information

Not applicable.

Item 6.

Exhibits

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

- (4.1) Second Supplemental Indenture, dated as of July 8, 2015, by and among the Company, Wells Fargo Bank, National Association, Elavon Financial Services Limited, UK Branch, as paying agent, and Elavon Financial Services Limited, as transfer agent and registrar incorporated herein by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on July 8, 2015.
- (4.2) Form of 2.625% Euro Notes due 2025 (included in Exhibit 4.1 above).
- (10.1) Amendment No. 1 to Ecolab Supplemental Executive Retirement Plan, effective May 6, 2015.
- (10.2) Amendment No. 5 to Ecolab Executive Death Benefits Plan, effective May 6, 2015.
- (15.1) Letter regarding unaudited interim financial information.
- (31.1) Rule 13a - 14(a) Certifications.
- (32.1) Section 1350 Certifications.
- (101.1) Interactive Data File.

SIGNATURE

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

ECOLAB INC.

Date: August 6, 2015

By:

/s/ Bryan L. Hughes
Bryan L. Hughes
Senior Vice President & Corporate Controller
(duly authorized Officer and
Chief Accounting Officer)

EXHIBIT INDEX

| Exhibit No. | Document | Method of Filing |
|-------------|---|---|
| (4.1) | Second Supplemental Indenture, dated as of July 8, 2015, by and among the Company, Wells Fargo Bank, National Association, Elavon Financial Services Limited, UK Branch, as paying agent, and Elavon Financial Services Limited, as transfer agent and registrar incorporated herein by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on July 8, 2015. | Incorporated by reference to Exhibit (4.2) of our Form 8-K dated July 8, 2015. (File No. 001-09328) |
| (4.2) | Form of 2.625% Euro Notes due 2025 (included in Exhibit 4.1 above). | Incorporated by reference to Exhibit (4.2) of our Form 8-K dated July 8, 2015. (File No. 001-09328) |
| (10.1) | Amendment No. 1 to Ecolab Supplemental Executive Retirement Plan, effective May 6, 2015. | Filed herewith electronically. |
| (10.2) | Amendment No. 5 to Ecolab Executive Death Benefits Plan, effective May 6, 2015. | Filed herewith electronically. |
| (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. |