ECOLAB INC
Form 10-Q
May 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission File No. 1-9328

ECOLAB INC.

(Exact name of registrant as specified in its charter)

Delaware	**41-0231510**
(State or other jurisdiction of incorporation or organization)	(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 x No o

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of March 31, 2015.

297,760,678 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)	First Quarter Ended March 31 2015		First Quarter Ended March 31 2014	
Net sales	$	3,297.6	$	3,336.6
Cost of sales (including special charges of $0.6 in 2015 and $6.0 in 2014)		1,765.3		1,819.2
Selling, general and administrative expenses		1,136.8		1,136.9
Special (gains) and charges		7.8		29.6
Operating income		387.7		350.9
Interest expense, net		62.5		65.1
Income before income taxes		325.2		285.8
Provision for income taxes		89.8		91.3
Net income including noncontrolling interest		235.4		194.5
Less: Net income attributable to noncontrolling interest		2.0		3.5
Net income attributable to Ecolab	$	233.4	$	191.0
Earnings attributable to Ecolab per common share				
Basic	$	0.78	$	0.64
Diluted	$	0.77	$	0.62
Dividends declared per common share	$	0.3300	$	0.2750
Weighted-average common shares outstanding				
Basic		298.2		300.6
Diluted		303.2		306.5

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

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ECOLAB INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

	First Quarter Ended March 31	
(millions)	**2015**	**2014**
Net income including noncontrolling interest	$ 235.4	$ 194.5
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments		
Foreign currency translation	(309.4)	(67.0)
Gain (loss) on net investment hedges	57.0	(3.7)
	(252.4)	(70.7)
Derivatives and hedging instruments	7.8	
Pension and postretirement benefits		
Amortization of net actuarial loss and prior service cost included in net periodic pension and postretirement costs	8.0	2.6
Subtotal	(236.6)	(68.1)
Total comprehensive income (loss), including noncontrolling interest	(1.2)	126.4
Less: Comprehensive income attributable to noncontrolling interest	1.0_	3.5
Comprehensive income (loss) attributable to Ecolab	$ (2.2)	$ 122.9

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

ECOLAB INC.

CONSOLIDATED BALANCE SHEET

(unaudited)

(millions)		**March 31 2015**		**December 31 2014**
ASSETS				
Current assets				
Cash and cash equivalents	$	237.9	$	209.6
Accounts receivable, net		2,546.9		2,626.7
Inventories		1,503.0		1,466.9
Deferred income taxes		172.8		183.2
Other current assets		461.2		366.6
Total current assets		4,921.8		4,853.0
Property, plant and equipment, net		3,115.1		3,050.6
Goodwill		6,529.0		6,717.0
Other intangible assets, net		4,326.7		4,456.8
Other assets		359.4		371.2
Total assets	$	19,252.0	$	19,448.6

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

(Continued)

ECOLAB INC.

CONSOLIDATED BALANCE SHEET (continued)

(unaudited)

(millions, except shares and per share amounts)	**March 31 2015**	**December 31 2014**
LIABILITIES AND EQUITY		
Current liabilities		
Short-term debt	$ 1,797.5	$ 1,705.4
Accounts payable	950.6	1,162.4
Compensation and benefits	435.7	560.4
Income taxes	70.5	88.6
Other current liabilities	866.7	851.7
Total current liabilities	4,121.0	4,368.5
Long-term debt	5,408.7	4,864.0
Postretirement health care and pension benefits	1,140.8	1,188.5
Other liabilities	1,645.5	1,645.5
Total liabilities	12,316.0	12,066.5
Equity (a)		
Common stock	348.7	347.7
Additional paid-in capital	4,881.3	4,874.5
Retained earnings	5,690.4	5,555.1
Accumulated other comprehensive loss	(1,187.4)	(951.9)
Treasury stock	(2,862.0)	(2,509.5)
Total Ecolab shareholders equity	6,871.0	7,315.9
Noncontrolling interest	65.0	66.2
Total equity	6,936.0	7,382.1
Total liabilities and equity	$ 19,252.0	$ 19,448.6

(a) Common stock, 800 million shares authorized, $1.00 par value per share, 297.8 million shares outstanding at March 31, 2015, 299.9 million shares outstanding at December 31, 2014. Shares outstanding are net of treasury stock.

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

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ECOLAB INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(millions)	First Quarter Ended March 31 2015	2014
OPERATING ACTIVITIES		
Net income including noncontrolling interest	$ 235.4	$ 194.5
Adjustments to reconcile net income including noncontrolling interest to cash provided by operating activities:		
Depreciation	142.1	136.5
Amortization	75.1	80.3
Deferred income taxes	3.2	(8.3)
Share-based compensation expense	25.3	22.8
Excess tax benefits from share-based payment arrangements	(19.7)	(22.9)
Pension and postretirement plan contributions	(21.0)	(28.0)
Pension and postretirement plan expense	29.3	21.9
Restructuring, net of cash paid	(9.5)	2.7
Other, net	4.8	3.7
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(12.4)	38.3
Inventories	(83.6)	(54.8)
Other assets	(45.3)	(44.9)
Accounts payable	(170.0)	(69.6)
Other liabilities	(41.2)	(57.8)
Cash provided by operating activities	$ 112.5	$ 214.4

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

(Continued)

ECOLAB INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(unaudited)

(millions)	First Quarter Ended March 31 2015	2014
INVESTING ACTIVITIES		
Capital expenditures	$ (166.8)	$ (142.2)
Capitalized software expenditures	(6.8)	(8.7)
Property and other assets sold	6.0	0.7
Acquisitions and investments in affiliates, net of cash acquired	(10.8)	(25.3)
Release from acquisition related escrow	9.4	1.1
Cash used for investing activities	(169.0)	(174.4)
FINANCING ACTIVITIES		
Net issuances (repayments) of commercial paper and notes payable	335.7	397.5
Long-term debt borrowings	599.7	
Long-term debt repayments	(375.7)	(101.4)
Reacquired shares	(412.6)	(242.6)
Dividends paid	(99.8)	(85.9)
Exercise of employee stock options	23.0	24.0
Excess tax benefits from share-based payment arrangements	19.7	22.9
Acquisition related liabilities and contingent consideration	0.1	(87.6)
Other, net	(4.2)	
Cash provided by (used for) financing activities	85.9	(73.1)
Effect of exchange rate changes on cash and cash equivalents	(1.1)	(5.8)
Increase (decrease) in cash and cash equivalents	28.3	(38.9)
Cash and cash equivalents, beginning of period	209.6	339.2
Cash and cash equivalents, end of period	$ 237.9	$ 300.3

The accompanying Notes to the Consolidated Financial Statements are an integral part of this statement.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Consolidated Financial Information

The unaudited condensed consolidated financial information for the first quarter ended March 31, 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 first quarter ended March 31, 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 May 7, 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)	**First Quarter Ended March 31** **2015**	**2014**
Cost of sales		
Restructuring charges	$ 0.6	$ 6.0
Special (gains) and charges		
Restructuring charges	2.1	22.6
Champion acquisition and integration costs	5.2	6.5
Nalco merger and integration costs	0.5	1.3

Other gains				(0.8)
Subtotal		7.8		29.6
Total special (gains) and charges	$	8.4	$	35.6

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 two-thirds 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 $1.0 million ($0.8 million after tax) and $4.9 million ($3.0 million after tax) during the first quarter of 2015 and 2014, 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:

	Energy Restructuring Plan			
(millions)	Employee Termination Costs	Asset Disposals	Other	Total
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	1.0	(0.2)	0.2	1.0
Cash activity	(0.4)	3.8	(0.2)	3.2
Non-cash charges		(3.6)		(3.6)
Effect of foreign currency translation				
Restructuring liability, March 31, 2015	$ 2.6	$	$ 0.1	$ 2.7

As shown in the previous table, cash activity under the Energy Restructuring Plan resulted in net cash proceeds of $3.2 million during the first quarter of 2015, primarily from the sale of facilities. Cash payments from 2013 through 2014 were $31.4 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.

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 .

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), which includes a small increase from the fourth quarter of 2014. 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 $1.7 million ($0.8 million after tax) and $23.7 million ($19.8 million after tax), during the first quarter of 2015 and 2014, respectively.

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

	Combined Plan			
(millions)	**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	1.4	0.1	0.2	1.7
Net cash payments	(7.2)	0.2	(4.4)	(11.4)
Non-cash net charges		(0.3)		(0.3)
Effect of foreign currency translation	(4.6)			(4.6)
Restructuring liability, March 31, 2015	$ 54.1	$	$ 4.8	$ 58.9

As shown in the previous table, net cash payments under the Combined Plan were $11.4 million during the first quarter 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 charges of $5.2 million ($3.2 million after tax) and $6.5 million ($4.1 million after tax) during the first quarter of 2015 and 2014, 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.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

2. Special (Gains) and Charges (continued)

Nalco merger and integration costs

As a result of the Nalco merger completed in 2011, the company incurred net charges of $0.5 million ($0.5 million after tax) and $1.3 million ($0.9 million after tax) during the first quarter of 2015 and 2014, 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 Bolivar Fuertes (bolivars) for U.S. dollars at a bid rate established via weekly auctions. As of February 28, 2015, the fiscal quarter end for the company s international operations, the SICAD 1 exchange rate closed at 12.0 bolivars 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 6.30 bolivars 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 February 28, 2015 of 176.62 bolivars to 1 U.S. dollar.

During the first quarter of 2015, the company continued to transact business across its operating units at the CENCOEX fixed currency exchange rate of 6.30 bolivars to 1 U.S. dollar, including with Petróleos de Venezuela (PDVSA), the Venezuelan state-owned oil and natural gas company. As the fixed currency exchange rate of 6.30 bolivars to 1 U.S. dollar remained legally available to the company and it continued to transact at this rate, the company remeasured the net monetary assets of its Venezuelan subsidiaries at this rate throughout the first quarter of 2015. The company continues to monitor the complex economic and political conditions with respect to its operating units in Venezuela.

As of February 28, 2015, the company had $120 million of net monetary assets denominated in bolivars that were required to be remeasured to U.S. dollars. As of February 28, 2015, the company had other net assets in Venezuela of $115 million, largely comprised of accounts receivable (denominated in U.S. dollars), inventory, property, plant and equipment and other intangible assets, excluding goodwill. Net sales within Venezuela are approximately 2% of the company s consolidated net sales. Assets held in Venezuela at February 28, 2015 represented less than 2% of the company s consolidated assets.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

3. Acquisitions and Dispositions

Acquisitions

2015 Activity

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

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 sales of less than $1 million, the acquired business became part of the company s Global Institutional 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 sales of less than $1 million, the acquired business became part of the company s Other segment during the first quarter of 2015.

Subsequent to the company s fiscal quarter end for international operations, 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 will become part of the company s Global Industrial segment during the second quarter of 2015.

2014 Activity

During the first quarter of 2014, the company completed the acquisition of AkzoNobel s Purate business (Purate). Headquartered in Sweden, Purate 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 segment during the first quarter of 2014.

Acquisition summary

Acquisitions during the first three 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 other completed acquisitions during the first quarter of 2015 and 2014 are shown in the following table.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

3. Acquisitions and Dispositions (continued)

(millions)	First Quarter Ended March 31 2015	2014
Net tangible assets acquired	$ 1.1	$ 12.8
Identifiable intangible assets		
Customer relationships	0.6	1.9
Patents	2.5	
Trademarks	0.1	0.8
Other technology	0.2	2.9
Total intangible assets	3.4	5.6
Goodwill	6.3	6.9
Total aggregate purchase price	10.8	25.3
Acquisition related liabilities and contingent consideration	(0.1)	1.2
Net cash paid for acquisitions, including contingent consideration	$ 10.7	$ 26.5

The weighted average useful lives of identifiable intangible assets acquired during the first three months of 2015 and 2014, as shown in the previous table, were 11 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 and are not reflected in the 2013 Consolidated Balance Sheet.

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 entity s former stockholders for a period of two years following the effective date of the acquisition. The potential future recovery of amounts from the escrow account by the company may be reflected within cost of sales, selling, general and administrative expenses, and/or special (gains) and charges within the Consolidated Statement of Income.

Dispositions

There were no business disposals during the first quarter of 2015 or 2014.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

4. Balance Sheet Information

(millions)	March 31 2015	December 31 2014
Accounts receivable, net		
Accounts receivable	$ 2,626.2	$ 2,704.2
Allowance for doubtful accounts	(79.3)	(77.5)
Total	$ 2,546.9	$ 2,626.7
Inventories		
Finished goods	$ 1,063.6	$ 1,044.1
Raw materials and parts	444.0	447.3
Inventories at FIFO cost	1,507.6	1,491.4
Excess of FIFO cost over LIFO cost	(4.6)	(24.5)
Total	$ 1,503.0	$ 1,466.9
Other current assets		
Prepaid assets	$ 123.4	$ 104.7
Taxes receivable	130.9	133.0
Derivative assets	134.9	57.4
Other	72.0	71.5
Total	$ 461.2	$ 366.6
Property, plant and equipment, net		
Land	$ 211.4	$ 199.9
Buildings and improvements	864.0	759.9
Leasehold improvements	82.4	84.6
Machinery and equipment	1,859.4	1,858.1
Merchandising and customer equipment	1,906.0	1,917.5
Capitalized software	466.5	443.9
Construction in progress	296.8	277.5
	5,686.5	5,541.4
Accumulated depreciation	(2,571.4)	(2,490.8)
Total	$ 3,115.1	$ 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	$ 3,293.8	$ 3,385.7
Trademarks	310.8	311.1
Patents	437.0	434.5
Other technology	215.7	214.0
	$ 4,257.3	$ 4,345.3
Accumulated amortization		

Customer relationships	$	(819.2)	$	(794.6)
Trademarks		(96.1)		(91.5)
Patents		(132.2)		(124.9)
Other technology		(113.1)		(107.5)
Total	$	4,326.7	$	4,456.8
Other assets				
Deferred income taxes	$	56.9	$	71.5
Deferred financing costs		29.2		27.1
Pension		19.1		15.9
Other		254.2		256.7
Total	$	359.4	$	371.2

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

4. Balance Sheet Information (continued)

(millions)		March 31 2015		December 31 2014
Other current liabilities				
Discounts and rebates	$	268.8	$	255.4
Dividends payable		99.6		99.1
Interest payable		57.9		18.9
Taxes payable, other than income		101.0		122.6
Derivative liabilities		31.9		34.0
Restructuring		50.6		66.3
Other		256.9		255.4
Total	$	866.7	$	851.7
Other liabilities				
Deferred income taxes	$	1,424.5	$	1,415.8
Income taxes payable - non-current		78.5		86.4
Restructuring		11.0		9.3
Other		131.5		134.0
Total	$	1,645.5	$	1,645.5
Accumulated other comprehensive loss				
Unrealized gain (loss) on derivative financial instruments, net of tax	$	5.1	$	(2.7)
Unrecognized pension and postretirement benefit expense, net of tax		(525.8)		(552.5)
Cumulative translation, net of tax		(666.7)		(396.7)
Total	$	(1,187.4)	$	(951.9)

5. Debt and Interest

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

(millions)		March 31 2015		December 31 2014
Short-term debt				
Commercial paper	$	1,250.2	$	887.8
Notes payable		31.4		62.1
Long-term debt, current maturities		515.9		755.5
Total	$	1,797.5	$	1,705.4

As of March 31, 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 $1,250 million and $888 million outstanding as of March 31, 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 March 31, 2015 and December 31, 2014.

(millions)	Maturity by year	March 31 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	195.8	217.9
Five year 2011 senior notes ($1.25 billion)	2016	1,249.2	1,249.1
Five year 2012 senior notes ($500 million)	2017	500.9	497.6
Three year 2015 senior notes ($300 million)	2018	300.0	
Series A private placement senior notes ($250 million)	2018	249.8	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	743.1	743.1
Capital lease obligations		9.2	9.3
Other		102.2	3.1
Total debt		5,924.6	5,619.5
Long-term debt, current maturities		(515.9)	(755.5)
Total long-term debt		$ 5,408.7	$ 4,864.0

In January 2015, the company issued $600 million of debt securities in a public offering consisting of $300 million that mature in 2018 at a rate of 1.55% and $300 million that mature in 2020 at a rate of 2.25%. The proceeds were used to repay a portion of the company s outstanding commercial paper and for general corporate purposes.

The notes issued by the company in January 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 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.

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 March 31, 2015.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

5. Debt and Interest (continued)

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

(millions)	First Quarter Ended March 31 2015	2014
Interest expense	$ 65.2	$ 67.3
Interest income	(2.7)	(2.2)
Interest expense, net	$ 62.5	$ 65.1

6. Goodwill and Other Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. The company s reporting units are aligned with its ten operating segments.

The company tests goodwill for impairment on an annual basis during the second quarter. If circumstances change significantly, the company would also test a reporting unit s goodwill for impairment during interim periods between its annual tests. Based on the current and expected performance of the company s operating units, updating the impairment testing during the first quarter of 2015 was not deemed necessary. There has been no impairment of goodwill since the adoption of Financial Accounting Standards Board (FASB) guidance for goodwill and other intangibles on January 1, 2002.

The Nalco and Champion transactions resulted in the addition of significant goodwill within the Energy, Water and Paper reporting units. Subsequent performance of these reporting units relative to projections used for the purchase price allocation of goodwill could result in an impairment if there is either underperformance by the reporting unit or if the carrying value of the reporting unit were to fluctuate significantly due to reasons that did not proportionately change fair value.

The changes in the carrying amount of goodwill for each of the company s reportable segments during the three months ended March 31, 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)	(0.7)				(0.7)
Reclassifications(c)	(23.7)	2.9	20.8		
Effect of foreign currency translation	(75.7)	(20.3)	(94.8)	(3.5)	(194.3)
Goodwill as of March 31, 2015	$ 2,542.1	$ 679.9	$ 3,188.1	$ 118.9	$ 6,529.0

(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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

6. Goodwill and Other Intangible Assets (continued)

Other Intangible Assets

The value of the Nalco trade name is considered an indefinite life intangible asset, which is tested for impairment on an annual basis during the second quarter. Based on the ongoing performance of the company s operating units, updating the impairment testing during the first quarter of 2015 was not deemed 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 first quarter ended March 31, 2015 and 2014 was $73.1 million and $78.1 million, respectively.

As of March 31, 2015, future estimated expense related to amortizable other identifiable intangible assets is expected to be:

(millions)		
2015 (Remainder: nine-month period)	$	221
2016		289
2017		286
2018		281
2019		268
2020		264

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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

7. Fair Value Measurements (continued)

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

		2015		
	Carrying		Fair Value Measurements	
March 31 (millions)	**Amount**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Investments held in rabbi trusts	$ 2.1	$ 2.1	$	$
Foreign currency forward contracts	162.0		162.0	
Interest rate swap contracts	1.3		1.3	
Contingent consideration	0.3			0.3
Liabilities:				
Foreign currency forward contracts	27.3		27.3	
Interest rate swap contracts	30.9		30.9	
Contingent consideration	1.2			1.2

		2014		
	Carrying		Fair Value Measurements	
December 31 (millions)	**Amount**	**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

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 three months ended March 31, 2015 were as follows:

(millions)		
Contingent consideration, December 31, 2014	$	1.3
Amount recognized at transaction date		
Loss (gain) recognized in earnings		
Settlements		(0.3)
Foreign currency translation		(0.1)
Contingent consideration, March 31, 2015	$	0.9

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

7. Fair Value Measurements (continued)

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:

	March 31, 2015		December 31, 2014	
(millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt (including current maturities)	$ 5,924.6	$ 6,309.6	$ 5,619.5	$ 5,980.9

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. In 2014, the company entered into a series of forward starting swap agreements to hedge against changes in interest rates that could impact a future debt issuance. The underlying loss recognized in 2014 and 2015 was recorded in AOCI.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions (continued)

In 2014, the company entered into a series of forward starting interest rate swap agreements in connection with its U.S. public debt issuance completed in January 2015. The interest rate swap agreements were designated and effective as cash flow hedges of the expected interest payments related to the debt issuance. The swap agreements closed in January 2015 in conjunction with the debt issuance discussed in Note 6. In 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. In 2006, the company entered into and subsequently closed two forward starting swap contracts related to the issuance of its senior euro notes.

The amounts recorded in AOCI for 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.

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

		First Quarter Ended March 31	
(millions)	**Location**	**2015**	**2014**
Unrealized gain (loss) recognized into AOCI (effective portion)			
Foreign currency forward contracts	AOCI (equity)	$ 25.3	$ 0.2
Interest rate swap contracts	AOCI (equity)	(14.4)	
		$ 10.9	$ 0.2
Gain (loss) reclassified in income (effective portion)			
Foreign currency forward contracts	Cost of sales	$ 4.8	$ (0.2)
	SG&A	0.5	0.6
		5.3	0.4
Interest rate swap contracts	Interest expense, net	(1.2)	(1.0)
		$ 4.1	$ (0.6)

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

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions (continued)

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.

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 issued in January 2015, 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.

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

		First Quarter Ended March 31	
(millions)	**Location**	**2015**	**2014**
Gain (loss) on derivative recognized in income			
Interest rate swap	Interest expense, net	$ 1.0	$
Gain (loss) on hedged item recognized in income			
Interest rate swap	Interest expense, net	$ (1.0)	$

Net Investment Hedges

The company designates its outstanding 175 million ($196 million as of March 31, 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 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 75 million and 495 million. The 75 million net investment hedge was closed during the fourth quarter of 2014.

During the first quarter of 2015, the company entered into forward contracts with notional values of 360 million and 80 million. Subsequent to the fiscal quarter end for its international operations, 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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions (continued)

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 contracts charged to shareholders equity were as follows:

	First Quarter Ended March 31	
(millions)	**2015**	**2014**
Revaluation gains (losses), net of tax	$ 57.0	$ (3.7)

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:

		First Quarter Ended March 31	
(millions)	**Location**	**2015**	**2014**
Gain (loss) recognized in income			
Foreign currency forward contracts	SG&A	$ 4.8	$ 3.1
	Interest expense, net	(4.9)	(2.4)
		$ (0.1)	$ 0.7

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.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions (continued)

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.

During the first quarter of 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.

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

	Asset Derivatives		Liability Derivatives	
(millions)	**March 31 2015**	**December 31 2014**	**March 31 2015**	**December 31 2014**
Gross value of derivatives	$ 163.3	$ 75.5	$ 58.2	$ 52.1
Gross amounts offset in the Consolidated Balance Sheet	(26.3)	(18.1)	(26.3)	(18.1)
Net value of derivatives presented in the Consolidated Balance Sheet	$ 137.0	$ 57.4	$ 31.9	$ 34.0

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

8. Derivatives and Hedging Transactions (continued)

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

	Asset Derivatives		Liability Derivatives	
(millions)	**March 31 2015**	**December 31 2014**	**March 31 2015**	**December 31 2014**
Derivatives designated as hedging instruments				
Foreign currency forward contracts	$ 38.1	$ 17.9	$ 1.5	$ 0.6
Interest rate swap contracts	1.3		30.9	24.2
Derivatives not designated as hedging instruments				
Foreign currency forward contracts	123.9	57.6	25.8	27.3
Total	$ 163.3	$ 75.5	$ 58.2	$ 52.1

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

	Notional Values	
(millions)	**March 31 2015**	**December 31 2014**
Foreign currency forward contracts	$ 2,700	$ 2,800
Interest rate swap agreements	$ 1,425	$ 725
	400	400
Net investment hedge contracts(a)	935	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 table provides 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.

	First Quarter Ended March 31			
(millions)		**2015**		**2014**
Derivative & Hedging Instruments				
Unrealized gains (losses) on derivative & hedging instruments				
Amount recognized into AOCI	$	10.9	$	0.2
(Gains) losses reclassified from AOCI into income				
Cost of sales		(4.8)		0.2
SG&A		(0.5)		(0.6)
Interest expense, net		1.2		1.0
		(4.1)		0.6
Translation & other insignificant activity		(0.4)		0.7
Tax impact		1.4		(1.5)
Net of tax	$	7.8	$	
Pension & Postretirement Benefits				
Amounts reclassified from AOCI into income				
Actuarial losses	$	14.5	$	5.8
Prior service costs		(1.7)		(1.7)
		12.8		4.1
Tax impact		(4.8)		(1.5)
Net of tax	$	8.0	$	2.6

Amounts reclassified from AOCI into income, net of tax, were derivative gain of $3.2 million in the first quarter of 2015 and derivative loss of $0.3 million in the first quarter of 2014. The pension and postretirement net actuarial loss and prior service cost reclassified from AOCI into income, net of tax, were $8.0 million and $2.6 million in first quarter of 2015 and 2014, respectively.

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 March 31, 2015, 26,220,005 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. 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. 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. The ASR agreement ended in April 2015, subsequent to the company s first quarter end. In connection with the finalization of the ASR agreement, the company received an additional 555,511 shares of common stock. All shares acquired under the ASR agreement were recorded as treasury stock. The remainder of the $1.0 billion share repurchase program is expected to be completed by mid-2016.

During the first quarter of 2015, including the ASR discussed above, the company reacquired 3,138,428 shares of its common stock, of which 2,946,293 related to share repurchases through open market or private purchases and 192,135 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:

	First Quarter Ended March 31	
(millions, except per share amounts)	**2015**	**2014**
Net income attributable to Ecolab	$ 233.4	$ 191.0
Weighted-average common shares outstanding		
Basic	298.2	300.6
Effect of dilutive stock options, units and awards	5.0	5.9
Diluted	303.2	306.5
Earnings attributable to Ecolab per common share		
Basic	$ 0.78	$ 0.64
Diluted	$ 0.77	$ 0.62
Anti-dilutive stock options, units and awards excluded from computation of earnings per share	1.9	1.8

12. Income Taxes

The company s tax rate was 27.6% and 31.9% for the first quarter of 2015 and 2014, respectively. The changes in the company s tax rate for the first quarter of 2015 compared to the first quarter 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 expense of $2.6 million during the first quarter of 2015 and discrete tax net expense of $9.9 million during the first quarter of 2014.

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

First quarter 2014 discrete tax net expense 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 March 31, 2015 and December 31, 2014, respectively. The reduction in the first quarter 2015 balance as compared to year end 2014 is largely due to foreign currency translation. The company anticipates that approximately one-half of the March 31, 2015 balance may be released by the end of 2015 based on the income trends of the underlying foreign entities.

ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

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 first quarter ended March 31 are as follows:

	U.S. Pension		International Pension		U.S. Postretirement Health Care	
(millions)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Service cost	$ 19.1	$ 16.6	$ 8.5	$ 8.4	$ 0.9	$ 1.1
Interest cost on benefit obligation	22.8	22.5	10.3	12.7	2.4	2.7
Expected return on plan assets	(33.2)	(32.1)	(14.1)	(13.8)	(0.2)	(0.3)
Recognition of net actuarial (gain) loss	12.1	5.9	4.0	1.9	(1.6)	(2.0)
Amortization of prior service cost (benefit)	(1.7)	(1.7)		0.1		(0.1)
	$ 19.1	$ 11.2	$ 8.7	$ 9.3	$ 1.5	$ 1.4

As of March 31, 2015, the company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans.

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

The company contributed $14 million to its international pension benefit plans during the first quarter of 2015. The company currently estimates that it will contribute approximately an additional $31 million to the international pension benefit plans during the remainder of 2015.

During the first quarter of 2015, the company made payments of $4 million to its U.S. postretirement health care benefit plans, and estimates that it will make payments of approximately an additional $14 million to such plans during the remainder of 2015.

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ECOLAB INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

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, 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.

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:

	First Quarter Ended March 31			
(millions)		**2015**		**2014**
Net Sales				
Global Industrial	$	1,129.7	$	1,077.2
Global Institutional		1,018.0		