RR Donnelley & Sons Co
Form 10-K
February 26, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

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 number 1-4694

R. R. DONNELLEY & SONS COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**36-1004130**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
111 South Wacker Drive, Chicago, Illinois	**60606**
(Address of principal executive offices)	**(ZIP Code)**

Registrant s telephone number (312) 326-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	**Name of each exchange on which registered**
Common Stock (Par Value $1.25)	NASDAQ and Chicago Stock Exchange

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 the filing requirements for the past 90 days. Yes þ 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 Regulation 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ

The aggregate market value of the shares of common stock (based on the closing price of these shares on the NASDAQ Stock Exchange Composite Transactions) on June 30, 2012, the last business day of the registrant s most recently completed second fiscal quarter, held by nonaffiliates was $2,105,056,579.

As of February 22, 2013, 180,344,198 shares of common stock were outstanding.

Documents Incorporated By Reference

Portions of the Registrant s proxy statement related to its annual meeting of stockholders scheduled to be held on May 23, 2013 are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Company overview

R.R. Donnelley & Sons Company (RR Donnelley, the Company, we, us, and our), a Delaware corporation, is a global provider of integrated communications. The Company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions that reduce costs, drive top line growth, enhance return on investment and ensure compliance. Drawing on a range of proprietary and commercially available digital and conventional technologies deployed across four continents, the Company employs a suite of leading Internet-based capabilities and other resources to provide premedia, printing, logistics and business process outsourcing services to clients in virtually every private and public sector.

Business acquisitions

On December 28, 2012, the Company acquired Presort Solutions (Presort), a provider of mail presorting services to businesses in various industries.

On December 17, 2012, the Company acquired Meisel Photographic Corporation (Meisel), a provider of custom designed visual graphics products to the retail market.

On September 6, 2012, the Company acquired Express Postal Options International (XPO), a provider of international outbound mailing services to pharmaceutical, e-commerce, financial services, information technology, catalog, direct mail and other businesses.

On August 14, 2012, the Company acquired EDGAR Online, a leading provider of disclosure management services, financial data and enterprise risk analytics software and solutions.

On November 21, 2011, the Company acquired StratusGroup, Inc. (Stratus), a full service manufacturer of custom pressure sensitive label and paperboard packaging products for health and beauty, food, beverage and other segments.

On September 6, 2011, the Company acquired Genesis Packaging & Design Inc. (Genesis), a full service provider of custom packaging, including designing, printing, die cutting, finishing and assembling.

On August 16, 2011, the Company acquired LibreDigital, Inc. (LibreDigital), a leading provider of digital content distribution, e-reading software, content conversion, data analytics and business intelligence services.

On August 15, 2011, the Company acquired Sequence Personal LLC (Sequence), a provider of proprietary software that enables readers to select relevant content to be digitally produced as specialized publications.

On June 21, 2011, the Company acquired Helium, Inc. (Helium), an online community offering publishers, catalogers and other customers stock and custom content, as well as a comprehensive range of editorial solutions, in which the Company previously held an equity investment.

On March 24, 2011, the Company acquired Journalism Online, LLC (Journalism Online), an online provider of tools that allow consumers to purchase online subscriptions from publishers.

On December 31, 2010, the Company acquired 8touches, an online provider of tools that allow real estate associates, brokers, Multiple Listing Service (MLS) associations and other marketers to create customized communications materials.

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On December 14, 2010, the Company acquired Nimblefish Technologies (Nimblefish), a provider of multi-channel marketing services to leading retail, technology, telecommunications, hospitality and other customers.

On November 24, 2010, the Company acquired Bowne & Co., Inc. (Bowne), a provider of shareholder and marketing communication services with operations in North America, Latin America, Europe and Asia.

Operations of all of the acquisitions are included in the U.S. Print and Related Services segment. Certain of Bowne s operations are also included in the International segment.

Segment descriptions

The Company operates primarily in the printing industry, with product and related service offerings designed to offer customers complete solutions for communicating their messages to target audiences. The Company s segments and their product and service offerings are summarized below:

U.S. Print and Related Services

The U.S. Print and Related Services segment includes the Company s U.S. printing operations, managed as one integrated platform, along with logistics, premedia, print management and other print related services. This segment s product and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, office products, packaging, statement printing, premedia and logistics services.

The U.S. Print and Related Services segment accounted for approximately 73% of the Company s consolidated net sales in 2012.

International

The International segment includes the Company s non-U.S. printing operations in Asia, Europe, Latin America and Canada. This segment s product and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, packaging, manuals, statement printing, premedia and logistics services. Additionally, this segment includes the Company s business process outsourcing and Global Turnkey Solutions operations. Business process outsourcing provides transactional print and outsourcing services, statement printing, direct mail and print management services through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities, including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia.

The International segment accounted for approximately 27% of the Company s consolidated net sales in 2012.

Corporate

Corporate consists of unallocated general and administrative activities and associated expenses including, in part, executive, legal, finance, information technology, human resources, certain facility costs and LIFO inventory provisions. In addition, certain costs and earnings of employee benefit plans are included in Corporate and not allocated to operating segments. Corporate also manages the Company s cash pooling structure, which enables participating international locations to draw on the Company s overseas cash resources to meet local liquidity needs.

Financial and other information related to these segments is included in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations,* and in Note 19, *Segment Information,* to the

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Consolidated Financial Statements. Additional information related to the Company s International operations is included in Note 20, *Geographic Area and Products and Services Information,* to the Consolidated Financial Statements.

Competition and strategy

The print and related services industry, in general, continues to have excess capacity and remains highly competitive. Despite some consolidation in recent years, the industry remains highly fragmented. Across the Company s range of products and services, competition is based primarily on price in addition to quality and the ability to service the special needs of customers. Management expects that prices for the Company s products and services will continue to be a focal point for customers in coming years. Therefore, the Company believes it needs to continue to lower its cost structure and differentiate its product and service offerings.

Technological changes, including the electronic distribution of documents and data, online distribution and hosting of media content, and advances in digital printing, print-on-demand and Internet technologies, continue to impact the market for the Company s products and services. The Company seeks to leverage the distinctive capabilities of its products and services to improve its customers communications, whether in paper form or through electronic communications. The Company s goal remains to help its customers succeed by delivering effective and targeted communications in the right format to the right audiences at the right time. Management believes that with the Company s competitive strengths, including its broad range of complementary print-related services, strong logistics capabilities, technology leadership, depth of management experience, customer relationships and economies of scale, the Company has developed and can further develop valuable, differentiated solutions for its customers. The Company seeks to leverage its unified platform and strong customer relationships in order to serve a larger share of its customers print and related services needs.

As a substitute for print, the impact of digital technologies has been felt mainly in books, directories, forms and statement printing. Electronic communication and transaction technology has eliminated or reduced the role of many traditional printed products and has continued to accelerate electronic substitution in directory and statement printing, in part driven by environmental concerns and cost pressures at key customers. In addition, rapid growth in the adoption of e-books is having an increasing impact on consumer print book volume, though only a limited impact on educational and specialty books. Digital technologies have also impacted printed magazines, as some advertising spending has moved from print to electronic media. The future impact of technology on the Company s business is difficult to predict and could result in additional expenditures to restructure impacted operations or develop new technologies. In addition, the Company has made targeted acquisitions and investments in the Company s existing business to offer customers innovative services and solutions that further secure the Company s position as a technology leader in the industry.

The Company has implemented a number of strategic initiatives to reduce its overall cost structure and improve efficiency, including the restructuring, reorganization and integration of operations and streamlining of administrative and support activities. Future cost reduction initiatives could include the reorganization of operations and the consolidation of facilities. Implementing such initiatives might result in future restructuring or impairment charges, which may be substantial. Management also reviews the Company s operations and management structure on a regular basis to balance appropriate risks and opportunities to maximize efficiencies and to support the Company s long-term strategic goals.

Seasonality

Advertising and consumer spending trends affect demand in several of the end-markets served by the Company. Historically, demand for printing of magazines, catalogs, retail inserts and books is higher in the second half of the year driven by increased advertising pages within magazines, and holiday catalog, retail insert and book volumes. However, this typical seasonal pattern can be impacted by overall trends in the U.S. and world economy, as second half net sales in 2012 were only slightly higher than those in the first half.

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Raw materials

The primary raw materials the Company uses in its print businesses are paper and ink. The Company negotiates with leading suppliers to maximize its purchasing efficiencies and uses a wide variety of paper grades, formats, ink formulations and colors. In addition, a substantial amount of paper used by the Company is supplied directly by customers. Variations in the cost and supply of certain paper grades and ink formulations used in the manufacturing process may affect the Company s consolidated financial results. Paper prices fluctuated during 2012, and volatility in the future is expected. Generally, customers directly absorb the impact of changing prices on customer-supplied paper. With respect to paper purchased by the Company, the Company has historically passed most increases and decreases through to its customers. Contractual arrangements and industry practice should support the Company s continued ability to pass on any future paper price increases, but there is no assurance that market conditions will continue to enable the Company to successfully do so. Management believes that paper supply is consolidating, and there may be shortfalls in the future in supplies necessary to meet the demands of the entire marketplace. Higher paper prices and tight paper supplies may have an impact on customers demand for printed products. Additionally, the Company has undertaken various strategic initiatives to mitigate any foreseeable supply disruptions with respect to the Company s ink requirements. The Company also resells waste paper and other by-products and may be impacted by changes in prices for these by-products.

The Company continues to monitor the impact of changes in the price of crude oil and other energy costs, which impact the Company s ink suppliers, logistics operations and manufacturing costs. Crude oil and energy prices continue to be volatile. The Company believes its logistics operations will continue to be able to pass a substantial portion of any increases in fuel prices directly to its customers in order to offset the impact of related cost increases. The Company generally cannot pass on to customers the impact of higher energy prices on its manufacturing costs. However, the Company enters into fixed price contracts for a portion of its natural gas purchases to mitigate the impact of changes in energy prices. The Company cannot predict sudden changes in energy prices and the impact that possible future energy price increases or decreases might have upon either future operating costs or customer demand and the related impact either will have on the Company s consolidated annual results of operations, financial position or cash flows.

Distribution

The Company s products are distributed to end-users through the U.S. or foreign postal services, through retail channels, electronically or by direct shipment to customer facilities. Through its logistics operations, the Company manages the distribution of most customer products printed by the Company in the U.S. and Canada to maximize efficiency and reduce costs for customers.

Postal costs are a significant component of many customers cost structures and postal rate changes can influence the number of pieces that the Company s customers are willing to print and mail. On January 22, 2012, the United States Postal Service (USPS) increased postage rates for all major mail classes, including first-class mail, standard mail, periodicals and single piece parcel post. The new rates increased the cost of mailing these classes of mail by approximately 2.1%, on average, which is the formula calculated cap under the 2006 Postal Accountability and Enhancement Act. Under this act, it is anticipated that postage will increase annually by an amount equal to or slightly less than the Consumer Price Index. On January 27, 2013, the USPS further increased postage rates across all classes of mail by approximately 2.6%, on average. As a leading provider of print logistics and among the largest mailers of standard mail in the U.S., the Company works closely with the USPS and its customers to offer innovative products and services to minimize postage costs. While the Company does not directly absorb the impact of higher postal rates on its customers mailings, demand for products distributed through the U.S. or foreign postal services is expected to be impacted by changes in the postal rates. During the third quarter of 2012, the USPS defaulted on two mandatory payments for the funding of retiree health benefits. The USPS announced that these defaults were not expected to impact mail services. However, the USPS is continuing to pursue its previously announced plans to restructure its mail delivery network, including the closure of many post office facilities and suspension of Saturday service. On February 6, 2013, the USPS announced its intent to shift to a five-day mail and six-day package delivery schedule beginning in August 2013, subject to legal and congressional challenge. Mail delivery services through the USPS account for approximately 38% of the Company s logistics revenues. The impact to the Company of the USPS s restructuring plans, many of which require legislative action, cannot currently be estimated.

Customers

For each of the years ended December 31, 2012, 2011 and 2010, no customer accounted for 10% or more of the Company s consolidated net sales.

Technology, Research and Development

The Company has a research facility in Grand Island, New York that supports the development and implementation of new technologies to meet customer needs and improve operating efficiencies. The Company s cost for research and development activities is not material to the Company s consolidated annual results of operations, financial position or cash flows.

Environmental Compliance

It is the Company s policy to conduct its global operations in accordance with all applicable laws, regulations and other requirements. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material adverse effect on the Company s consolidated annual results of operations, financial position or cash flows.

Employees

As of December 31, 2012, the Company had approximately 57,000 employees.

Available Information

The Company maintains an Internet website at www.rrdonnelley.com where our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable following the time they are filed with, or furnished to, the Securities and Exchange Commission (SEC). The Principles of Corporate Governance of the Company s Board of Directors, the charters of the Audit, Human Resources and Corporate Responsibility & Governance Committees of the Board of Directors and the Company s Principles of Ethical Business Conduct are also available on the Investor Relations portion of www.rrdonnelley.com, and will be provided, free of charge, to any shareholder who requests a copy. References to the Company s website address do not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

Special Note Regarding Forward-Looking Statements

We have made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of the Company. Generally, forward-looking statements include information concerning possible or assumed future actions, events, or results of operations of the Company.

These statements may include, or be preceded or followed by, the words may, will, should, might, could, would, potential, possible, expect, anticipate, intend, plan, estimate, hope or similar expressions. The Company claims the protection of the Safe Harbor for Forward-Looking Statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

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Forward-looking statements are not guarantees of performance. The following important factors, in addition to those discussed elsewhere in this Annual Report on Form 10-K, could affect the future results of the Company and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements:

- the volatility and disruption of the capital and credit markets, and adverse changes in the global economy;
- successful execution and integration of acquisitions;
- successful negotiation of future acquisitions; and the ability of the Company to integrate operations successfully and achieve enhanced earnings or effect cost savings;
- the ability to implement comprehensive plans for the integration of sales forces, cost containment, asset rationalization, systems integration and other key strategies;
- the ability to divest non-core businesses;
- future growth rates in the Company s core businesses;
- competitive pressures in all markets in which the Company operates;
- the Company s ability to access debt and the capital markets and the ability of our counterparties to perform their contractual obligations under our lending and insurance agreements;
- changes in technology, including the electronic substitution and migration of paper based documents to digital data formats;
- factors that affect customer demand, including changes in postal rates, postal regulations and service levels, changes in the capital markets, changes in advertising markets, customers budgetary constraints and changes in customers short-range and long-range plans;
- the ability to gain customer acceptance of the Company s new products and technologies;
- the ability to secure and defend intellectual property rights and, when appropriate, license required technology;
- customer expectations and financial strength;
- performance issues with key suppliers;

changes in the availability or costs of key materials (such as ink, paper and fuel) or in prices received for the sale of by-products;

changes in ratings of the Company s debt securities;

the ability of the Company to comply with covenants under its credit agreement and indentures governing its debt securities;

the ability to generate cash flow or obtain financing to fund growth;

the effect of inflation, changes in currency exchange rates and changes in interest rates;

the effect of changes in laws and regulations, including changes in accounting standards, trade, tax, environmental compliance (including the emission of greenhouse gases and other air pollution controls), health and welfare benefits (including the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act, and further healthcare reform initiatives), price controls and other regulatory matters and the cost, which could be substantial, of complying with these laws and regulations;

contingencies related to actual or alleged environmental contamination;

the retention of existing, and continued attraction of additional customers and key employees;

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- the effect of a material breach of security of any of the Company s systems;
- the failure to properly use and protect customer information and data;
- the effect of labor disruptions or labor shortages;
- the effect of economic and political conditions on a regional, national or international basis;
- the effect of economic weakness and constrained advertising;
- uncertainty about future economic conditions;
- the possibility of future terrorist activities or the possibility of a future escalation of hostilities in the Middle East or elsewhere;
- the possibility of a regional or global health pandemic outbreak;
- disruptions to the Company s operations resulting from possible natural disasters, interruptions in utilities and similar events;
- adverse outcomes of pending and threatened litigation; and
- other risks and uncertainties detailed from time to time in the Company s filings with the SEC.

Because forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Undue reliance should not be placed on such statements, which speak only as of the date of this document or the date of any document that may be incorporated by reference into this document.

Consequently, readers of this Annual Report on Form 10-K should consider these forward-looking statements only as our current plans, estimates and beliefs. We do not undertake and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. We undertake no obligation to update or revise any forward-looking statements in this Annual Report on Form 10-K to reflect any new events or any change in conditions or circumstances.

ITEM 1A. RISK FACTORS

The Company s consolidated results of operations, financial position and cash flows can be adversely affected by various risks. These risks include the principal factors listed below and the other matters set forth in this Annual Report on Form 10-K. You should carefully consider all of these risks.

Risks Relating to the Businesses of the Company

Global market and economic conditions, as well as the effects of these conditions on our customers businesses, have adversely affected the Company and those effects could continue.

Global economic conditions affect our customers businesses and the markets they serve. Demand for advertising tends to correlate with changes in the level of economic activity in the markets our customers serve. Because a significant part of our business relies on our customers advertising spending, a prolonged downturn in the global economy and an uncertain economic outlook has and could further reduce the demand for printing and related services that we provide these customers. Economic weakness and constrained advertising spending have resulted, and may in the future result, in decreased revenue, operating margin, earnings and growth rates and difficulty in managing inventory levels and collecting accounts receivable. We have experienced, and expect to experience in the future, reduced demand for our products and services due to economic conditions and other macroeconomic factors affecting consumers and businesses spending behavior. In addition, customer difficulties have resulted in, and could result in, increases in bad debt write-offs and our allowance for doubtful

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accounts receivable. In particular, our exposure to certain industries currently experiencing financial difficulties and certain financially troubled customers could have an adverse effect on our results of operations. We also have experienced, and expect to experience in the future, operating margin declines in certain businesses, reflecting the effect of items such as competitive price pressures, inventory write-downs, cost increases for wages and materials, and increases in pension and other postretirement benefit plan funding requirements. Economic downturns may also result in restructuring actions and associated expenses and impairment of long-lived assets, including goodwill and other intangibles. Uncertainty about future economic conditions makes it difficult for us to forecast operating results and to make decisions about future investments. Delays or reductions in our customers spending are expected to have an adverse effect on demand for our products and services, which could be material, and consequently impact our consolidated results of operations, financial position and cash flow.

Adverse credit market conditions may limit our ability to obtain future financing.

Uncertainty and volatility in global financial markets may cause financial markets institutions to fail or may cause lenders to hoard capital and reduce lending. The failure of a financial institution that supports our existing credit agreement would reduce the size of our committed facility unless a replacement institution were added.

Our operating performance and creditworthiness may limit our ability to obtain future financing and the cost of any such capital may be higher than in past periods.

Our access to future financing will depend on a variety of factors such as the general availability of credit, our credit ratings and our credit capacity at the time we pursue such financing. Our current Corporate credit ratings are below investment grade and, as a result, our borrowing costs may increase or our ability to borrow may be limited. The Company s obligations under the current $1.15 billion senior secured revolving credit facility (the Credit Agreement) which expires October 15, 2017, are guaranteed by material domestic subsidiaries and are secured by a pledge of the equity interests of certain subsidiaries, including most of its domestic subsidiaries, and a security interest in substantially all of the domestic current assets and mortgages of certain domestic real property of the Company. The Credit Agreement is subject to a number of covenants, including a minimum interest coverage ratio and a maximum leverage ratio, that, in part, restrict the Company s ability to incur additional indebtedness, create liens, engage in mergers and consolidations, make restricted payments, dispose of certain assets and may also limit the use of proceeds. The Credit Agreement generally allows annual dividend payments of up to $200.0 million in aggregate, though additional dividends may be allowed subject to certain conditions. If adequate capital is not available to us and our internal sources or liquidity prove to be insufficient, or if future financings require more restrictive covenants, such combination of events could adversely affect our ability to (i) acquire new businesses or enter new markets, (ii) service or refinance our existing debt, (iii) pay dividends on our common stock, (iv) make necessary capital investments, and (v) make other expenditures necessary for the ongoing conduct of our business.

The indentures governing the notes and debentures we issue do not contain restrictive covenants and we may incur substantially more debt or take other actions, including engaging in mergers and acquisitions, paying dividends and making other distributions to holders of our equity securities, and disposing of certain of our assets, which may adversely affect our ability to satisfy our obligations under the notes and debentures issued under our indentures.

Although the Credit Agreement is subject to a number of negative and financial covenants, including a minimum interest coverage ratio and a maximum leverage ratio, and covenants that restrict our ability to incur additional indebtedness, engage in mergers and acquisitions, pay dividends and make other distributions to the holders of our equity securities, and dispose of certain of our assets, the indentures governing our notes and debentures do not contain financial or operating covenants or restrictions on the incurrence of indebtedness, the payment of dividends or making other distributions, or the disposition of certain assets. In addition, the limited covenants applicable to the notes and debentures do not require us to achieve or maintain any minimum financial results relating to our financial position or results of operations.

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In carrying out our strategy focused on maximizing long-term shareholder value, we may enter into transactions which may increase our financial leverage. Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the indentures governing our notes and debentures could have the effect of diminishing our ability to make payments on those notes and debentures when due, and require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which would reduce the availability of cash flow to fund our operations, working capital and capital expenditures.

Fluctuations in the costs of paper, ink, energy and other raw materials may adversely impact the Company.

Purchases of paper, ink, energy and other raw materials represent a large portion of the Company s costs. Increases in the costs of these inputs may increase the Company s costs and the Company may not be able to pass these costs on to customers through higher prices. In addition, the Company may not be able to resell waste paper and other by-products or may be adversely impacted by decreases in the prices for these by-products. Increases in the cost of materials may adversely impact our customers demand for printing and related services.

The Company may be adversely affected by a decline in the availability of raw materials.

The Company is dependent on the availability of paper, ink and other raw materials to support its operations. Unforeseen developments in these markets could result in a decrease in the supply of paper, ink or other raw materials and could cause a decline in the Company s revenues.

The financial condition of our customers may deteriorate.

Many of our customers participate in highly competitive markets, and their financial condition may deteriorate as a result. A decline in the financial condition of our customers would hinder the Company s ability to collect amounts owed by customers. In addition, such a decline would result in lower demand for the Company s products and services. A lack of liquidity in the capital markets or a sustained period of unfavorable economic conditions will increase our exposure to credit risks and result in increases in bad debt write-offs and our allowance for doubtful accounts.

The Company may be unable to improve its operating efficiency rapidly enough to meet market conditions.

Because the markets in which the Company competes are highly competitive, the Company must continue to improve its operating efficiency in order to maintain or improve its profitability. There is no assurance that the Company will be able to do so in the future. In addition, the need to reduce ongoing operating costs may result in significant up-front costs to reduce workforce, close or consolidate facilities, or upgrade equipment and technology.

The Company may be unable to successfully integrate the operations of acquired businesses and may not achieve the cost savings and increased revenues anticipated as a result of these acquisitions.

Achieving the anticipated benefits of acquisitions will depend in part upon the Company s ability to integrate these businesses in an efficient and effective manner. The integration of companies that have previously operated independently may result in significant challenges, and the Company may be unable to accomplish the integration smoothly or successfully. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily distract management s attention from the day-to-day operations of the Company. In addition, the process of integrating operations may cause an interruption of, or loss of momentum in, the activities of one or more of the Company s businesses and the loss of key personnel from the Company or the acquired businesses. Further, employee uncertainty and lack of focus during the integration process may disrupt the businesses of the Company or the acquired businesses. The Company s strategy is, in part, predicated on our ability to realize cost savings and to increase revenues through the acquisition of businesses that add to the breadth and depth of the Company s products and services. Achieving these cost savings and revenue increases is dependent upon a number of factors, many of which are beyond our control. In particular, the Company may not be able to realize the benefits of more comprehensive product and service offerings, anticipated integration of sales forces, asset rationalization and systems integration.

The Company may be unable to hire and retain talented employees, including management.

The Company s success depends, in part, on our general ability to attract, develop, motivate and retain highly skilled employees. The loss of a significant number of the Company s employees or the inability to attract, hire, develop, train and retain additional skilled personnel could have a serious negative effect on the Company. Various locations may encounter competition with other manufacturers for skilled labor. Many of these competitors may be able to offer significantly greater compensation and benefits or more attractive lifestyle choices than the Company offers. In addition, many members of the Company s management have significant industry experience that is valuable to the Company s competitors. The Company enters into non-solicitation and, as appropriate, non-competition agreements with its executive officers, prohibiting them contractually from soliciting the Company s customers and employees and from leaving and joining a competitor within a specified period. If one or more members of our senior management team leave and we cannot replace them with a suitable candidate quickly, we could experience difficulty in managing our business properly, which could harm our business prospects and consolidated results of operations.

The trend of increasing costs to provide health care and other benefits to the Company s employees and retirees may continue.

The Company provides health care and other benefits to both employees and retirees. For many years, costs for health care have increased more rapidly than general inflation in the U.S. economy. If this trend in health care costs continues, the Company s cost to provide such benefits could increase, adversely impacting the Company s profitability. Changes to health care regulations in the U.S. may also increase the Company s cost of providing such benefits.

Changes in market conditions or lower returns on assets may increase required pension and other postretirement benefit plan contributions in future periods.

The funded status of the Company s pension and other postretirement benefit plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. As experienced in prior years, declines in the market value of the securities held by the plans coupled with historically low interest rates have reduced, and in the future could materially reduce, the funded status of the plans. These reductions have increased the level of expected required pension and other postretirement benefit plan contributions in future years. Market conditions may lead to changes in the discount rate used to value the year-end benefit obligations of the plans, which could partially mitigate or worsen the effects of the lower asset returns. If an economic crisis were to continue for an extended period of time, our costs and required cash contributions associated with pension and other postretirement benefit plans may substantially increase in future periods.

There are risks associated with operations outside the United States.

The Company has significant operations outside the United States. Revenues from the Company s operations in geographic regions outside the United States accounted for approximately 24% of the Company s consolidated net sales for the year ended December 31, 2012. As a result, the Company is subject to the risks inherent in conducting business outside the United States, including the impact of economic and political instability of those countries in which we operate. The volatile economic environment has increased the risk of disruption and losses resulting from hyper-inflation, currency devaluation and tax or regulatory changes in certain countries in which the Company has operations.

The Company is exposed to significant risks related to potential adverse changes in currency exchange rates.

The Company is exposed to market risks resulting from changes in the currency exchange rates of the currencies in the countries in which it does business. Although operating in local currencies may limit the impact of currency rate fluctuations on the operating results of our non-U.S. subsidiaries, fluctuations in such rates may affect the translation of these results into the Company s consolidated financial statements. To the extent borrowings, sales, purchases, revenues and expenses or other transactions are not in the applicable local currency, the Company may enter into foreign currency spot and forward contracts to hedge the currency risk. We cannot be sure, however, that the Company s efforts at hedging will be successful, and such efforts could, in certain circumstances, lead to losses.

A decline in expected profitability of the Company or individual reporting units of the Company could result in the impairment of assets, including goodwill, other long-lived assets and deferred tax assets.

The Company holds material amounts of goodwill, other long-lived assets and deferred tax assets on its balance sheet. A decline in expected profitability, particularly if there is a decline in the global economy, could call into question the recoverability of our related goodwill, other long-lived tangible and intangible assets or deferred tax assets and require us to write down or write off these assets or, in the case of deferred tax assets, recognize a valuation allowance through a charge to income. Such an occurrence has had and could continue to have a material adverse effect on our consolidated annual results of operations, financial position and cash flows.

Risks Related to Our Industry

The highly competitive market for the Company s products and industry consolidation may continue to create adverse price pressures.

The markets for the majority of the Company s product categories are highly fragmented and the Company has a large number of competitors. We believe that excess capacity in the Company s markets has caused downward price pressure and that this trend is likely to continue. In addition, consolidation in the markets in which the Company competes may increase competitive price pressures due to competitors lowering prices as a result of synergies achieved.

The substitution of electronic delivery for printed materials may continue to adversely affect our businesses.

Electronic delivery of documents and data, including the online distribution and hosting of media content, offer alternatives to traditional delivery of printed documents. Consumers continue to accept electronic substitution in directory and statement printing and are replacing traditional reading of print materials with online, hosted media content or other e-reading devices. The extent to which consumers will continue to accept electronic delivery is uncertain and it is difficult to predict future rates of acceptance of these alternatives. Electronic delivery has negatively impacted our products, such as books, directories, forms and statement printing. Digital technologies have also impacted printed magazines, as some advertising spending has moved from print to electronic media. To the extent that consumers, our customers and regulators continue to accept these alternatives, our products will be adversely affected.

Changes in the rules and regulations to which the Company is subject may increase the Company s costs.

The Company is subject to numerous rules and regulations, including, but not limited to, product safety, environmental and health and welfare benefit regulations. These rules and regulations may be changed by local, state or federal governments in countries in which the Company operates. Changes in these regulations may result in a significant increase in the Company s costs to comply. Compliance with changes in rules and regulations could require increases to the Company s workforce, increased cost for compensation and benefits, or investments in new or upgraded equipment. In addition, growing concerns about climate change, including the impact of global warming, may result in new regulations with respect to greenhouse gas emissions (including carbon dioxide) and/or cap and trade legislation. Compliance with this legislation could result in additional costs to the Company.

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Declines in general economic conditions may adversely impact the Company s business.

In general, demand for our products and services are highly correlated with general economic conditions. Declines in economic conditions in the U.S. or in other countries in which the Company operates may adversely impact the Company s consolidated financial results. Because such declines in demand are difficult to predict, the Company or the industry may have increased excess capacity as a result. An increase in excess capacity may result in declines in prices for the Company s products and services. The overall business climate may also be impacted by wars or acts of terrorism. Such acts may have sudden and unpredictable adverse impacts on demand for the Company s products and services.

Changes in the rules and regulations to which our customers are subject may impact demand for the Company s products and services.

Many of the Company s customers are subject to rules and regulations requiring certain printed or electronic communications, governing the form of such communications and protecting the privacy of consumers. Changes in these regulations may impact our customers business practices and could reduce demand for printed products and related services. Changes in such regulations could eliminate the need for certain types of printed communications altogether or such changes may impact the quantity or format of printed communications.

Changes in postal rates, regulations and delivery structure may adversely impact demand for the Company s products and services.

Postal costs are a significant component of many of our customers cost structures and postal rate changes can influence the number of pieces and types of mailings that the Company s customers mail. In addition, the United States Postal Service has incurred significant financial losses in recent years and may, as a result, implement significant changes to the breadth or frequency of its mail delivery. The USPS is continuing to pursue its previously announced plans to restructure its mail delivery network, including the closure of many post office facilities and suspension of Saturday service. The impact to the Company of the USPS s restructuring plans, many of which require legislative action, cannot currently be estimated. If implemented, such changes could impact our customers ability or willingness to communicate by mail. Declines in print volumes mailed could have an adverse effect on the Company s business.

Changes in the advertising, retail and capital markets may impact the demand for printing and related services.

Many of the end markets in which our customers compete are experiencing changes due to technological progress and changes in consumer preferences. The Company cannot predict the impact that these changes will have on demand for the Company s products and services. Such changes may decrease demand, increase price pressures, require investment in updated equipment and technology, or cause other adverse impacts to the Company s business. In addition, the Company must monitor changes in our customers markets and develop new solutions to meet customers needs. The development of such solutions may be costly, and there is no assurance that these solutions will be accepted by customers.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved written comments from the SEC staff regarding its periodic or current reports under the Securities Exchange Act of 1934.

ITEM 2. PROPERTIES

The Company s corporate office is located in leased office space in Chicago, Illinois. As of December 31, 2012, the Company leases or owns 326 U.S. facilities, some of which have multiple buildings and warehouses, and these U.S. facilities encompass approximately 39.5 million square feet. The Company leases or owns 164

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international facilities encompassing approximately 9.9 million square feet in Canada, Latin America, South America, Europe and Asia. Of our U.S. and international facilities, approximately 30.9 million square feet of space is owned, while the remaining 18.5 million square feet of space is leased.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change and are generally not discounted. The Company has been designated as a potentially responsible party in ten active federal and state Superfund and other multiparty remediation sites. In addition to these sites, the Company may also have the obligation to remediate eleven other previously and currently owned facilities. At the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that the Company s liability could be joint and several, meaning that the Company could be required to pay an amount in excess of its proportionate share of the remediation costs.

The Company s understanding of the financial strength of other potentially responsible parties at the multiparty sites and of other liable parties at the previously owned facilities has been considered, where appropriate, in the determination of the Company s estimated liability. The Company has established reserves, recorded in accrued liabilities and other noncurrent liabilities, that it believes are adequate to cover its share of the potential costs of remediation at each of the multiparty sites and the previously and currently owned facilities. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future. However, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material effect on the Company s consolidated results of operations, financial position or cash flows.

From time to time, the Company s customers and others file voluntary petitions for reorganization under United States bankruptcy laws. In such cases, certain pre-petition payments received by the Company from these parties could be considered preference items and subject to return. In addition, the Company may be party to certain litigation arising in the ordinary course of business. Management believes that the final resolution of these preference items and litigation will not have a material effect on the Company s consolidated results of operations, financial position or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF R.R. DONNELLEY & SONS COMPANY

Name, Age and Positions with the Company	Officer Since	Business Experience During Past Five Years
Thomas J. Quinlan, III 50, President and Chief Executive Officer	2004	Served as RR Donnelley s President and Chief Executive Officer since April 2007. Prior to this, served as Group President, Global Services since October 2006 and Chief Financial Officer since April 2006. Prior to this, served as Executive Vice President, Operations since February 2004.
Suzanne S. Bettman 48, Executive Vice President, General Counsel, Corporate Secretary & Chief Compliance Officer	2004	Served as RR Donnelley s Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer since January 2007. Served previously as Senior Vice President, General Counsel since March 2004.
Andrew B. Coxhead 44, Senior Vice President and Chief Accounting Officer	2007	Served as RR Donnelley s Senior Vice President and Chief Accounting Officer since October 2007, and Corporate Controller from October 2007 to January 2013. Prior to this, served as Vice President, Assistant Controller since September 2006. Prior to this, from 1995 until 2006, served in various capacities with RR Donnelley in financial planning, accounting, manufacturing management, operational finance and mergers and acquisitions.
Dan L. Knotts 48, Chief Operating Officer	2007	Served as RR Donnelley s Chief Operating Officer since January 2013. Prior to this, served as Group President from April 2007 to December 2012 and Chief Operating Officer, Global Print Solutions from January 2007 to April 2007. Prior to this, from 1986 until 2007, served in various capacities with RR Donnelley, including Group Executive Vice President, Operations, Publishing and Retail Services and President, Catalog/Retail/Magazine Solutions, RR Donnelley Print Solutions.
Daniel N. Leib 46, Executive Vice President and Chief Financial Officer	2009	Served as RR Donnelley s Executive Vice President and Chief Financial Officer since May 2011. Prior to this, served as Group Chief Financial Officer and Senior Vice President, Mergers and Acquisitions since August 2009 and Treasurer from June 2008 to February 2010. Prior to this, served as RR Donnelley s Senior Vice President, Treasurer, Mergers and Acquisitions and Investor Relations since July 2007. Prior to this, from May 2004 to 2007, served in various capacities in financial management, corporate strategy and investor relations.

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PART II

ITEM 5. MARKET FOR R.R. DONNELLEY & SONS COMPANY S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF SECURITIES

RR Donnelley s common stock is listed and traded on the NASDAQ Stock Market and the Chicago Stock Exchange.

As of February 22, 2013, there were approximately 7,759 stockholders of record of our common stock. Quarterly closing prices of the Company s common stock, as reported on NASDAQ, and dividends paid per share during the years ended December 31, 2012 and 2011, are contained in the chart below:

	Dividends Paid		Closing Common Stock Prices 2012		2011	
	2012	2011	High	Low	High	Low
First Quarter	$ 0.26	$ 0.26	$ 15.13	$ 11.35	$ 19.39	$ 17.49
Second Quarter	0.26	0.26	12.85	10.02	21.34	18.58
Third Quarter	0.26	0.26	13.26	10.60	20.44	13.33
Fourth Quarter	0.26	0.26	11.12	8.58	16.65	13.27

The Credit Agreement generally allows annual dividend payments of up to $200.0 million in aggregate, though additional dividends may be allowed subject to certain conditions. See Exhibit 4.6 for additional details.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs(a)
October 1, 2012 October 31, 2012		$		$ 500,000,000
November 1, 2012 November 30, 2012				$ 500,000,000
December 1, 2012 December 31, 2012				$ 500,000,000
Total		$		

(a) On May 3, 2011, the Board of Directors of the Company approved a program that authorized the repurchase of up to $1.0 billion of the Company s common stock through December 31, 2012. Share repurchases under the program were allowable through a variety of methods as determined by the Company s management. The repurchase authorizations did not obligate the Company to acquire any particular amount of common stock or adopt any particular method of repurchase.

As part of the share repurchase program, the Company entered into an accelerated share repurchase agreement (ASR) in 2011 with an investment bank under which the Company repurchased $500.0 million of its common stock, receiving an initial delivery of 19.9 million shares on May 10, 2011 and an additional 9.3 million shares on November 17, 2011. No other shares were repurchased under this share repurchase program.

As of January 1, 2013, no additional shares may be purchased under the authorized share repurchase program which expired on December 31, 2012.

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EQUITY COMPENSATION PLANS

For information regarding equity compensation plans, see Item 12 of this Annual Report on Form 10-K.

PEER PERFORMANCE TABLE

The graph below compares five-year returns of the Company s common stock with those of the S&P 500 Index and a selected peer group of companies. The comparison assumes all dividends have been reinvested, and an initial investment of $100 on December 31, 2007. The returns of each company in the peer group have been weighted to reflect their market capitalizations.

Because our services and customers are so diverse, the Company does not believe that any single published industry index is appropriate for comparing stockholder return. Therefore, the peer group used in the performance graph combines two industry groups identified by Value Line Publishing, Inc., the publishing group (including printing companies) and the newspaper group. The Company itself has been excluded, and its contributions to the indices cited have been subtracted out. Changes in the peer group from year to year result from companies being added to or deleted from the Value Line publishing group or newspaper group.

Comparison of Five-Year Cumulative Total Return Among RR Donnelley, S&P 500 Index and Peer Group*

	Base Period	Fiscal Years Ended December 31,				
Company Name / Index	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
RR Donnelley	100	37.65	66.58	55.37	48.68	33.31
Standard & Poor s 500	100	63.00	79.67	91.68	93.61	108.59
Peer Group	100	42.62	65.07	70.94	74.01	90.24

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Below are the specific companies included in the peer group.

*Peer Group Companies	
A.H. Belo Corp.	McGraw-Hill Companies
American Greetings	Media General
Consolidated Graphics Inc.	Meredith Corp.
Deluxe Corp.	New York Times Co.
EW Scripps	Scholastic Corp.
Gannett Co.	Washington Post
Journal Communications Inc.	Wiley (John) & Sons
McClatchy Co.	

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

(in millions, except per share data)

	2012	2011	2010	2009	2008
Net sales	$ 10,221.9	$ 10,611.0	$ 10,018.9	$ 9,857.4	$ 11,581.6
Net earnings (loss) from continuing operations attributable to RR Donnelley common shareholders	(651.4)	(122.6)	221.7	(27.3)	(191.7)
Net earnings (loss) from continuing operations attributable to RR Donnelley common shareholders per diluted share	(3.61)	(0.63)	1.06	(0.13)	(0.91)
Income from discontinued operations, net of tax					1.8
Net earnings (loss) attributable to RR Donnelley common shareholders	(651.4)	(122.6)	221.7	(27.3)	(189.9)
Net earnings (loss) attributable to RR Donnelley common shareholders per diluted share	(3.61)	(0.63)	1.06	(0.13)	(0.90)
Total assets	7,262.7	8,281.7	9,083.2	8,747.6	9,494.3
Long-term debt	3,420.2	3,416.8	3,398.6	2,982.5	3,203.3
Cash dividends per common share	1.04	1.04	1.04	1.04	1.04

Reflects results of acquired businesses from the relevant acquisition dates.
Includes the following significant items:

For 2012: Pre-tax restructuring and impairment charges of $1,118.5 million, $4.8 million net benefit from income tax adjustments including the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin

America and an $11.0 million provision related to certain foreign earnings no longer considered to be permanently reinvested, $16.1 million pre-tax loss on the repurchases of $441.8 million of senior notes and termination of the Company s previous $1.75 billion unsecured revolving credit agreement (the Previous Credit Agreement) which was due to expire on December 17, 2013, $4.1 million pre-tax impairment loss on an equity investment, $3.7 million pre-tax gain on pension curtailment and $2.5 million of acquisition-related expenses;

For 2011: Pre-tax restructuring and impairment charges of $667.8 million, $74.8 million recognition of income tax benefits due to the expiration of U.S. federal statutes of limitations for certain years,
$69.9 million pre-tax loss on the repurchases of $427.8 million of senior notes, $38.7 million pre-tax

gain on pension curtailment, $15.3 million pre-tax contingent compensation expense related to the Journalism Online acquisition, $9.8 million pre-tax gain on the Helium investment and $2.2 million of acquisition-related expenses;

For 2010: Pre-tax restructuring and impairment charges of $157.9 million, $13.5 million of acquisition-related expenses, $8.9 million pre-tax loss on the currency devaluation in Venezuela, including an increase in loss attributable to noncontrolling interests of $3.6 million, and a pre-tax $1.1 million write-down of affordable housing investments;

For 2009: Pre-tax restructuring and impairment charges of $382.7 million, $15.6 million of income tax expense due to the reorganization of entities within the International segment, a $10.3 million pre-tax loss on the repurchases of $640.6 million of senior notes, reclassification of a pre-tax loss of $2.7 million from accumulated other comprehensive loss to loss on debt extinguishment due to the change in the hedged forecasted interest payments resulting from the repurchase of senior notes, a $2.4 million write-down of affordable housing investments and $1.6 million of acquisition-related expenses; and

For 2008: Pre-tax restructuring and impairment charges of $1,184.7 million, a $9.9 million pre-tax loss associated with the termination of cross-currency swaps, a tax benefit of $228.8 million related to the decline in value and reorganization of certain entities within the International segment and a tax benefit of $38.0 million from the recognition of uncertain tax positions upon settlement of certain U.S. federal tax audits for the years 2000 2002.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of RR Donnelley s financial condition and results of operations should be read together with our consolidated financial statements and notes to those statements included in Item 15 of Part IV of this Annual Report on Form 10-K.

Business

R.R. Donnelley & Sons Company (RR Donnelley, the Company, we, us, and our) is a global provider of integrated communications. The Company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions that reduce costs, drive top line growth, enhance return on investment and ensure compliance. Drawing on a range of proprietary and commercially available digital and conventional technologies deployed across four continents, the Company employs a suite of leading Internet-based capabilities and other resources to provide premedia, printing, logistics and business process outsourcing services to clients in virtually every private and public sector.

The Company operates primarily in the printing industry, with related product and service offerings designed to offer customers complete solutions for communicating their messages to target audiences. The Company s reportable segments reflect the management reporting structure of the organization and the manner in which the chief operating decision maker regularly assesses information for decision-making purposes, including the allocation of resources. The Company s segments and their product and service offerings are summarized below:

The U.S. Print and Related Services segment includes the Company s U.S. printing operations, managed as one integrated platform, along with logistics, premedia, print management and other print related services. This segment s product and related service offerings include magazines, catalogs, retail inserts, books, directories, financial printing and related services, direct mail, forms, labels, office products, packaging, statement printing, premedia and logistics services.

The International segment includes the Company s non-U.S. printing operations in Asia, Europe, Latin America and Canada. This segment s product and related service offerings include magazines, catalogs, retail

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inserts, books, directories, financial printing and related services, direct mail, forms, labels, packaging, manuals, statement printing, premedia and logistics services. Additionally, this segment includes the Company s business process outsourcing and Global Turnkey Solutions operations. Business process outsourcing provides transactional print and outsourcing services, statement printing, direct mail and print management services through its operations in Europe, Asia and North America. Global Turnkey Solutions provides outsourcing capabilities, including product configuration, customized kitting and order fulfillment for technology, medical device and other companies around the world through its operations in Europe, North America and Asia.

Corporate consists of unallocated general and administrative activities and associated expenses including, in part, executive, legal, finance, information technology, human resources, certain facility costs and LIFO inventory provisions. In addition, certain costs and earnings of employee benefit plans are included in Corporate and not allocated to operating segments. Corporate manages the Company s cash pooling structure, which enables participating international locations to draw on the Company s overseas cash resources to meet local liquidity needs.

The Company separately reports its net sales and related costs of sales for its product and service offerings. The Company s product offerings primarily consist of magazines, catalogs, retail inserts, books, directories, direct mail, financial print, forms, labels, statement printing, commercial print, office products, packaging, manuals and print management. The Company s service offerings primarily consist of logistics, premedia, EDGAR-related and XBRL financial services and certain business outsourcing services.

Executive Overview

2012 FINANCIAL PERFORMANCE

The changes in the Company s income (loss) from operations, operating margin, net loss attributable to RR Donnelley common shareholders and net loss attributable to RR Donnelley common shareholders per diluted share for the year ended December 31, 2012, from the year ended December 31, 2011, were due to the following (in millions, except margin and per share data):

	Income (Loss) from Operations	Operating Margin	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders per Diluted Share
For the year ended December 31, 2011	$ 65.2	0.6%	$ (122.6)	$ (0.63)
2012 restructuring and impairment charges net	(1,118.5)	(10.9%)	(981.9)	(5.44)
2011 restructuring and impairment charges net	667.8	6.3%	532.8	2.75
Acquisition-related expenses	(0.3)	0.0%	(0.2)	
Net gain (loss) on investments			(12.1)	(0.06)
Loss on debt extinguishment			33.5	0.17
Gain on pension curtailment	(35.0)	(0.3%)	(21.5)	(0.11)
2011 Journalism Online contingent compensation	15.3	0.1%	9.7	0.05
Income tax adjustments			(70.0)	(0.36)
Operations	35.7	0.6%	(19.1)	0.02
For the year ended December 31, 2012	$ (369.8)	(3.6%)	$ (651.4)	$ (3.61)

2012 restructuring and impairment charges net: included charges of $848.4 million for the impairment of goodwill in the catalogs, magazines and retail inserts, books and directories and Europe reporting units; $158.0 million for the impairment of other intangible assets in the books and directories, catalogs, magazines and retail inserts and Latin America reporting units; pre-tax charges of $66.6 million for employee termination costs primarily related to the reorganization of sales and administrative functions across all segments and the closing of five manufacturing facilities within the U.S. Print and Related Services segment and one manufacturing facility within the International segment; $25.3 million of lease termination and other restructuring costs; and $20.2 million for impairment of other long-lived assets, primarily for machinery and equipment associated with facility closures and other asset disposals.

2011 restructuring and impairment charges net: included charges of $392.3 million for the impairment of goodwill in the commercial, forms and labels, Canada and Latin America reporting units; $90.7 million for the impairment of other intangible assets primarily in the forms and labels reporting unit; $76.7 million for employee termination costs; $59.6 million of lease termination and other restructuring costs, including multi-employer pension plan complete or partial withdrawal charges of $15.1 million due to the closing of three manufacturing facilities within the U.S. Print and Related Services segment; and $48.5 million for impairment of other long-lived assets, primarily for land, buildings, machinery and equipment and leasehold improvements associated with facility closures.

Acquisition-related expenses: included pre-tax charges of $2.5 million ($2.2 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2012 associated with acquisitions completed or contemplated. For the year ended December 31, 2011, these pre-tax charges were $2.2 million ($2.0 million after-tax).

Net gain (loss) on investments: included a pre-tax impairment loss on an equity investment of $4.1 million ($2.6 million after-tax) for the year ended December 31, 2012. The year ended December 31, 2011 included a pre-tax gain of $9.8 million ($9.5 million after-tax) as a result of the acquisition of Helium, in which the Company previously held an equity investment. The pre-tax gain is net of the Company s portion of the transaction costs incurred by Helium as a result of the acquisition.

Loss on debt extinguishment: included a pre-tax loss of $16.1 million ($10.6 million after-tax) for the year ended December 31, 2012 due to the repurchase of $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015 as well as the termination of the Previous Credit Agreement. The loss consisted of $27.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the 4.95% senior notes. For the year ended December 31, 2011, a pre-tax loss on debt extinguishment of $69.9 million ($44.1 million after-tax) was recognized due to the repurchase of $227.8 million of the 11.25% senior notes due February 1, 2019, $100.0 million of the 6.125% senior notes due January 15, 2017 and $100.0 million of the 5.50% senior notes due May 15, 2015.

Gain on pension curtailment: included a pre-tax gain of $3.7 million ($2.8 million after-tax) for the year ended December 31, 2012, related to the remeasurement of the U.K. pension plan s assets and obligations that was required with the announced freeze on further benefit accruals as of December 31, 2012. For the year ended December 31, 2011, the Company recorded a pre-tax gain of $38.7 million ($24.3 million after-tax) related to the remeasurement of the U.S. pension plans assets and obligations that was required with the announced freeze on further benefit accruals under all of the U.S. pension plans as of December 31, 2011.

2011 Journalism Online contingent compensation: included pre-tax expense of $15.3 million ($9.7 million after-tax) related to contingent compensation earned by the prior owners, based on achieving certain volume milestones for Journalism Online s business following its acquisition by the Company.

Income tax adjustments: included for the year ended December 31, 2012, the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and an $11.0 million provision related to certain foreign earnings no longer considered to be permanently reinvested. For the year ended December 31, 2011, an income tax benefit of $74.8 million was recognized related to previously unrecognized tax benefits due to the expiration of U.S. federal statutes of limitation for certain years.

Operations: reflected lower pension and other postretirement benefit plan expenses, cost savings from restructuring activities, reduced depreciation and amortization expense and lower incentive compensation expense, partially offset by a net decrease in volume and unfavorable mix, price declines, lower recovery on print-related by-products, the Company s reinstated 401(k) match and higher healthcare costs. The 2011 effective tax rate reflected the recognition of previously unrecognized tax benefits due to changes in the expected resolution of certain state tax matters and the release of valuation allowances on certain deferred tax assets. See further details in the review of operating results by segment that follows below.

2012 Overview

During 2012, the Company experienced the impact of continued economic uncertainty, overcapacity in the industry, and the increasing impact of electronic substitution on certain product offerings. Net sales decreased during 2012 compared to 2011 in the U.S. Print and Related Services segment, as a result of lower overall volume, a decline in pass-through paper sales and ongoing price pressures, and in the International segment, primarily due to changes in foreign exchanges rates. These decreases were partially offset by organic growth in certain products and services during 2012, despite the difficult environment. In particular, the Company had organic growth in logistics, Asia, business process outsourcing and office products. The largest net sales declines were experienced in books and directories, due to the continuing impact of lower levels of state and local funding for educational materials and the impact of electronic substitution on consumer books; magazines, catalogs and retail inserts, due to customers furnishing their own paper, unfavorable mix and price pressures; Europe, due to lower technology manuals and directories volume; commercial print, due to lower volume and unfavorable mix; and variable print, due to lower volume in direct mail and statement printing.

During the years ended December 31, 2012 and 2011, the Company initiated several restructuring actions to further reduce the Company s overall cost structure. These restructuring actions included the reorganization of sales and administrative functions across all segments as well as the closures of six manufacturing facilities during 2012. Additionally, the Company announced a freeze on further benefit accruals under its U.S. pension plans effective as of December 31, 2011, and under its Canada pension plans effective as of March 31, 2012. Consequently, pension and other postretirement benefit plan expense decreased in 2012 by $69.0 million as compared to the prior year. Further, the Company will make lower full-year payouts under its 2012 employee incentive compensation plans. As a result, incentive compensation expense decreased by $46.0 million as compared to 2011 on a consolidated basis, with approximately $28.8 million, $11.3 million and $5.9 million of the decrease reflected in the U.S. Print and Related Services segment, International segment and Corporate, respectively.

Net cash provided by operating activities for the year ended December 31, 2012 was $691.9 million as compared to $946.3 million for the year ended December 31, 2011. The decrease in cash provided by operating activities primarily resulted from higher pension and other postretirement benefit plan contributions, lower net sales, timing of cash collections and payments related to the Company s reinstated 401(k) match, partially offset by lower incentive compensation payments and shifts in the timing of payments to suppliers.

On October 15, 2012, the Company entered into a $1.15 billion senior secured revolving credit facility (the Credit Agreement) which expires October 15, 2017. Borrowings under the Credit Agreement bear interest at a base or Eurocurrency rate plus an applicable margin determined at the time of the borrowing. In addition, the Company pays facility commitment fees. The applicable margin and rate for the facility commitment fees are set at agreed pricing levels until April 15, 2013 and will thereafter fluctuate dependent on the Credit Agreement s credit ratings. The Credit Agreement replaced the Company s previous $1.75 billion unsecured revolving credit agreement (the Previous Credit Agreement) which was due to expire on December 17, 2013. All amounts outstanding under the Previous Credit Agreement were repaid with borrowings under the Credit Agreement. The Credit Agreement is used for general corporate purposes, including acquisitions and letters of credit.

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OUTLOOK

Vision and Strategy

RR Donnelley s vision is to improve on our existing position as a global provider of integrated communications by providing our customers with the highest quality products and services.

The Company s long-term strategy is focused on maximizing long-term shareholder value by driving profitable growth, continuing its focus on productivity and maintaining a disciplined approach to capital deployment. The Company pursues three major strategic objectives, which are summarized below, along with more specific areas of focus.

Strategic Objective	2013 Priorities
Profitable growth	New product development
	Leverage existing customer base to generate organic growth
	Targeted mergers and acquisitions
Productivity and cost control	Disciplined cost management
	Maintain variable cost structure
	Use technology to continue to increase productivity
Cash flow and liquidity	Prudent deployment of capital
	Disciplined approach to mergers and acquisitions
	Limit annual debt maturities

The Company s long-term strategy is to generate profitable growth. In order to accomplish this, the Company will continue to make targeted capital investments to support new business and leverage its global platform. The Company is focusing its information technology efforts on projects that facilitate integration and make it easier for customers to manage their full range of communication needs. The Company is also working to more fully integrate its sales efforts to broaden customer relationships and meet our customers demands. The Company s global platform provides differentiated solutions for its customers through its broad range of complementary print-related services, strong logistics capabilities, and its innovative leadership in both conventional and digital technologies.

Management believes productivity improvement and cost reduction are critical to the Company s competitiveness, while enhancing the value the Company delivers to its customers. The Company continues to implement strategic initiatives across all platforms to reduce its overall cost structure and enhance productivity, including restructuring, consolidation, reorganization and integration of operations, and streamlining of administrative and support activities.

The Company seeks to deploy its capital using a balanced approach in order to ensure financial flexibility and provide returns to shareholders. Priorities for capital deployment, over time, include principal and interest payments on debt obligations, capital expenditures, targeted acquisitions and distributions to shareholders. The Company believes that a strong financial condition is important to customers focused on establishing or growing long-term relationships with a stable provider of print and related services. The Company also expects to make targeted acquisitions that extend its capabilities, drive cost savings and reduce future capital spending needs.

The Company uses several key indicators to gauge progress toward achieving these objectives. These indicators include net sales growth, operating margins, cash flow from operations and capital expenditures. The Company targets long-term net sales growth at or above industry levels, while maintaining operating margins by achieving productivity improvements that offset the impact of price declines and cost inflation. Cash flows from operations are expected to be stable over time, however, cash flows from operations in any given year can be significantly impacted by the timing of non-recurring or infrequent receipts and expenditures, the level of required pension and other postretirement benefit plan contributions and the impact of working capital management efforts.

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The Company faces many challenges and risks as a result of competing in highly competitive global markets. Item 1A, *Risk Factors,* discusses many of these issues.

2013 Outlook

In 2013, the Company expects net sales to remain relatively consistent with 2012 as organic growth and price inflation in the International segment are expected to be largely offset by continuing volume declines, price pressures and lower pass-through paper sales in certain product offerings in the U.S. Print and Related Services segment and projected unfavorable changes in foreign exchange rates in the International segment. The highly competitive market conditions and unused industry capacity will continue to put price pressure on both transactional work and contract renewals. The Company s outlook assumes that the U.S. and European economies will grow slowly in 2013, with somewhat faster growth in developing countries. The Company expects a subdued level of consumer discretionary spending and a stable or slightly reduced level of advertising spending by U.S. businesses. We will continue to leverage the One RR Donnelley platform and powerful customer relationships in order to provide a larger share of our customers print and related communications needs. In addition, the Company expects to continue cost control and productivity initiatives, including selected facility consolidations across certain platforms.

The Company initiated several restructuring actions in 2012 and 2011 to further reduce the Company s overall cost structure. These restructuring actions included the reorganization of sales and administrative functions across all segments, as well as the closures of six manufacturing facilities during 2012. These and future cost reduction actions are expected to have a positive impact on operating earnings in 2013 and in future years.

U.S. Print and Related Services

Net sales in the U.S. Print and Related Services segment are expected to decrease in 2013 driven by ongoing price pressures, lower pass-through paper sales, volume declines and unfavorable mix primarily in books and directories and magazines, catalogs and retail inserts. Lower volume is expected to result from a decline in consumer book demand driven by electronic substitution and declines in directory demand due to the impact of electronic substitution and an expected decrease in advertising spending. These decreases are expected to be partially offset by an increase in educational book volumes due to anticipated slightly higher state spending. Net sales in magazines, catalogs and retail inserts are also expected to decline due to price reductions on major contract renewals, unfavorable mix and lower pass-through paper sales. These declines are expected to be largely offset by higher logistics volumes, primarily driven by sales resulting from the acquisitions of Presort and XPO and continuing growth in freight brokerage and courier services, and modest increases in most of the U.S. segment s other products and services. Although there is continued uncertainty around capital markets transactions activity, a substantial recovery could result in increased net sales within financial print.

Despite price pressures and lower volume, the Company expects the U.S. Print and Related Services operating income to increase from 2012, as the result of lower restructuring and impairment charges, an improved cost structure from ongoing productivity efforts, and lower depreciation and amortization.

International

Net sales in the International segment are expected to increase from 2012 primarily driven by anticipated volume increases in Global Turnkey Solutions and business process outsourcing, as well as the impact of price inflation in Latin America. Net sales in Asia are expected to remain stable as price pressure offsets expected volume growth in technology manuals and packaging and related products. Europe is expected to experience continued declines in net sales driven by projected unfavorable changes in foreign exchange rates and lower pass-through paper sales, partially offset by higher projected volume in the financial print offering in Europe.

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Operating income in the International segment is expected to increase slightly from 2012 as the higher volume and cost savings from ongoing productivity efforts will more than offset wage and other inflation in certain countries and price declines.

Other

The Company s pension and other postretirement benefit plans were underfunded by $1,153.5 million and $243.1 million, respectively, as of December 31, 2012, as reported in the Company s Consolidated Balance Sheets and further described in Note 11, *Retirement Plans,* to the Consolidated Financial Statements. Governmental regulations for measuring pension plan funded status differ from those required under accounting principles generally accepted in the United States of America (GAAP) for financial statement preparation. Based on the plans regulatory funded status, required contributions in 2013 under all pension and other postretirement benefit plans are expected to be approximately $23.1 million, which is an expected decrease of approximately $125.6 million compared to contributions made in 2012. The decrease in expected pension and other postretirement benefit plan contributions in 2013 are primarily a result of the provisions under the Surface Transportation Extension Act of 2012, signed on July 6, 2012, designed to stabilize interest rates used to calculate the minimum required annual contributions for defined benefit pension plans.

The Company expects significantly lower cash inflows from reductions in working capital in 2013, reflecting the benefit realized from the Company s 2012 working capital management initiatives. However, cash flows from operations in 2013 will benefit from the expected decrease in pension and other postretirement benefit plan contributions and lower payments for variable employee incentive compensation. The Company expects capital expenditures to be in the range of $200 million to $225 million in 2013.

Significant Accounting Policies and Critical Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company s most critical accounting policies are those that are most important to the portrayal of its financial condition and results of operations, and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The Company has identified the following as its most critical accounting policies and judgments. Although management believes that its estimates and assumptions are reasonable, they are based upon information available when they are made, and therefore, actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

The Company recognizes revenue for the majority of its products upon the transfer of title and risk of ownership, which is generally upon shipment to the customer. Contracts and customer agreements generally specify F.O.B. shipping point terms. Under agreements with certain customers, custom products may be stored by the Company for future delivery. In these situations, the Company may also receive a logistics or warehouse management fee for the services it provides. In certain of these cases, delivery and billing schedules are outlined in the customer agreement and product revenue is recognized when manufacturing is complete, title and risk of ownership transfer to the customer, and there is reasonable assurance as to collectability. Because substantially all of the Company s products are customized, product returns are not significant; however, the Company accrues for the estimated amount of customer credits at the time of sale.

Revenue from services is recognized as services are performed. Within the Company s financial print operations, which serve the global financial services end market, the Company produces highly customized materials, such as regulatory S-filings and initial public offerings documents, as well as EDGAR-related and

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XBRL services. Revenue is recognized for these services following final delivery of the printed product or upon completion of the service performed. With respect to the Company s logistics operations, whose operations include the delivery of printed material, the Company recognizes revenue upon completion of the delivery of services. Revenues related to the Company s premedia operations, which include digital content management, photography, color services and page production, are recognized in accordance with the terms of the contract, which are typically upon completion of the performed service and acceptance by the customer.

Certain revenues earned by the Company require judgment to determine if revenue should be recorded gross as a principal or net of related costs as an agent. Billings for third-party shipping and handling costs, primarily in the Company s logistics operations, and out-of-pocket expenses are recorded gross. In the Company s Global Turnkey Solutions operations, each contract is evaluated using various criteria to determine if revenue for components and other materials should be recognized on a gross or net basis. In general, these revenues are recognized on a gross basis if the Company has control over selecting vendors and pricing, is the primary obligor in the arrangement and bears credit risk and the risk of loss for inventory in its possession. Revenue from contracts that do not meet these criteria is recognized on a net basis. Many of the Company s operations process materials, primarily paper, that may be supplied directly by customers or may be purchased by the Company and sold to customers. No revenue is recognized for customer-supplied paper, but revenues for Company-supplied paper are recognized on a gross basis. As a result, the Company s reported sales and margins may be impacted by the mix of customer-supplied paper and Company-supplied paper.

The Company records deferred revenue in situations where amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met.

Accounts Receivable

The Company maintains an allowance for doubtful accounts, which is reviewed for estimated losses resulting from the inability of its customers to make required payments for products and services. Specific customer provisions are made when a review of significant outstanding amounts, utilizing information about customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing rates, based upon the age of the receivable and the Company s past collection experience. The Company s estimates of the recoverability of accounts receivable could change, and additional changes to the allowance could be necessary in the future, if any major customer s creditworthiness deteriorates or actual defaults are higher than the Company s historical experience.

Inventories

The Company records inventories at the lower of cost or market value. A majority of the Company s inventories are valued under the last-in first-out (LIFO) basis. Changes in inflation indices may cause an increase or decrease in the value of inventories accounted for under the LIFO costing method. The Company maintains inventory allowances for excess and obsolete inventories determined in part by future demand forecasts. If there were a sudden and significant decrease in demand for its products, or if there were a higher incidence of inventory obsolescence because of changing technology and customer requirements, the Company could be required to increase its inventory allowances.

Goodwill and Other Long-Lived Assets

The Company s methodology for allocating the purchase price of acquisitions is based on established valuation techniques that reflect the consideration of a number of factors, including valuations performed by third-party appraisers when appropriate. Goodwill is measured as the excess of the cost of an acquired entity over the fair value assigned to identifiable assets acquired and liabilities assumed. Based on its organization structure, the Company has identified fifteen reporting units for which cash flows are determinable and to which goodwill may be allocated. Goodwill is either assigned to a specific reporting unit or allocated between reporting units based on the relative excess fair value of each reporting unit. When the Company s organization structure

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changes, new or revised reporting units may be identified, and goodwill is reallocated, if necessary, based on relative excess fair value.

The Company performs its goodwill impairment tests annually as of October 31, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company performs an interim review for indicators of impairment at each quarter-end to assess whether an interim impairment review is required for any reporting unit. As part of its interim reviews, management analyzes potential changes in the value of individual reporting units based on each reporting unit s operating results for the period compared to expected results as of the prior year s annual impairment test. In addition, management considers how other key assumptions, including discount rates and expected long-term growth rates, used in the last annual impairment test, could be impacted by changes in market conditions and economic events. Based on these interim assessments, management concluded that as of the interim periods, no events or changes in circumstances indicated that it was more likely than not that the fair value for any reporting unit had declined below its carrying value.

As of October 31, 2012, all reporting units had goodwill except for commercial, business process outsourcing, Canada and Latin America. Those reporting units with goodwill as of October 31, 2012 were reviewed for impairment using either a qualitative or quantitative assessment.

Qualitative Assessment for Impairment

For the forms and labels reporting unit, the Company performed a qualitative assessment to determine whether it was more likely than not that the fair value of the reporting unit was less than its carrying amount. In performing this analysis the Company considered various factors, including the effect of market or industry changes and the reporting unit s actual results compared to projected results.

As part of the qualitative review for impairment, management analyzed the potential change in fair value of the forms and labels reporting unit based on its operating results for the ten months ended October 31, 2012 compared to expected results. In addition, management considered how other key assumptions, such as the discount rate, used in the 2011 impairment test could be impacted by changes in market conditions and economic events. Since October 31, 2011, the market value of the Company s stock has decreased and market yields on the Company s debt have remained relatively constant, which management considered in performing its qualitative assessment of whether it was more likely than not that the fair value of the reporting unit was less than its carrying value. Based on this qualitative assessment, management concluded that as of October 31, 2012, it was more likely than not that the fair value of the forms and labels reporting unit was greater than its carrying value. The forms and labels reporting unit s goodwill balance was $7.2 million as of October 31, 2012, related to the acquisition of Stratus on November 21, 2011.

Quantitative Assessment for Impairment

For the remaining ten reporting units with goodwill, a two-step method was used for determining goodwill impairment. In the first step (Step One), the Company compared the estimated fair value of each reporting unit to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeded the estimated fair value, the second step (Step Two) was completed to determine the amount of the impairment charge. Step Two requires the allocation of the estimated fair value of the reporting unit to the assets, including any unrecognized intangible assets, and liabilities in a hypothetical purchase price allocation. Any remaining unallocated fair value represents the implied fair value of goodwill, which is compared to the corresponding carrying value of goodwill to compute the goodwill impairment charge.

As part of its impairment test for these reporting units, the Company engaged a third-party appraisal firm to assist the Company in its determination of the estimated fair value. This determination included estimating the fair value using both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows, discount rates and the allocation of shared or corporate items. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping. The Company weighted both the income and market approach equally to estimate the concluded fair value of each reporting unit.

The determination of fair value in Step One and the allocation of that value to individual assets and liabilities in Step Two required the Company to make significant estimates and assumptions. These estimates and assumptions primarily included, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which the Company competes; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization, restructuring charges and capital expenditures. The allocation of fair value under Step Two required several analyses to determine the fair value of assets and liabilities including, among others, trade names, customer relationships, and property, plant and equipment.

As a result of the 2012 annual goodwill impairment test, the Company recognized a total non-cash charge of $848.4 million for the impairment of goodwill in the magazines, catalogs and retail inserts, books and directories and Europe reporting units. The goodwill impairment charge resulted from reductions in the estimated fair value of these reporting units, based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the last annual goodwill impairment test. The lower expectations for magazines, catalogs and retail inserts were due to price pressures driven by excess capacity in the industry and erosion of ad pages and circulation of magazines. The lower expectations for books and directories were due to lower demand for educational books as a result of state and local budget constraints, the impact of electronic substitution on consumer book and directory volumes and price pressure driven by excess capacity in the industry. The lower expectations for Europe were due to lower volumes from existing customers and price pressures driven by excess capacity in the industry. As of December 31, 2012, there was $18.1 million of goodwill remaining in the magazines, catalogs and retail inserts reporting unit. The books and directories and Europe reporting units had no remaining goodwill as of December 31, 2012.

Goodwill Impairment Assumptions

Although the Company believes its estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. Future declines in the overall market value of the Company s equity and debt securities may also result in a conclusion that the fair value of one or more reporting units has declined below its carrying value.

One measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which each reporting unit passed (fair value exceeds the carrying amount) or failed (the carrying amount exceeds fair value) Step One of the goodwill impairment test. For the seven reporting units that passed Step One, fair values exceeded the carrying amounts by between 17.4% and 382.0% of their respective estimated fair values. Relatively small changes in the Company s key assumptions would not have resulted in any additional reporting units failing Step One. For the three reporting units that failed, the carrying amounts exceeded fair value by between 62.8% and 184.8% of their estimated fair values. Relatively small changes in key assumptions would not have resulted in these reporting units passing Step One.

Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1.0% decrease in estimated annual future cash flows would decrease the estimated fair value of the reporting unit by approximately 1.0%. The estimated long-term net sales growth rate can have a significant impact on the estimated future cash flows, and therefore, the fair value of each reporting unit. A 1.0% decrease in the long-term net sales growth rate would have resulted in no additional reporting units failing Step One of the goodwill impairment test. Of the other key assumptions that impact the estimated fair values, most reporting units have the greatest sensitivity to changes in the estimated discount rate. The discount

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rate for the reporting units in the U.S. Print and Related Services segment was estimated to be 10.0% for all reporting units as of October 31, 2012. Estimated discount rates for units in the International segment ranged from 12.0% to 16.0%. A 1.0% increase in estimated discount rates would have resulted in no additional reporting units failing Step One. The Company believes that its estimates of future cash flows and discount rates are reasonable, but future changes in the underlying assumptions could differ due to the inherent uncertainty in making such estimates. Additionally, further price deterioration or lower volume could have a significant impact on the fair values of the reporting units.

Other Long-Lived Assets

The Company evaluates the recoverability of other long-lived assets, including property, plant and equipment and certain identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The Company performs impairment tests of indefinite-lived intangible assets on an annual basis or more frequently in certain circumstances. Factors which could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for the overall business, a significant decrease in the market value of the assets or significant negative industry or economic trends. When the Company determines that the carrying amount of long-lived assets may not be recoverable based upon the existence of one or more of the indicators, the assets are assessed for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset s carrying amount over its fair value. During the year ended December 31, 2012, the Company recognized non-cash impairment charges of $158.0 million related to acquired customer relationship intangible assets in the books and directories and magazines, catalogs and retail inserts reporting units within the U.S. Print and Related Services segment and the Latin America reporting unit within the International segment. In addition, the Company recognized non-cash impairment charges of $23.6 million during the year ended December 31, 2012, related to land, buildings, machinery and equipment, leasehold improvements and other asset disposals, primarily as a result of restructuring actions.

Commitments and Contingencies

The Company is subject to lawsuits, investigations and other claims related to environmental, employment, commercial and other matters, as well as preference claims related to amounts received from customers and others prior to their seeking bankruptcy protection. Periodically, the Company reviews the status of each significant matter and assesses potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the related liability is estimable, the Company accrues a liability for the estimated loss. Because of uncertainties related to these matters, accruals are based on the best information available at the time. As additional information becomes available, the Company reassesses the related potential liability and may revise its estimates.

The Company purchases third-party insurance for workers compensation, automobile and general liability claims that exceed a certain level. The Company is responsible for the payment of claims below and above these insured limits, and consulting actuaries are utilized to assist the Company in estimating the obligation associated with incurred losses, which are recorded in accrued and other non-current liabilities. Historical loss development factors for both the Company and the industry are utilized to project the future development of incurred losses, and these amounts are adjusted based upon actual claims experience and settlement. If actual experience of claims development is significantly different from these estimates, an adjustment in future periods may be required. Expected recoveries of such losses are recorded in other current and other non-current assets.

Restructuring

The Company records restructuring charges when liabilities are incurred as part of a plan approved by management with the appropriate level of authority for the elimination of duplicative functions, the closure of

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facilities, or the exit of a line of business, generally in order to reduce the Company s overall cost structure. The restructuring liabilities might change in future periods based on several factors that could differ from original estimates and assumptions. These include, but are not limited to: contract settlements on terms different than originally expected; ability to sublease properties based on market conditions at rates or on timelines different than originally estimated; or changes to original plans as a result of acquisitions. Such changes might result in reversals of or additions to restructuring charges that could affect amounts reported in the Consolidated Statements of Operations of future periods.

Accounting for Income Taxes

Significant judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company s tax returns are subject to audit by various U.S. and foreign tax authorities. The Company recognizes a tax position in its financial statements when it is more likely than not (*i.e*., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. This recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Consolidated Financial Statements as of December 31, 2012 and 2011 reflect these tax positions. Although management believes that its estimates are reasonable, the final outcome of uncertain tax positions may be materially different from that which is reflected in the Company s historical financial statements.

The Company has recorded deferred tax assets related to future deductible items, including domestic and foreign tax loss and credit carryforwards. The Company evaluates these deferred tax assets by tax jurisdiction. The utilization of these tax assets is limited by the amount of taxable income expected to be generated within the allowable carryforward period and other factors. Accordingly, management has provided a valuation allowance to reduce certain of these deferred tax assets when management has concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized. If actual results differ from these estimates, or the estimates are adjusted in future periods, adjustments to the valuation allowance might need to be recorded. As of December 31, 2012 and 2011, valuation allowances of $273.6 million and $273.2 million, respectively, were recorded in the Company s Consolidated Financial Statements.

Deferred U.S. income taxes and foreign withholding taxes are not provided on the excess of the investment value for financial reporting over the tax basis of investments in those foreign subsidiaries for which such excess is considered to be permanently reinvested in those operations. The Company has recognized deferred tax liabilities of $9.1 million as of December 31, 2012 related to local withholding taxes on certain foreign earnings that are not considered to be permanently reinvested.

Share-Based Compensation

The Company recognizes share-based compensation expense based on estimated fair values for all share-based awards made to employees and directors, including stock options, restricted stock units and performance share units. The Company recognizes compensation expense for share-based awards expected to vest on a straight-line basis over the requisite service period of the award based on their grant date fair value. The amount of expense recognized for these awards is determined by the Company s estimates of several factors, including future forfeitures of awards, expected volatility of the Company s stock and the average life of options prior to expiration. See Note 17, *Stock and Incentive Programs for Employees*, to the Consolidated Financial Statements for further discussion.

Pension and Other Postretirement Benefit Plans

The Company records annual income and expense amounts relating to its pension and other postretirement benefit plans based on calculations which include various actuarial assumptions including discount rates, expected long-term rates of return, compensation increases, turnover rates and health care cost trend rates. The Company reviews its actuarial assumptions on an annual basis as of December 31 (or more frequently if a significant event requiring remeasurement occurs) and modifies the assumptions based on current rates and trends when it is appropriate to do so. The effects of modifications are recognized immediately on the Consolidated Balance Sheet, but are generally amortized into operating earnings over future periods, with the deferred amount recorded in accumulated other comprehensive income (loss). The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors. The Company determines its assumption for the discount rate to be used for purposes of computing pension and other postretirement benefit plan obligations based on an index of high-quality corporate bond yields and matched-funding yield curve analysis. The discount rates for pension benefits at December 31, 2012 and 2011 were 4.2% and 4.9%, respectively. The discount rates for postretirement benefits at December 31, 2012 and 2011 were 3.9% and 4.8%, respectively.

A one-percentage point decrease in the discount rates at December 31, 2012 would have increased the accumulated benefit obligation and projected benefit obligation by the following amounts (in millions):

Pension Plans

Accumulated benefit obligation	$ 640.0
Projected benefit obligation	641.9

Other Postretirement Benefit Plans

Accumulated benefit obligation	$ 50.2

Pension and other postretirement benefit plan contributions are dependent on many factors, including returns on invested assets and discount rates used to determine pension obligations. The Company made contributions of $140.7 million to its pension plans and $8.0 million to its other postretirement benefit plans in 2012. The Company estimates that it will make cash contributions totaling approximately $23.1 million to its pension and other postretirement benefit plans in 2013.

On December 20, 2012, the Company announced a freeze on further benefit accruals under its U.K. pension plans as of December 31, 2012. Beginning January 1, 2013, participants ceased earning additional benefits under the U.K. plan and no new participants entered these plans. The plan freeze required a remeasurement of the plan s assets and obligations as of December 31, 2012, which resulted in a non-cash curtailment gain of $3.7 million recognized in 2012. Additionally, on February 1, 2012, the Company announced a freeze on further benefit accruals under its Canadian pension plans as of March 31, 2012. On November 2, 2011, the Company announced a freeze on further benefit accruals under all U.S. pension plans as of December 31, 2011. The remeasurement of the U.S. pension plans assets and obligations as of November 2, 2011 resulted in a non-cash curtailment gain of $38.7 million recognized in 2011.

The Company employed a total return investment approach for its pension and other postretirement benefit plans whereby a mix of equities, fixed income and, for certain pension plans, alternative investments are used to maximize the long-term return of pension and other postretirement benefit plan assets. The intent of this strategy is to minimize plan contributions by outperforming the growth in plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolios contain a diversified blend of equity, fixed income and alternative investments. Furthermore, equity investments are diversified across geography, market capitalization and investment style. Fixed income investments are diversified across geography and include holdings of corporate bonds, government and agency bonds and asset-backed securities. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews. As the majority of the Company s pension plans have been frozen as of December 31, 2012, the Company continues to evaluate its investment approach and may, over time, transition to a risk management approach for its pension and other postretirement benefit plan investments. The overall investment objective of the risk management approach is to reduce the risk of significant decreases in the plans funded status.

The expected long-term rate of return for plan assets is based upon many factors including expected asset allocations, historical asset returns, current and expected future market conditions and risk. In addition, the Company considered the impact of the current interest rate environment on the expected long-term rate of return for certain asset classes, particularly fixed income. The target asset allocation percentage for both the pension and other postretirement benefit plans was approximately 75.0% for equity and other securities and approximately 25.0% for fixed income. The expected long-term rate of return on plan assets assumption at December 31, 2012 was 8.5% and 7.5% for the Company s major U.S. and Canadian pension plans, respectively, and 7.6% for the Company s U.S. other postretirement benefit plan. The expected long-term rate of return on plan assets assumption that will be used to calculate net pension and other postretirement benefit plan expense in 2013 is 8.0% and 7.25% for the Company s major U.S. and Canadian pension plans, respectively, and 7.25% for the Company s U.S. other postretirement benefit plan.

The Company also maintains several pension plans in other international locations. The expected returns on plan assets and discount rates for these plans are determined based on each plan s investment approach, local interest rates and plan participant profiles.

Off-Balance Sheet Arrangements

Other than non-cancelable operating lease commitments, the Company does not have off-balance sheet arrangements, financings or special purpose entities.

Financial Review

In the financial review that follows, the Company discusses its consolidated results of operations, financial position, cash flows and certain other information. This discussion should be read in conjunction with the Company s consolidated financial statements and related notes that begin on page F-1.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2011

The following table shows the results of operations for the years ended December 31, 2012 and 2011, which reflects the results of acquired businesses from the relevant acquisition dates:

	2012	2011	$ Change	% Change
	(in millions, except percentages)			
Net sales				
Products	$ 8,835.1	$ 9,375.1	$ (540.0)	(5.8%)
Services	1,386.8	1,235.9	150.9	12.2%
Total net sales	10,221.9	10,611.0	(389.1)	(3.7%)
Products cost of sales (exclusive of depreciation and amortization)	6,874.2	7,185.2	(311.0)	(4.3%)
Services cost of sales (exclusive of depreciation and amortization)	1,014.8	906.6	108.2	11.9%
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,102.6	1,236.3	(133.7)	(10.8%)
Restructuring and impairment charges net	1,118.5	667.8	450.7	67.5%
Depreciation and amortization	481.6	549.9	(68.3)	(12.4%)
Total operating expenses	10,591.7	10,545.8	45.9	0.4%
Income (loss) from operations	$ (369.8)	$ 65.2	$ (435.0)	nm

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Consolidated

Net sales of products for the year ended December 31, 2012 decreased $540.0 million, or 5.8%, to $8,835.1 million versus the same period in the prior year, including an $87.3 million, or 0.9%, decrease due to the impact of changes in foreign exchange rates. Net sales of products decreased in the U.S. Print and Related Services segment, resulting from lower overall volume, decreased pass-through paper sales, ongoing price pressures and a decline in capital markets transactions activity, and in the International segment, primarily due to changes in foreign exchange rates. These decreases were partially offset by organic growth in Asia, increased volume in business process outsourcing and rebate adjustments to net sales to correct an over-accrual of rebates due to certain office products customers.

Net sales from services for the year ended December 31, 2012 increased $150.9 million, or 12.2%, to $1,386.8 million versus the same period in the prior year, including a $5.6 million, or 0.5%, impact of unfavorable changes in foreign exchange rates. Net sales from services increased due to higher logistics volume, driven primarily by growth in freight brokerage services, as well as increased volume in XBRL financial services.

Products cost of sales decreased $311.0 million to $6,874.2 million for the year ended December 31, 2012 versus the prior year, primarily due to lower overall volume, as well as lower pension and other postretirement benefit plan expenses, primarily resulting from the freeze on further benefit accruals under all U.S. and Canadian pension plans beginning January 1, 2012 and April 1, 2012, respectively, and lower incentive compensation expense, partially offset by lower recovery on print-related by-products and the Company s reinstated 401(k) match. Products cost of sales as a percentage of products net sales increased from 76.6% to 77.8%, reflecting unfavorable product mix, price pressures, lower recovery on print-related by-products and the Company s reinstated 401(k) match.

Services cost of sales increased $108.2 million to $1,014.8 million for the year ended December 31, 2012 versus the prior year primarily due to higher logistics volume, as well as increased XBRL financial services volume and the Company s reinstated 401(k) match, partially offset by lower pension and other postretirement benefit plan expense, resulting from the freeze on further benefit accruals under all U.S. and Canadian pension plans, and lower incentive compensation expense. Services cost of sales as a percentage of services net sales decreased from 73.4% to 73.2%, reflecting favorable mix and pricing in logistics, lower pension and other postretirement benefit plan expense and lower incentive compensation expense, offset by unfavorable mix and pricing in financial services and the Company s reinstated 401(k) match.

Selling, general and administrative expenses decreased $133.7 million to $1,102.6 million, and from 11.7% to 10.8% as a percentage of net sales, for the year ended December 31, 2012 versus the prior year due to lower pension and other postretirement benefit plan expenses, primarily resulting from the freeze on further benefit accruals under all U.S. and Canadian pension plans, cost savings from restructuring activities and lower incentive compensation expense.

For the year ended December 31, 2012, the Company recorded a net restructuring and impairment provision of $1,118.5 million compared to $667.8 million in 2011. In 2012, these charges included non-cash pre-tax charges of $848.4 million for the impairment of goodwill for the magazines, catalogs and retail inserts and books and directories reporting units within the U.S. Print and Related Services segment and the Europe reporting unit within the International segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the magazines, catalogs and retail inserts, books and directories and Europe reporting units, based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the last annual goodwill impairment test. The lower expectations for magazines, catalogs and retail inserts were due to price pressures driven by excess capacity in the industry and erosion of ad pages and circulation for magazines. The lower expectations for books and directories were due to lower demand for educational books as a result of state and local budget constraints, the impact of electronic substitution on consumer book and directory volumes and price pressure driven by excess capacity in the industry. The lower expectations for Europe were due to lower volumes from existing customers and price pressures driven by excess capacity in the industry. In addition, the Company recorded non-cash charges of $158.0 million related to the impairment of acquired customer relationship intangible assets in

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the books and directories and magazines, catalogs and retail inserts reporting units within the U.S. Print and Related Services segment and the Latin America reporting unit within the International segment. For the year ended December 31, 2012, the Company also recorded $66.6 million for workforce reductions of 2,200 employees (2,146 of whom were terminated as of December 31, 2012) associated with actions resulting from the reorganization of sales and administrative functions across all segments, the closing of five manufacturing facilities within the U.S. Print and Related Services segment and one manufacturing facility within the International segment and the reorganization of certain operations. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $25.3 million and impairment charges of $20.2 million, primarily related to machinery and equipment associated with the facility closings and other asset disposals.

For the year ended December 31, 2011, the Company recorded a net restructuring and impairment provision of $667.8 million. In 2011, these charges included non-cash pre-tax charges of $392.3 million for the impairment of goodwill for the commercial and forms and labels reporting units within the U.S. Print and Related Services segment and the Latin America and Canada reporting units within the International segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the commercial, forms and labels, Canada and Latin America reporting units, based on lower expectations for future revenue, profitability and cash flows due to continued impacts of electronic substitution on demand for business forms and other products, as well as continued price pressure. In addition, the Company recorded a non-cash charge of $90.7 million primarily related to the impairment of acquired customer relationship intangible assets in the forms and labels reporting unit within the U.S. Print and Related Services segment. For the year ended December 31, 2011, the Company also recorded $76.7 million for workforce reductions of 2,899 employees (substantially all of whom were terminated as of December 31, 2012) associated with actions resulting from the reorganization of certain operations, primarily related to the closings of certain facilities and headcount reductions due to the Bowne acquisition. In addition, these charges related to the closing of five manufacturing facilities within the U.S. Print and Related Services segment. These actions also included the reorganization of certain operations within the U.S. Print and Related Services segment, as well as the reorganization of certain operations within the International segment. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $59.6 million, of which $15.1 million related to multi-employer pension plan complete or partial withdrawal charges primarily due to the closing of three manufacturing facilities, and $48.5 million of impairment charges primarily for land, buildings, machinery and equipment and leasehold improvements associated with the facility closings.

Depreciation and amortization decreased $68.3 million to $481.6 million for the year ended December 31, 2012 compared to the prior year, primarily due to the impact of lower capital spending in recent years compared to historical levels, certain other intangible assets becoming fully amortized during the period and the impairment of $158.0 million and $90.7 million of other intangible assets in the fourth quarters of 2012 and 2011, respectively. Depreciation and amortization included $87.6 million and $112.2 million of amortization of other intangible assets related to customer relationships, patents, trademarks, licenses and agreements and trade names for the years ended December 31, 2012 and 2011, respectively.

The loss from operations for the year ended December 31, 2012 was $369.8 million compared to income from operations of $65.2 million for the year ended December 31, 2011. The decrease was due to higher restructuring and impairment charges, lower overall volume, price declines, lower recovery on print-related by-products, the Company s reinstated 401(k) match, higher healthcare costs and wage inflation in Latin America and Asia, partially offset by cost savings from restructuring activities, lower pension and other postretirement benefit plan expense net of the prior year gain on pension curtailment, lower depreciation and amortization expense and lower incentive compensation expense.

	2012	2011	$ Change	% Change
	(in millions, except percentages)			
Interest expense net	$ 251.8	$ 243.3	$ 8.5	3.5%
Investment and other expense (income) net	2.3	(10.6)	12.9	nm
Loss on debt extinguishment	16.1	69.9	(53.8)	(77.0%)

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Net interest expense increased by $8.5 million for the year ended December 31, 2012 versus the prior year, primarily due to higher average interest rates on senior notes and higher average credit facility borrowings and associated fees, partially offset by increased interest income on short-term investments.

Net investment and other expense (income) for the years ended December 31, 2012 and 2011 was expense of $2.3 million and income of $10.6 million, respectively. The year ended December 31, 2012 included an impairment loss on an equity investment of $4.1 million. The year ended December 31, 2011 included a $10.0 million gain recognized on the acquisition of Helium, in which the Company previously held an equity investment.

Loss on debt extinguishment for the year ended December 31, 2012 was $16.1 million due to the repurchase in 2012 of $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015 as well as the termination of the Previous Credit Agreement. The loss consisted of $27.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the 4.95% senior notes. Loss on debt extinguishment for the year ended December 31, 2011 was $69.9 million. The loss was due to the repurchases in 2011 of $227.8 million of the 11.25% senior notes due February 1, 2019, $100.0 million of the 6.125% senior notes due January 15, 2017 and $100.0 million of the 5.50% senior notes due May 15, 2015.

	2012	2011	$ Change	% Change
	(in millions, except percentages)			
Loss before income taxes	$ (640.0)	$ (237.4)	$ (402.6)	169.6%
Income tax expense (benefit)	13.6	(116.3)	129.9	nm
Effective income tax rate	(2.1%)	49.0%		

The effective income tax rate for the year ended December 31, 2012 was negative 2.1% compared to positive 49.0% in 2011. The 2012 effective tax rate was impacted by the non-deductible goodwill impairment charges and the recognition of $26.1 million of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and a provision of $11.0 million related to certain foreign earnings no longer considered to be permanently reinvested. The effective tax rate for the year ended December 31, 2011 reflected recognition of $74.8 million of previously unrecognized tax benefits due to the expiration of U.S. federal statutes of limitations for certain years and changes in the expected resolution of certain state tax matters, as well as the release of valuation allowances on certain deferred tax assets in the U.S. and Europe.

Income (loss) attributable to noncontrolling interests was a loss of $2.2 million for the year ended December 31, 2012 and income of $1.5 million for the year ended December 31, 2011.

Net loss attributable to RR Donnelley common shareholders for the year ended December 31, 2012 was $651.4 million, or $3.61 per diluted share, compared to $122.6 million, or $0.63 per diluted share, for the year ended December 31, 2011. In addition to the factors described above, the per share results reflect a decrease in weighted average diluted shares outstanding of 13.4 million primarily due to the purchase of shares as a result of the accelerated share repurchase in 2011.

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U.S. Print and Related Services

The following tables summarize net sales, income (loss) from operations and certain items impacting comparability within the U.S. Print and Related Services segment:

	Year Ended December 31, 2012	2011
	(in millions, except percentages)	
Net sales	$ 7,511.1	$ 7,846.5
Income (loss) from operations	(276.8)	232.9
Operating margin	(3.7%)	3.0%
Restructuring and impairment charges net	1,018.7	505.1
Journalism Online contingent compensation		15.3

The amounts included in the table below represent net sales by reporting unit and the descriptions reflect the primary products or services provided by each reporting unit. Included in these net sales amounts are sales of other products or services that may be produced within a reporting unit to meet customer needs and improve operating efficiency.

Reporting unit	2012 Net Sales	2011 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts(a)	$ 1,836.3	$ 1,919.3	$ (83.0)	(4.3%)
Variable print	1,190.1	1,250.1	(60.0)	(4.8%)
Books and directories(a)	1,132.5	1,277.1	(144.6)	(11.3%)
Financial print	855.6	907.6	(52.0)	(5.7%)
Logistics	770.7	688.9	81.8	11.9%
Forms and labels	734.5	789.0	(54.5)	(6.9%)
Commercial	569.8	639.6	(69.8)	(10.9%)
Office products	262.5	220.7	41.8	18.9%
Premedia	159.1	154.2	4.9	3.2%
Total U.S. Print and Related Services	$ 7,511.1	$ 7,846.5	$ (335.4)	(4.3%)

(a) Certain prior year amounts were restated to conform to the Company s current reporting unit structure.

Net sales for the U.S. Print and Related Services segment for the year ended December 31, 2012 were $7,511.1 million, a decrease of $335.4 million, or 4.3%, compared to 2011. Net sales decreased due to lower volume in both books and directories, decreases in pass-through paper sales, lower commercial volume, decreased volume in direct mail and statement printing and price declines, partially offset by increased freight brokerage services volume, the rebate adjustments to net sales to correct an over-accrual of rebates due to certain office products customers and increased XBRL financial services and office products volume. An analysis of net sales by reporting unit follows:

Magazines, catalogs and retail inserts: Sales declined due to decreases in pass-through paper sales, unfavorable product mix in magazines and retail inserts due to lower advertising spending, and price pressures, partially offset by higher catalog volume.

Variable print: Sales decreased as a result of lower direct mail and statement printing volume due in part to electronic substitution, a decline in print and fulfillment volume and lower pricing.

Books and directories: Sales decreased due to lower volume in educational books, consumer books and directories, primarily as a result of the continuing impact of lower levels of state funding for educational materials and electronic substitution of consumer books, as well as lower pass-through paper sales in directories and price declines for books, partially offset by favorable pricing for directories.

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Financial print: Sales decreased primarily due to a decline in capital markets transactions activity, lower volume in investment management and other financial print products as well as price pressures, partially offset by an increase in XBRL financial services volume and sales resulting from the acquisition of Edgar Online.

Logistics: Sales increased primarily due to higher freight brokerage services volume as well as sales resulting from the acquisition of XPO, courier services volume increases, higher fuel surcharges and increased co-mail and expedited logistics services volume.

Forms and labels: Sales declined due to lower forms and labels volume and price declines, partially offset by sales resulting from the Stratus acquisition.

Commercial: Sales decreased due to lower volume from existing customers as well as price pressures.

Office products: Sales increased as the result of the rebate adjustments described above, binder volume increases from existing customers and favorable pricing, primarily in note taking and binder products.

Premedia: Sales increased due to higher photography services volume from existing customers, partially offset by price declines on contract renewals.

U.S. Print and Related Services segment income from operations decreased $509.7 million for the year ended December 31, 2012 mainly driven by higher restructuring and impairment charges, lower volume in various products, price declines and lower recovery on print-related by-products, partially offset by cost savings from restructuring activities, lower depreciation and amortization expense and lower incentive compensation expense as well as the rebate adjustments described above. Operating margins decreased from positive 3.0% for the year ended December 31, 2011 to negative 3.7% for the year ended December 31, 2012, of which 6.5 percentage points were due to higher restructuring and impairment charges. The remaining decrease was due to price declines, unfavorable product mix and lower recovery on print-related by-products.

International

The following tables summarize net sales, income from operations and certain items impacting comparability within the International segment:

	Years Ended December 31, 2012	2011
	(in millions, except percentages)	
Net sales	$ 2,710.8	$ 2,764.5
Income from operations	79.1	35.4
Operating margin	2.9%	1.3%
Restructuring and impairment charges net	89.2	157.0
Gain on pension curtailment	3.7	

Reporting unit	2012 Net Sales	2011 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Asia	$ 685.9	$ 629.6	$ 56.3	8.9%
Business process outsourcing	596.4	574.3	22.1	3.8%
Latin America	476.9	522.4	(45.5)	(8.7%)
Europe	400.9	473.4	(72.5)	(15.3%)
Global Turnkey Solutions	289.7	290.9	(1.2)	(0.4%)

Canada	261.0	273.9	(12.9)	(4.7%)
Total International	$ 2,710.8	$ 2,764.5	$ (53.7)	(1.9%)

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Net sales for the International segment for the year ended December 31, 2012 were $2,710.8 million, a decrease of $53.7 million, or 1.9%, compared to the prior year. The net sales decrease was primarily due to the impact of changes in foreign exchange rates of $92.9 million, or 3.4%, as well as a decline in capital markets transactions activity, lower volume in Chile and Brazil, and decreased technology manuals volume in Europe, partially offset by increased volume in Asia and business process outsourcing and higher pass-through paper sales in Asia and Europe. An analysis of net sales by reporting unit follows:

Asia: Sales increased due to higher volume in packaging products and technology manuals, higher book export volume and increased pass-through paper sales, partially offset by a decline in capital markets transactions activity and price pressure.

Business process outsourcing: Sales increased due to higher pass-through sales in print management, increased volume from existing and new customers, and higher outsourcing services volume, partially offset by changes in foreign exchange rates and lower direct mail volume.

Latin America: Sales decreased due to changes in foreign exchange rates, declines in book, catalog and magazine volume in Chile, and lower book and forms volume in Brazil, partially offset by the favorable impact of inflationary pricing in Chile, Brazil and Argentina, higher forms volume in Venezuela, higher catalog and magazine volume in Argentina, increased security products volume in Brazil and higher catalog and magazine volume in Mexico.

Europe: Sales decreased due to lower technology manuals volume, changes in foreign exchange rates, a decrease in directories volume and a decline in capital markets transactions activity, partially offset by increased retail inserts and magazine volume and higher pass-through paper sales.

Global Turnkey Solutions: Sales decreased slightly due to lower volume from the loss of a customer during 2011, as well as price pressures, largely offset by volume increases from new and existing customers.

Canada: Sales decreased due to declines in forms and commercial volumes as well as changes in foreign exchange rates, partially offset by higher statement printing volume for a new customer.

International segment income from operations increased $43.7 million primarily due to lower restructuring and impairment charges, cost savings from restructuring activities, increased volume in certain products and outsourcing services, reduced depreciation and amortization expense, and lower incentive compensation expense, partially offset by lower capital markets transactions activity, decreased technology manuals and directories volume in Europe, wage inflation in Latin America and Asia and price pressures. Operating margins increased from 1.3% for the year ended December 31, 2011 to 2.9% for the December 31, 2012, of which 2.5 percentage points were due to lower restructuring and impairment charges. This increase was partially offset by unfavorable mix, wage inflation, price pressures and higher pass-through sales in print management.

Corporate

The following table summarizes unallocated operating expenses and certain items impacting comparability within the activities presented as Corporate:

	Years Ended December 31,	
	2012	2011
	(in millions)	
Operating expenses	$ 172.1	$ 203.1
Restructuring and impairment charges net	10.6	5.7
Acquisition-related expenses	2.5	2.2

Gain on pension curtailment	38.7

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Corporate operating expenses in the year ended December 31, 2012 were $172.1 million, a decrease of $31.0 million compared to the same period in 2011. The decrease was driven by lower pension and other postretirement benefit plan expenses, primarily related to the freeze on further benefit accruals for all U.S. and Canadian pension plans beginning January 1, 2012 and April 1, 2012, respectively, lower LIFO inventory provisions and lower incentive compensation expense, partially offset by the Company s reinstated 401(k) match and higher healthcare costs.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011 AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2010

	Income from Operations	Operating Margin	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders	Net Earnings (Loss) Attributable to RR Donnelley Common Shareholders per Diluted Share
	(in millions, except per share and margin data)			
For the year ended December 31, 2010	$ 555.5	5.5%	$ 221.7	$ 1.06
2011 restructuring and impairment charges net	(677.8)	(6.3%)	(532.8)	(2.75)
2010 restructuring and impairment charges net	157.9	1.6%	130.0	0.62
Acquisition-related expenses	11.3	0.1%	9.8	0.05
2011 gain on Helium investment			9.5	0.05
2011 loss on debt extinguishment			(44.1)	(0.23)
2011 gain on pension curtailment	38.7	0.4%	24.3	0.13
2011 Journalism Online contingent compensation	(15.3)	(0.1%)	(9.7)	(0.05)
2010 Venezuela devaluation			4.5	0.02
Income tax adjustments			74.8	0.39
Operations	(15.1)	(0.6%)	(10.6)	0.08
For the year ended December 31, 2011	$ 65.2	0.6%	$ (122.6)	$ (0.63)

2011 restructuring and impairment charges net: included charges of $392.3 million and $90.7 million for the impairment of goodwill and other intangible assets, respectively; $76.7 million for employee termination costs; $59.6 million of lease termination and other restructuring costs, including multi-employer pension plan complete or partial withdrawal charges of $15.1 million due to the closing of three manufacturing facilities within the U.S. Print and Related Services segment; and $48.5 million for impairment of other long-lived assets, primarily for land, buildings, machinery and equipment and leasehold improvements associated with facility closures.

2010 restructuring and impairment charges net: included $61.0 million and $26.9 million of non-cash charges for the impairment of goodwill and other intangible assets, respectively; charges of $35.9 million for employee termination costs; $29.5 million of lease termination and other restructuring costs, of which $13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment; and $4.6 million for impairment of other long-lived assets.

Acquisition-related expenses: included pre-tax charges of $2.2 million ($2.0 million after-tax) related to legal, accounting and other expenses for the year ended December 31, 2011 associated with acquisitions completed or contemplated. For the year ended December 31, 2010, these pre-tax charges were $13.5 million ($11.8 million after-tax).

2011 gain on Helium investment: included a pre-tax gain of $9.8 million as a result of the acquisition of Helium, in which the Company previously held an equity investment. The pre-tax gain is net of the Company s portion of the transaction costs incurred by Helium as a result of the acquisition.

2011 loss on debt extinguishment: included a pre-tax loss of $69.9 million on the repurchases of $227.8 million of the 11.25% senior notes due February 1, 2019, $100.0 million of the 6.125% senior notes due

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January 15, 2017 and $100.0 million of the 5.50% senior notes due May 15, 2015. The $69.9 million pre-tax loss also included the reclassification of a $0.5 million pre-tax loss from accumulated other comprehensive loss to loss on debt extinguishment due to the change in the hedged forecasted interest payments resulting from the repurchase of the 5.50% senior notes.

2011 gain on pension curtailment: included a pre-tax gain of $38.7 million related to the remeasurement of the plans assets and obligations that was required with the announced freeze on further benefit accruals under all of the Company s U.S. pension plans as of December 31, 2011.

2011 Journalism Online contingent compensation: included pre-tax expense of $15.3 million related to contingent compensation earned by the prior owners, based on achieving certain volume milestones for Journalism Online s business following its acquisition by the Company.

2010 Venezuela devaluation: currency devaluation in Venezuela resulted in a pre-tax loss of $8.9 million ($8.1 million after-tax) and an increase in loss attributable to noncontrolling interests of $3.6 million.

Recognition of income tax benefits: included the recognition of previously unrecognized tax benefits due to the expiration of U.S. federal statutes of limitations for certain years. See discussion in Note 12 to the Consolidated Financial Statements.

Operations: reflected a net decrease in volume within the U.S. Print and Related Services segment, higher pension plan and other benefits-related expenses and continued price pressures. These decreases were partially offset by higher volume in the International segment, higher recovery on by-products, cost savings from restructuring actions, productivity efforts and lower incentive compensation expense. Income tax expense also decreased due to the recognition of previously unrecognized tax benefits related to certain state tax matters. In addition, purchases of shares pursuant to the Company s share repurchase program resulted in higher interest expense and fewer weighted average shares outstanding. See further details in the review of operating results by segment that follows below.

The following table shows the results of operations for the years ended December 31, 2011 and 2010, which reflects the results of acquired businesses from the relevant acquisition dates:

	2011	2010	$ Change	% Change
	(in millions, except percentages)			
Net sales				
Products	$ 9,375.1	$ 8,956.4	$ 418.7	4.7%
Services	1,235.9	1,062.5	173.4	16.3%
Total net sales	10,611.0	10,018.9	592.1	5.9%
Products cost of sales (exclusive of depreciation and amortization)	7,185.2	6,857.8	327.4	4.8%
Services cost of sales (exclusive of depreciation and amortization)	906.6	785.1	121.5	15.5%
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,236.3	1,123.4	112.9	10.0%
Restructuring and impairment charges net	667.8	157.9	509.9	322.9%
Depreciation and amortization	549.9	539.2	10.7	2.0%
Total operating expenses	10,545.8	9,463.4	1,082.4	11.4%
Income from operations	$ 65.2	$ 555.5	$ (490.3)	(88.3%)

Consolidated

Net sales of products for the year ended December 31, 2011 increased $418.7 million, or 4.7%, to $9,375.1 million versus the prior year. Net sales of products increased due to the acquisition of Bowne, higher volume driven by increased business in Asia, Latin America and commercial print reporting units, changes in foreign

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exchange rates of $59.5 million, or 0.7%, and increases in pass-through paper sales. These increases were partially offset by decreases in net sales primarily attributable to lower volume within the books and directories reporting unit, the production and distribution of materials for the U.S. Census in 2010, continued price pressures and a decline in capital markets transactions activity.

Net sales from services for the year ended December 31, 2011 increased $173.4 million, or 16.3%, to $1,235.9 million versus the prior year. Net sales from services increased due to the acquisition of Bowne and higher logistics volumes. Additionally, net sales from services increased due to changes in foreign exchange rates of $8.1 million, or 0.8%.

Products cost of sales increased $327.4 million to $7,185.2 million for the year ended December 31, 2011 versus the prior year, primarily due to the acquisition of Bowne and higher materials costs, partially offset by lower incentive compensation expense, a gain on pension curtailment and a higher recovery on by-products. Products cost of sales as a percentage of products net sales remained constant.

Services cost of sales increased $121.5 million to $906.6 million for the year ended December 31, 2011 versus the prior year, primarily due to the acquisition of Bowne and higher logistics volume. Services cost of sales as a percentage of net sales decreased from 73.9% to 73.4%, reflecting lower incentive compensation expense, a gain on pension curtailment and productivity improvements, partially offset by an unfavorable mix within the financial print reporting unit and an increase in costs of transportation within the logistics reporting unit.

Selling, general and administrative expenses increased $112.9 million to $1,236.3 million, or from 11.2% to 11.7% as a percentage of consolidated net sales, for the year ended December 31, 2011 versus the prior year, due to the acquisition of Bowne and higher pension plan and other benefits-related expenses, partially offset by a gain on pension curtailment. These increases were also partially offset by cost savings from lower incentive compensation expense and restructuring activities.

For the year ended December 31, 2011, the Company recorded a net restructuring and impairment provision of $667.8 million compared to $157.9 million in 2010. In 2011, these charges included non-cash pre-tax charges of $392.3 million for the impairment of goodwill for the commercial and forms and labels reporting units within the U.S. Print and Related Services segment and the Latin America and Canada reporting units within the International segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the commercial, forms and labels, Canada and Latin America reporting units, based on lower expectations for future revenue, profitability and cash flows due to continued impacts of electronic substitution on demand for business forms and other products, as well as continued price pressure. In addition, the Company recorded a non-cash charge of $90.7 million primarily related to the impairment of acquired customer relationship intangible assets in the forms and labels reporting unit within the U.S. Print and Related Services segment. For the year ended December 31, 2011, the Company also recorded $76.7 million for workforce reductions of 2,899 employees (substantially all of whom were terminated as of December 31, 2012) associated with actions resulting from the reorganization of certain operations, primarily related to the closings of certain facilities and headcount reductions due to the Bowne acquisition. In addition, these charges related to the closing of five manufacturing facilities within the U.S. Print and Related Services segment. These actions also included the reorganization of certain operations within two reporting units within the U.S. Print and Related Services segment, as well as the reorganization of certain operations within two reporting units within the International segment. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $59.6 million, of which $15.1 million related to multi-employer pension plan complete or partial withdrawal charges primarily due to the closing of three manufacturing facilities, and $48.5 million of impairment charges primarily for land, buildings, machinery and equipment and leasehold improvements associated with the facility closings.

For the year ended December 31, 2010, these charges included non-cash pre-tax charges of $61.0 million for the impairment of goodwill for the forms and labels reporting unit within the U.S. Print and Related Services segment. The goodwill impairment charge resulted from reductions in the estimated fair value of the forms and labels reporting unit, based on lower expectations for future revenue and cash flows due to continued impacts of electronic substitution on forms demand and increasing price pressure. In addition, the lower fair value reflects higher estimated spending on information technology and capital equipment, in part to better position this reporting unit for increased growth in labels volume as forms demand continues to decline. Impairment charges also included $26.9 million for the impairment of acquired customer relationship intangible assets in the Global Turnkey Solutions reporting unit within the International segment. The impairment of the customer relationship intangible asset primarily resulted from the termination of a customer contract. Additionally, for the year ended December 31, 2010, the Company recorded $35.9 million for workforce reductions of 1,458 employees (all of whom were terminated as of December 31, 2012) associated with actions resulting from the reorganization of certain operations. These actions included the reorganization of certain operations within the U.S. Print and Related Services segment due to the acquisition of Bowne. In addition, these actions included the closing of three manufacturing facilities within the International segment. Further, continuing charges resulting from the closing of two manufacturing facilities in 2009 within the International segment were recorded in 2010. These actions also included the reorganization of certain operations within two reporting units and the closing of one manufacturing facility within the U.S. Print and Related Services segment. In addition, the Company recorded $4.6 million of impairment charges of other long-lived assets and $29.5 million of other restructuring charges. The other restructuring costs included $13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment, as well as lease termination and other facility closure costs.

Depreciation and amortization increased $10.7 million to $549.9 million for the year ended December 31, 2011 compared to 2010, primarily due to higher amortization expense associated with customer relationship intangible assets resulting from the acquisition of Bowne, partially offset by the impact of lower capital spending in recent years compared to historical levels. Depreciation and amortization included $112.2 million and $99.3 million of amortization of purchased intangibles related to customer relationships, patents, trade names, licenses and non-compete agreements for the years ended December 31, 2011 and 2010, respectively.

Income from operations for the year ended December 31, 2011 was $65.2 million compared to $555.5 million for the year ended December 31, 2010, a decrease of 88.3%. The decrease was primarily driven by higher restructuring and impairment charges, continued price pressure and higher pension plan and other benefits-related expenses, partially offset by higher volume, primarily related to the Bowne acquisition, a gain on pension curtailment, lower incentive compensation expense and benefits achieved from restructuring activities.

	2011	**2010**	**$ Change**	**% Change**
	(in millions, except percentages)			
Interest expense net	$ 243.3	$ 222.6	$ 20.7	9.3%
Investment and other expense (income) net	(10.6)	9.9	(20.5)	nm
Loss on debt extinguishment	69.9		69.9	nm

Net interest expense increased by $20.7 million for the year ended December 31, 2011 versus the same period in 2010, primarily due to the issuance of $400.0 million of 7.625% senior notes on June 21, 2010 and $600.0 million of 7.25% senior notes on June 1, 2011, partially offset by the repayment of $325.7 million of 4.95% senior notes that matured on May 15, 2010. Additionally, net interest expense increased due to borrowings under the Previous Credit Agreement used to finance the Company s accelerated share repurchase (ASR) and increased borrowing rates and commitment fees as a result of the rating actions determined by the credit rating agencies. These increases were also partially offset by interest savings due to the repurchase of debt in June and September 2011.

Net investment and other expense (income) for the years ended December 31, 2011 and 2010 was income of $10.6 million and expense of $9.9 million, respectively. The year ended December 31, 2011 included a $10.0 million gain recognized on the acquisition of Helium, in which the Company previously held an equity investment. For year ended December 31, 2010, the Company recorded an $8.9 million loss related to the

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devaluation of the Venezuelan currency, of which $3.6 million increased the loss attributable to noncontrolling interests as reflected below.

Loss on debt extinguishment for the year ended December 31, 2011 was $69.9 million. The loss was due to the repurchases of $227.8 million of the 11.25% senior notes due February 1, 2019, $100.0 million of the 6.125% senior notes due January 15, 2017 and $100.0 million of the 5.50% senior notes due May 15, 2015. These senior notes were repurchased to improve the debt maturity profile of the Company and to take advantage of the low interest rate environment.

	2011	2010	$ Change	% Change
	(in millions, except percentages)			
Earnings (loss) before income taxes	$ (237.4)	$ 323.0	$ (560.4)	nm
Income tax expense (benefit)	(116.3)	105.9	(222.2)	nm
Effective income tax rate	49.0%	32.8%		

The effective income tax rate for the year ended December 31, 2011 was 49.0% compared to 32.8% in 2010. The tax benefit for the year ended December 31, 2011 reflected recognition of $74.8 million of previously unrecognized tax benefits due to the expiration of U.S. federal statutes of limitations for certain years. The 2010 effective tax rate reflected the release of a valuation allowance on deferred tax assets due to the forecasted increase in net earnings for certain operations within Latin America.

Income (loss) attributable to noncontrolling interests was income of $1.5 million for the year ended December 31, 2011 and a loss of $4.6 million for the year ended December 31, 2010. The loss in 2010 as compared to income in 2011 primarily reflects the impact of the 2010 currency devaluation in Venezuela.

Net loss attributable to RR Donnelley common shareholders for the year ended December 31, 2011 was $122.6 million, or $0.63 per diluted share, compared to net earnings attributable to RR Donnelley common shareholders of $221.7 million, or $1.06 per diluted share, for the year ended December 31, 2010. In addition to the factors described above, the per share results reflect a decrease in weighted average diluted shares outstanding of 15.9 million primarily due to the purchase of shares during the year ended December 31, 2011 as a result of the accelerated share repurchase program.

U.S. Print and Related Services

The following tables summarize net sales, income from operations and certain items impacting comparability within the U.S. Print and Related Services segment:

	Year Ended December 31,	
	2011	2010
	(in millions, except percentages)	
Net sales	$ 7,846.5	$ 7,532.2
Income from operations	232.9	638.9
Operating margin	3.0%	8.5%
Restructuring and impairment charges net	505.1	94.0
Journalism Online contingent compensation	15.3	

The amounts included in the table below represent net sales by reporting unit and the descriptions reflect the primary products or services provided by each reporting unit. Included in these net sales amounts are sales of

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other products or services that may be produced within a reporting unit to meet customer needs and improve operating efficiency.

Reporting unit	2011 Net Sales	2010 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Magazines, catalogs and retail inserts(a)	$ 1,919.3	$ 1,949.0	$ (29.7)	(1.5%)
Books and directories(a)	1,277.1	1,410.8	(133.7)	(9.5%)
Variable print	1,250.1	1,233.4	16.7	1.4%
Financial print	907.6	556.5	351.1	63.1%
Forms and Labels	789.0	822.4	(33.4)	(4.1%)
Logistics	688.9	598.4	90.5	15.1%
Commercial	639.6	588.0	51.6	8.8%
Office products	220.7	212.4	8.3	3.9%
Premedia	154.2	161.3	(7.1)	(4.4%)
Total U.S. Print and Related Services	$ 7,846.5	$ 7,532.2	$ 314.3	4.2%

(a) Certain prior year amounts were restated to conform to the Company s current reporting unit structure.

Net sales for the U.S. Print and Related Services segment for the year ended December 31, 2011 were $7,846.5 million, an increase of $314.3 million, or 4.2%, compared to 2010. Net sales increased due to the acquisition of Bowne, as well as higher logistics and commercial volumes. The increases not related to the Bowne acquisition were more than offset by lower volume in books and directories, the production and distribution of materials for the U.S. Census in 2010, continued price pressures and a decline in capital markets transactions activity within financial print. An analysis of net sales by reporting unit follows:

Magazines, catalogs and retail inserts: Sales decreased due to continued price pressures and lower volume, partially offset by higher pass-through paper sales.

Books and directories: Sales decreased primarily as a result of lower volume in consumer books, educational books and directories, as well as lower pass-through paper sales in directories. The decrease in the volume of consumer books was due to the increasing popularity of e-books and the liquidation of a large bookstore chain. The decrease in the volume of educational books was the result of lower state funding for education instructional materials.

Variable print: Sales increased due to the acquisition of Bowne, higher volume due to a contract with a large retail chain and higher direct mailings from financial services customers. These increases were partially offset by the production and distribution of materials for the U.S. Census in 2010, lower statement printing volume, reduction in pass-through postage sales and increased price pressure.

Financial print: Sales increased as a result of the Bowne acquisition and higher volume in compliance and investment management transactions. These increases were partially offset by a decline in capital markets transactions activity.

Forms and labels: Sales decreased primarily due to lower forms volume and continued price pressure on both forms and labels, partially offset by increased volume in labels.

Logistics: Sales increased primarily due to higher print logistics services volumes along with higher fuel surcharges, as well as growth in mail center and commingling services.

Commercial: Sales increased due to higher volume from new customers, as well as an increase in pass-through sales due to growth in print management, partially offset by increased price pressure.

Office products: Sales increased due to new business from existing customers.

Premedia: Sales decreased primarily due to continued price pressures and lower volume from existing customers, partially offset by higher volume from new customers.

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Income from operations decreased $406.0 million for the year ended December 31, 2011, mainly driven by higher restructuring and impairment charges, continued price pressures and lower volumes in books and directories, partially offset by the acquisition of Bowne and lower incentive compensation expense. Operating margins decreased from 8.5% for the year ended December 31, 2010 to 3.0% for the year ended December 31, 2011, primarily due to higher restructuring and impairment charges. Operating margins also decreased due to higher pass-through paper sales in magazines, catalogs and retail inserts, increased compliance volume in financial print and higher pass-through sales due to growth in print management.

International

The following tables summarize net sales, income from operations and certain items impacting comparability within the International segment:

	Years Ended December 31, 2011	2010
	(in millions, except percentages)	
Net sales	$ 2,764.5	$ 2,486.7
Income from operations	35.4	149.5
Operating margin	1.3%	6.0%
Restructuring and impairment charges net	157.0	50.6

Reporting unit	2011 Net Sales	2010 Net Sales	$ Change	% Change
	(in millions, except percentages)			
Asia	$ 629.6	$ 550.6	$ 79.0	14.3%
Business process outsourcing	574.3	553.4	20.9	3.8%
Latin America	522.4	457.9	64.5	14.1%
Europe	473.4	401.8	71.6	17.8%
Global Turnkey Solutions	290.9	300.6	(9.7)	(3.2%)
Canada	273.9	222.4	51.5	23.2%
Total International	$ 2,764.5	$ 2,486.7	$ 277.8	11.2%

Net sales for the International segment for the year ended December 31, 2011 were $2,764.5 million, an increase of $277.8 million, or 11.2%, compared to 2010. The net sales increase was due to the acquisition of Bowne, increased business in Asia and Latin America, changes in foreign exchange rates of $67.1 million, or 2.7%, as well as higher pass-through paper sales. An analysis of net sales by reporting unit follows:

Asia: Sales increased due to higher domestic sales of catalogs and retail inserts, increased volume from technology manuals and packaging products and changes in foreign exchange rates, partially offset by a decline in capital markets transactions activity and continued price pressures.

Business process outsourcing: Sales increased due to changes in foreign exchange rates and higher pass-through sales, partially offset by lower direct mailings and expiring contracts.

Latin America: Sales increased due to increased commercial print volumes in Argentina, Chile and Mexico, higher sales of books in Brazil and Chile, as well as changes in foreign exchange rates, partially offset by the continued decline in forms volumes in Brazil and continued price pressures.

Europe: Sales increased due to higher pass-through paper sales, changes in foreign exchange rates, increased commercial print volume and the acquisition of Bowne, partially offset by lower prices, as well as a decrease in technology and telecommunications packaging and directories volume.

Global Turnkey Solutions: Sales decreased due to lower volume from existing customers and an expiring contract, partially offset by volume increases from a new customer contract and other existing customers.

Canada: Sales increased due to the acquisition of Bowne and changes in foreign exchange rates, partially offset by a decline in capital markets transactions activity and lower forms volume.

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Income from operations decreased $114.1 million for the year ended December 31 2011, primarily due to higher impairment charges and continued price pressure, partially offset by the acquisition of Bowne. Operating margins decreased from 6.0% for the year ended December 31, 2010 to 1.3% for the year ended December 31, 2011, primarily due to higher impairment charges, increased pass-through paper sales in Europe and lower prices, partially offset by higher volume.

Corporate

The following table summarizes unallocated operating expenses and certain items impacting comparability within the activities presented as Corporate:

	Years Ended December 31, 2011	2010
	(in millions)	
Operating expenses	$ 203.1	$ 232.9
Restructuring and impairment charges net	5.7	13.3
Acquisition-related expenses	2.2	13.5
Gain on pension curtailment	38.7	

Corporate operating expenses for the year ended December 31, 2011 were $203.1 million, a decrease of $29.8 million compared to 2010. The decrease was primarily driven by a gain on pension curtailment of $38.7 million, largely offset by higher pension plan and other benefits-related expenses. The decrease was also due to a lower bad debt provision, as well as a decline in acquisition-related and incentive compensation expenses, partially offset by an increase in information technology costs related to recent acquisitions and higher workers compensation expense.

RESTRUCTURING AND IMPAIRMENT CHARGES

2012	Employee Terminations	Other Charges	Total Restructuring	Impairment	Total
			(in millions)		
U.S. Print and Related Services	$ 48.5	$ 18.8	$ 67.3	$ 951.4	$ 1,018.7
International	11.4	3.8	15.2	74.0	89.2
Corporate	6.7	2.7	9.4	1.2	10.6
	$ 66.6	$ 25.3	$ 91.9	$ 1,026.6	$ 1,118.5

During 2012, the Company recorded net restructuring and impairment charges of $1,118.5 million. These charges included $848.4 million for the impairment of goodwill for the magazines, catalogs and retail inserts and books and directories reporting units within the U.S. Print and Related Services segment and the Europe reporting unit within the International segment. In addition, the Company recorded non-cash charges of $158.0 million related to the impairment of acquired customer relationship intangible assets in the books and directories and magazines, catalogs and retail inserts reporting units within the U.S. Print and Related Services segment and the Latin America reporting unit within the International segment. The Company also recorded $20.2 million of impairment charges, primarily related to machinery and equipment associated with facility closings and other asset disposals. For the year ended December 31, 2012, the Company recorded $66.6 million for workforce reductions of 2,200 employees (2,146 of whom were terminated as of December 31, 2012) associated with actions resulting from the reorganization of sales and administrative functions across all segments, the closing of five manufacturing facilities within the U.S. Print and Related Services segment and one manufacturing facility

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within the International segment and the reorganization of certain operations. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $25.3 million.

2011	Employee Terminations	Other Charges	Total Restructuring (in millions)	Impairment	Total
U.S. Print and Related Services	$ 49.2	$ 52.5	$ 101.7	$ 403.4	$ 505.1
International	24.2	7.0	31.2	125.8	157.0
Corporate	3.3	0.1	3.4	2.3	5.7
	$ 76.7	$ 59.6	$ 136.3	$ 531.5	$ 667.8

During 2011, the Company recorded net restructuring and impairment charges of $667.8 million. These charges included $392.3 million for the impairment of goodwill within the commercial and forms and labels reporting units, reflected in the U.S. Print and Related Services segment and the Canada and Latin America reporting units within the International segment. In addition, these charges included $90.7 million primarily related to impairment of the acquired customer relationship intangible assets in the forms and labels reporting unit within the U.S. Print and Related Services segment, as well as $48.5 million of impairment charges, primarily for land, buildings, machinery and equipment and leasehold improvements associated with facility closings. These charges also included $76.7 million for workforce reductions of 2,899 employees (substantially all of whom were terminated as of December 31, 2012) associated with actions resulting from the reorganization of certain operations. These charges are primarily related to the closings of certain facilities and headcount reductions due to the Bowne acquisition. In addition, these charges related to the closing of five manufacturing facilities within the U.S. Print and Related Services segment. These actions also included the reorganization of certain operations within the within the U.S. Print and Related Services and International segments. Additionally, the Company incurred other restructuring charges, including lease termination and other facility closure costs of $59.6 million, of which $15.1 million related to multi-employer pension complete or plan partial withdrawal charges primarily due to the closing of three manufacturing facilities.

2010	Employee Terminations	Other Charges	Total Restructuring (in millions)	Impairment	Total
U.S. Print and Related Services	$ 5.9	$ 24.0	$ 29.9	$ 64.1	$ 94.0
International	17.9	4.5	22.4	28.2	50.6
Corporate	12.1	1.0	13.1	0.2	13.3
	$ 35.9	$ 29.5	$ 65.4	$ 92.5	$ 157.9

During 2010, the Company recorded net restructuring and impairment charges of $157.9 million. These charges included $61.0 million for the impairment of goodwill within the forms and labels reporting unit in the U.S. Print and Related Services segment, $26.9 million for the impairment of acquired customer relationship intangible assets in the Global Turnkey Solutions reporting unit within the International segment and $4.6 million for the impairment of other long-lived assets. Additionally, these charges included $35.9 million related to workforce reductions of 1,458 employees (all of whom were terminated as of December 31, 2012), associated with actions resulting from reorganization of certain operations. These actions included the reorganization of certain operations within the U.S. Print and Related Services segment due to the acquisition of Bowne. In addition, these actions included the closing of three manufacturing facilities within the International segment. Further, continuing charges resulting from the closing of two manufacturing facilities in 2009 within the International segment were recorded in 2010. These actions also included the reorganization of certain operations and the closing of one manufacturing facility within the U.S. Print and Related Services segment. Finally, the Company recorded $29.5 million of other restructuring charges, of which $13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment, as well as lease termination and other facility closure costs.

The Company made cash payments of $101.4 million, $104.2 million and $158.1 million for restructuring activities during the years ended December 31, 2012, 2011 and 2010, respectively. Of the $158.1 million paid in 2010, $95.8 million related to the termination of a significant long-term customer contract. These outlays were all funded using cash generated from operations and cash on hand.

In 2013, the Company expects to realize further cost savings associated with the restructuring actions taken in 2012, primarily through reduced employee and facility costs. Restructuring actions included the reorganization of sales and administrative functions across all segments as well as the closures of six manufacturing facilities during the year ended December 31, 2012. In addition, the Company expects to identify other cost reduction opportunities within both current and newly acquired businesses and possibly take further actions in 2013, which may result in significant additional restructuring charges. These restructuring actions will be funded by cash generated from operations and cash on hand or, if necessary, the Company will fund these costs by utilizing its credit facilities.

LIQUIDITY AND CAPITAL RESOURCES

The following describes the Company s cash flows for the years ended December 31, 2012, 2011 and 2010.

Cash Flows From Operating Activities

Operating cash inflows are largely attributable to sales of the Company s products and services. Operating cash outflows are largely attributable to recurring expenditures for raw materials, labor, rent, interest, taxes and other operating activities.

2012 compared to 2011

Net cash provided by operating activities was $691.9 million for the year ended December 31, 2012, compared to $946.3 million for the year ended December 31, 2011. The decrease in cash provided by operating activities primarily resulted from higher pension and other postretirement benefit plan contributions, lower net sales and the timing of cash collections, and payments related to the Company s reinstated 401(k) match. These decreases were partially offset by lower incentive compensation payments in the first quarter of 2012 (for incentives earned in 2011) compared to 2011 (for incentives earned in 2010) and shifts in the timing of payments to suppliers.

2011 compared to 2010

Net cash provided by operating activities was $946.3 million for the year ended December 31, 2011, compared to $752.5 million for the year ended December 31, 2010. The increase in operating cash flow reflected improvements in working capital management, including the benefits of process and systems integration efforts related to the Bowne acquisition, improved credit and collections efforts, inventory reductions and increased standardization of vendor payment terms. The increase in operating cash flow also reflected the $57.5 million payment in January 2010 related to the termination of a long-term customer contract in 2009 and lower income tax payments. These increases were partially offset by higher incentive compensation payments in the first quarter of 2011 (for incentives earned in 2010) compared to 2010 (for incentives earned in 2009) due to better operating results in 2010 as compared to the operating results of 2009. Additionally, the payments for incentives earned in 2009 were deferred equally over four years, while the incentives earned in 2010 were fully paid in 2011. Further decreases were due to restructuring and pension payments related to the Bowne acquisition and higher interest payments primarily related to the June 2010 issuance of $400.0 million of long-term senior notes. Higher interest payments were also due to increased borrowings under the Previous Credit Agreement in 2011 used to finance the Company s ASR, as well as higher interest rates and commitment fees related to the rating actions of credit rating agencies, as compared to the Company s borrowings under the previous $2.0 billion unsecured and committed revolving credit facility in place in 2010.

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Cash Flows From Investing Activities

2012 compared to 2011

Net cash used in investing activities for the year ended December 31, 2012 was $284.8 million compared to $375.4 million for the year ended December 31, 2011. Capital expenditures for the year ended December 31, 2012 were $205.9 million, a decrease of $45.0 million compared to 2011. The Company also recorded cash proceeds from the sale of investments and other assets of $50.7 million during the year ended December 31, 2012, primarily related to the sale-leaseback of an office building and related property, compared to $27.2 million during the year ended December 31, 2011. Net cash used for acquisitions during the year ended December 31, 2012 was $126.9 million for the acquisitions of Edgar Online, Meisel, XPO and Presort, compared to $142.4 million for the acquisitions of Helium, Stratus, LibreDigital, Journalism Online, Genesis and Sequence during the year ended December 31, 2011. The Company continues to fund capital expenditures primarily through cash provided by operations.

2011 compared to 2010

Net cash used in investing activities for the year ended December 31, 2011 was $375.4 million compared to $674.5 million for the year ended December 31, 2010. Net cash used for acquisitions during the year ended December 31, 2011 was $142.4 million for the acquisitions of Helium, Stratus, LibreDigital, Journalism Online, Genesis and Sequence, compared to $439.8 million for the acquisitions of Bowne, Nimblefish and 8touches during the year ended December 31, 2010. The Company also used $7.0 million to purchase a long-term investment during the year ended December 31, 2011. During 2010, the Company purchased long-term investments, as well as short-term deposits that were subsequently liquidated, for a net payment of $16.8 million. Capital expenditures for the year ended December 31, 2011 were $250.9 million, an increase of $21.5 million compared to 2010.

Cash Flows From Financing Activities

2012 compared to 2011

Net cash used in financing activities for the year ended December 31, 2012 was $438.0 million compared to $651.0 million for the year ended December 31, 2011. During the year ended December 31, 2012, the Company received proceeds of $450.0 million from the issuance of 8.25% senior notes due March 15, 2019, which, along with cash on hand, were used to repurchase $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015. The Company repaid the $158.6 million of 5.625% senior notes that matured during the first quarter with borrowings under the Previous Credit Agreement. During the year ended December 31, 2011, the Company received proceeds from the issuance of $600.0 million of 7.25% long-term senior notes due May 15, 2018 and paid $500.0 million for the acquisition of the Company s common stock under its accelerated share repurchase, which was entered into during the second quarter of 2011. The Company also paid a total of $493.4 million to repurchase senior notes in the aggregate principal amount of $427.8 million, maturing February 1, 2019, January 15, 2017 and May 15, 2015.

2011 compared to 2010

Net cash used in financing activities for the year ended December 31, 2011 was $651.0 million compared to $58.0 million in 2010. During the year ended December 31, 2011, the Company received proceeds from the issuance of $600.0 million of long-term senior notes and paid $500.0 million for the acquisition of the Company s common stock under its ASR, which was entered into during the second quarter of 2011. The Company also paid a total of $493.4 million to repurchase senior notes in the aggregate principal amount of $427.8 million, maturing February 1, 2019, January 15, 2017 and May 15, 2015. These increases were partially offset by proceeds of $65.0 million received from net borrowings under the Previous Credit Agreement as of December 31, 2011, as compared to $120.0 million for 2010. For the year ended December 31, 2010, the Company received proceeds of $400.0 million from the issuance of long-term senior notes, paid $325.7 million for the May 15, 2010 maturity of senior notes and repaid $27.3 million of debt assumed as part of the 2010 acquisitions.

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Other

The Company s cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the United States. Cash and cash equivalents of $430.7 million as of December 31, 2012 included $65.6 million in the U.S. and $365.1 million at international locations. In 2013, the Company s foreign subsidiaries are expected to make intercompany payments to the U.S. of approximately $80 million from foreign cash balances as of December 31, 2012. These payments will be made in satisfaction of intercompany obligations, and additional payments up to approximately $340 million with respect to these intercompany obligations are expected to be made in future years. The Company has recognized deferred tax liabilities of $9.1 million as of December 31, 2012 related to local withholding taxes on certain foreign earnings that are not considered to be permanently reinvested. Certain other cash balances of foreign subsidiaries may be subject to U.S. or local country income or withholding taxes if repatriated to the U.S. In addition, repatriation of some foreign cash balances is further restricted by local laws. Management regularly evaluates whether foreign cash balances are expected to be permanently reinvested. This evaluation requires judgment about the future operating and liquidity needs of the Company s foreign subsidiaries. Changes in economic and business conditions, foreign or U.S. tax laws, or the Company s financial situation could result in changes to these judgments and the need to record additional tax liabilities.

Included in cash and cash equivalents of $430.7 million at December 31, 2012 were short-term investments in the amount of $96.5 million, which primarily consist of short-term deposits and money market funds. These investments are with institutions with sound credit ratings and are believed to be highly liquid.

Dividends

Cash dividends paid to shareholders totaled $187.1 million, $205.2 million and $214.4 million in 2012, 2011 and 2010, respectively. The Company s Board of Directors must review and approve future dividend payments and will determine whether to declare additional dividends based on the Company s operating performance, expected future cash flows, debt levels, liquidity needs and investment opportunities. On January 10, 2013, the Board of Directors of the Company declared a quarterly cash dividend of $0.26 per common share, payable on March 1, 2013 to shareholders of record on January 25, 2013.

Contractual Cash Obligations and Other Commitments and Contingencies

The following table quantifies the Company s future contractual obligations as of December 31, 2012:

		Payments Due In					
	Total	2013	2014	2015 (in millions)	2016	2017	Thereafter
Debt	$ 3,429.6	$ 18.4	$ 259.2	$ 304.1	$ 350.7	$ 525.0	$ 1,972.2
Interest due on debt(a)	1,522.0	241.0	237.0	224.9	216.6	170.4	432.1
Operating leases(b)	606.1	152.2	117.6	86.2	59.9	45.9	144.3
Pension and other postretirement benefit plan contributions	108.1	23.1	85.0				
Outsourced services	110.7	91.5	13.8	3.8	0.8	0.8	
Incentive compensation	46.6	46.6					
Deferred compensation	95.9	12.3	2.4	2.3	2.1	2.1	74.7
Other	129.3(c)	91.2	13.5	5.6	2.1	2.1	14.8
Total as of December 31, 2012	$ 6,048.3	$ 676.3	$ 728.5	$ 626.9	$ 632.2	$ 746.3	$ 2,638.1

(a) Interest due on debt includes scheduled interest payments, net of $46.5 million of estimated cash receipts from interest rate swaps.
(b) Operating leases include obligations to landlords.

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(c) Other represents contractual obligations for multi-employer pension withdrawal obligations ($25.1 million), employee restructuring-related severance payments ($23.4 million), purchases of property, plant and equipment ($36.6 million), purchases of natural gas ($6.6 million) and contingent consideration ($9.3 million). Additionally, the Company has included $8.4 million of uncertain tax liabilities that are classified as current liabilities in the Consolidated Balance Sheets as payments due in 2013. Excluded from the table are $39.5 million of uncertain tax liabilities, as the Company is unable to reasonably estimate the ultimate amount or timing of settlement or other resolution.

The contractual obligations included above for pension and other postretirement benefit plans include the 2013 and 2014 estimated contribution payments and do not include the obligations for subsequent periods, as the Company is unable to reasonably estimate the ultimate amount.

The minimum annual contributions to the multi-employer pension plans are determined by the terms and conditions of each plan to which the Company contributes. Although the Company cannot currently estimate the amount of multi-employer pension plan contributions that will be required for 2013, the Company expects contributions to be consistent with those of prior years.

LIQUIDITY

The Company believes it has sufficient liquidity to support its ongoing operations and to invest in future growth to create value for its shareholders. Operating cash flows and the Credit Agreement are the Company s primary sources of liquidity and are expected to be used for, among other things, payment of interest and principal on the Company s long term debt obligations, capital expenditures as necessary to support productivity improvement and growth, completion of restructuring programs, acquisitions and distributions to shareholders that may be approved by the Board of Directors.

The Company maintains cash pooling structures that enable participating international locations to draw on the pools cash resources to meet local liquidity needs. Foreign cash balances may be loaned from certain cash pools to U.S. operating entities on a temporary basis in order to reduce the Company s short-term borrowing costs or for other purposes.

On October 15, 2012, the Company entered into a $1.15 billion senior secured revolving credit facility which expires October 15, 2017. Borrowings under this Credit Agreement bear interest at a base or Eurocurrency rate plus an applicable margin determined at the time of the borrowing. In addition, the Company pays facility commitment fees. The applicable margin and rate for the facility commitment fees are set at agreed-upon pricing levels until April 15, 2013 and will thereafter fluctuate dependent on the Credit Agreement s credit ratings. The Credit Agreement replaced the Previous Credit Agreement which was due to expire on December 17, 2013. All amounts outstanding under the Previous Credit Agreement were repaid with borrowings under the Credit Agreement. The Credit Agreement is used for general corporate purposes, including acquisitions and letters of credit. The Company s obligations under the Credit Agreement are guaranteed by material domestic subsidiaries and are secured by a pledge of the equity interests of certain subsidiaries, including most of its domestic subsidiaries, and a security interest in substantially all of the domestic current assets and mortgages of certain domestic real property of the Company.

The Credit Agreement is subject to a number of covenants, including a minimum Interest Coverage Ratio and a maximum Leverage Ratio, as defined and calculated pursuant to the Credit Agreement, that, in part, restrict the Company s ability to incur additional indebtedness, create liens, engage in mergers and consolidations, make restricted payments and dispose of certain assets and may also limit the use of proceeds. The Credit Agreement generally allows annual dividend payments of up to $200.0 million in aggregate, though additional dividends may be allowed subject to certain conditions. As of December 31, 2012, the Company had $71.1 million in outstanding letters of credit, of which $38.9 million reduced the availability under the Credit Agreement. There were no borrowings under the Credit Agreement as of December 31, 2012, leaving approximately $1.1 billion of availability under the Credit Agreement. Based on the Company s results of operations for the year ended December 31, 2012 and existing debt, the Company had the ability to utilize approximately $1.1 billion of availability under the Credit Agreement and not be in violation of the terms of the agreement.

The Company was in compliance with its debt covenants as of December 31, 2012, and expects to remain in compliance based on management s estimates of operating and financial results for 2013 and the foreseeable future. However, continuing declines in market and economic conditions or demand for certain of the Company s products and services could impact the Company s ability to remain in compliance with its debt covenants in future periods. As of December 31, 2012, the Company met all the conditions required to borrow under the Credit Agreement and management expects the Company to continue to meet the applicable borrowing conditions.

The failure of a financial institution supporting the Credit Agreement would reduce the size of the Company s committed facility unless a replacement institution was added. Currently, the Credit Agreement is supported by fifteen U.S. and international financial institutions.

The Company also had $170.0 million in credit facilities outside of the U.S. as of December 31, 2012, most of which were uncommitted. As of December 31, 2012, total borrowings under the Credit Agreement and the Foreign Facilities (the Combined Facilities) were $10.4 million. At December 31, 2012, approximately $1.3 billion was available under the Company s Combined Facilities.

On August 1, 2012, Standard & Poor s Rating Services (S&P) lowered the Company s long-term corporate credit and senior unsecured debt ratings from BB+ with a negative outlook to BB with a stable outlook. On September 19, 2012, S&P assigned a rating of BBB- to the Credit Agreement. On November 6, 2012, S&P reaffirmed Company s long-term corporate credit rating of BB and revised the outlook from stable to negative.

On September 19, 2012, Moody s Investors Service (Moody s) lowered the Company s senior unsecured debt ratings from Ba2 to Ba3, assigned a rating of Baa2 to the Credit Agreement and reaffirmed the Company s long-term corporate family rating of Ba2 with a negative outlook.

As a result of the August 1, 2012 downgrade by S&P, the interest rate on the Company s 11.25% senior notes due February 1, 2019 was increased from 12.0%, as of the June 13, 2012 downgrade by Moody s, to 12.25%. The September 19, 2012 downgrade by Moody s further increased the rate on these notes from 12.25% to 12.50%. Subsequent to April 15, 2013, the applicable margin used in the calculation of interest on borrowings under the Credit Agreement and rate for the related facility commitment fees will fluctuate dependent on the Credit Agreement s credit ratings. The terms and conditions of future borrowings may also be impacted as a result of the ratings downgrades.

Acquisitions

During the three months ended December 31, 2012, the Company paid $37.5 million, net of cash acquired, to purchase Presort and Meisel. During the three months ended September 30, 2012, the Company paid $90.1 million, net of cash acquired, to purchase EDGAR Online and XPO. The Company financed these acquisitions with a combination of cash on hand and borrowings under the Credit Agreement and Previous Credit Agreement.

During the three months ended December 31, 2011, the Company paid $29.0 million, net of cash acquired, to purchase Stratus. During the three months ended September 30, 2011, the Company paid $37.9 million, net of cash acquired, to purchase LibreDigital, Genesis and Sequence. During the three months ended June 30, 2011, the Company paid $55.9 million, net of cash acquired, to purchase the remaining equity of Helium. Additionally, during the three months ended March 31, 2011, the Company paid $19.6 million, net of cash acquired, to purchase Journalism Online. The Company financed the acquisitions with cash on hand.

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During the three months ended December 31, 2010, the Company paid $485.6 million to purchase Bowne, Nimblefish and 8touches. The Company financed all of these acquisitions with cash on hand and through borrowings under the previous $2.0 billion unsecured and committed revolving credit facility.

Debt Issuances

On March 13, 2012, the Company issued $450.0 million of 8.25% senior notes due March 15, 2019. Interest on the notes is payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2012. The net proceeds from the offering and cash on hand were used to repurchase $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015.

On June 1, 2011, the Company issued $600.0 million of 7.25% senior notes due May 15, 2018. Interest on the notes is payable semi-annually on May 15 and November 15 of each year, commencing on November 15, 2011. The net proceeds from the offering were used to repurchase $216.2 million of the 11.25% senior notes due February 1, 2019, $100.0 million of the 6.125% senior notes due January 15, 2017 and $100.0 million of the 5.50% senior notes due May 15, 2015. The remaining net proceeds were used for general corporate purposes and to repay outstanding borrowings under the Previous Credit Agreement. On September 28, 2011, the Company repurchased an additional $11.6 million of the 11.25% senior notes due February 1, 2019.

On June 21, 2010, the Company issued $400.0 million of 7.625% senior notes due June 15, 2020. Interest on the notes is payable semi-annually on June 15 and December 15 of each year. The Company used the net proceeds to repay borrowings under the previous $2.0 billion unsecured and committed revolving credit facility that were drawn on May 13, 2010 and used, together with cash on hand, to repay $325.7 million of senior notes due May 15, 2010. The remaining net proceeds were used for general corporate purposes.

Other Significant Events

On May 3, 2011, the Board of Directors of the Company approved a program that authorized the repurchase of up to $1.0 billion of the Company s common stock through December 31, 2012 and terminated its existing authorization of October 29, 2008 for the repurchase of up to 10 million shares. The repurchase authorizations did not obligate the Company to acquire any particular amount of common stock or adopt any particular method of repurchase.

As part of the share repurchase program, on May 5, 2011, the Company entered into an ASR with an investment bank under which the Company agreed to repurchase $500 million of its common stock. On May 10, 2011, the Company paid the $500 million purchase price and received an initial delivery of 19.9 million shares from the investment bank. The shares delivered were subject to a 20%, or $100.0 million holdback, which resulted in the Company receiving an additional 9.3 million shares on November 17, 2011. The additional shares received were calculated based upon the $17.13 volume weighted average price of the Company s common stock over an averaging period, subject to a discount agreed upon with the investment bank. No other shares were repurchased under this share repurchase program. As of January 1, 2013, no additional shares may be purchased under the May 3, 2011 program, as it expired on December 31, 2012.

Risk Management

The Company is exposed to interest rate risk on its variable-rate debt and price risk on its fixed-rate debt. At December 31, 2012, the Company s exposure to rate fluctuations on variable-interest borrowings was $678.8 million, including $658.0 million notional value of interest rate swap agreements (See Note 14, *Derivatives*, to the Consolidated Financial Statements) and $20.8 million in borrowings under international credit facilities and other long-term debt. Including the effect of the fixed to floating interest rate swaps, approximately 80.3% of the Company s outstanding term debt was comprised of fixed-rate debt as of December 31, 2012.

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The Company is exposed to the impact of foreign currency fluctuations in certain countries in which it operates. The exposure to foreign currency movements is limited in many countries because the operating revenues and expenses of its various subsidiaries and business units are substantially in the local currency of the country in which they operate. To the extent that borrowings, sales, purchases, revenues, expenses or other transactions are not in the local currency of the subsidiary, the Company is exposed to currency risk and may enter into foreign exchange spot and forward contracts to hedge the currency risk. As of December 31, 2012, the aggregate notional amount of outstanding foreign exchange forward contracts was approximately $654.2 million (See Note 14, *Derivatives*, to the Consolidated Financial Statements). Net unrealized losses from these foreign exchange contracts were $23.4 million at December 31, 2012. The Company does not use derivative financial instruments for trading or speculative purposes.

The Company assesses market risk based on changes in interest rates utilizing a sensitivity analysis that measures the potential loss in earnings, fair values and cash flows based on a hypothetical 10% change in interest rates. Using this sensitivity analysis, such changes would not have a material effect on interest income or expense and cash flows and would change the fair values of fixed rate debt at December 31, 2012 by approximately $114.2 million.

OTHER INFORMATION

Environmental, Health and Safety

For a discussion of certain environmental, health and safety issues involving the Company, see Note 10, *Commitments and Contingencies,* to the Consolidated Financial Statements.

Litigation and Contingent Liabilities

For a discussion of certain litigation involving the Company, see Note 10, *Commitments and Contingencies,* to the Consolidated Financial Statements.

New Accounting Pronouncements and Pending Accounting Standards

During 2012, 2011 and 2010, the Company adopted various accounting standards. See Note 21, *New Accounting Pronouncements*, to the Consolidated Financial Statements for a description of the accounting standards adopted during 2012.

Pending standards and their estimated effect on the Company s consolidated financial statements are described in Note 21, *New Accounting Pronouncements*, to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Market Risk

The Company is exposed to interest rate risk on its variable-rate debt, price risk on its fixed-rate debt and the impact of foreign currency fluctuations in certain countries in which it operates. The Company discusses risk management in various places throughout this document, including discussions in Item 7 concerning Liquidity and Capital Resources and in the Notes to Consolidated Financial Statements (Note 14, *Derivatives*).

Credit Risk

The Company is exposed to credit risk on accounts receivable balances. This risk is mitigated due to the Company s large, diverse customer base, dispersed over various geographic regions and industrial sectors. No single customer comprised more than 10% of the Company s consolidated net sales in 2012, 2011 or 2010. The Company maintains provisions for potential credit losses and any such losses to date have normally been within

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the Company s expectations. The Company evaluates the solvency of its customers on an ongoing basis to determine if additional allowances for doubtful accounts need to be recorded. Additional economic disruptions or a further slowdown in the economy could result in significant additional charges.

Commodities

The primary raw materials used by the Company are paper and ink. To reduce price risk caused by market fluctuations, the Company has incorporated price adjustment clauses in certain sales contracts. Management believes a hypothetical 10% change in the price of paper and other raw materials would not have a significant effect on the Company s consolidated annual results of operations or cash flows because these costs are generally passed through to its customers.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial information required by Item 8 is contained in Item 15 of Part IV.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(e) of the Securities Exchange Act of 1934, the Company s management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of December 31, 2012, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures as of December 31, 2012 were effective in ensuring information required to be disclosed in our SEC reports was recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Report of Management on Internal Control Over Financial Reporting

The management of the Company, including the Company s Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

Management of the Company, including the Company s Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company s internal control over financial reporting as of December 31,

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2012. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management determined that, as of December 31, 2012, the Company maintained effective internal control over financial reporting.

Deloitte & Touche LLP, an independent registered public accounting firm, who audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K , has also audited the effectiveness of the Company s internal control over financial reporting as stated in its report appearing below.

February 26, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

R.R. Donnelley & Sons Company

Chicago, Illinois

We have audited the internal control over financial reporting of R.R. Donnelley & Sons Company and subsidiaries (the Company) as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated February 26, 2013 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

February 26, 2013

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ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF R.R. DONNELLEY & SONS COMPANY AND CORPORATE GOVERNANCE

Information regarding directors and executive officers of the Company is incorporated herein by reference to the descriptions under Proposal 1: Election of Directors, The Board s Committees and their Functions and Section 16(a) Beneficial Ownership Reporting Compliance of our Proxy Statement for the Annual Meeting of Shareholders scheduled to be held May 23, 2013 (the 2013 Proxy Statement). See also the information with respect to our executive officers at the end of Part I of this Report under the caption Executive Officers of R.R. Donnelley & Sons Company.

The Company has adopted a policy statement entitled *Code of Ethics* that applies to our chief executive officer and our senior financial officers. In the event that an amendment to, or a waiver from, a provision of the *Code of Ethics* is made or granted, the Company intends to post such information on its web site, *www.rrdonnelley.com*. A copy of our *Code of Ethics* has been filed as Exhibit 14 to the Company s Report on Form 10-K for the fiscal year ended December 31, 2003.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive and director compensation is incorporated by reference to the material under the captions Compensation Discussion and Analysis, Human Resources Committee Report, Executive Compensation, Potential Payments Upon Termination or Change in Control, and Director Compensation of the 2013 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the material under the heading Stock Ownership of the 2013 Proxy Statement.

Equity Compensation Plan Information

Information as of December 31, 2012 concerning compensation plans under which RR Donnelley s equity securities are authorized for issuance was as follows:

Equity Compensation Plan Information

Plan Category(a)	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights (in thousands)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(d)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (1)) (in thousands)
	(1)	(2)	(3)
Equity compensation plans approved by security holders(b)	8,864.0	$ 18.92	9,774.0(e)
Equity compensation plans not approved by security holders(c)	148.5	18.80	

Total	9,012.5	$	18.92	9,774.0

(a) Upon the acquisition of Moore Wallace on February 27, 2004, stock options and units outstanding under certain Moore Wallace plans were exchanged for or converted into stock options and units with respect to common stock of the Company. As of December 31, 2012, 47,250 shares were issuable under these plans upon the exercise of stock options with a weighted average exercise price per share of $16.73. Information regarding these awards is not included in the table.

(b) Includes 4,333,613 shares issuable upon the vesting of restricted stock units.

(c) Represents the 2000 Broad-Based Incentive Plan.

(d) Restricted stock units were excluded when determining the weighted-average exercise price of outstanding options, warrants and rights.

(e) All of these shares are available for issuance under the 2012 Performance Incentive Plan. The 2012 Performance Incentive Plan allows grants in the form of cash or bonus awards, stock options, stock appreciation rights, restricted stock, stock units or combinations thereof. The maximum number of shares of common stock that may be granted with respect to bonus awards, including performance awards or fixed awards in the form of restricted stock or other form, is 10,000,000 in the aggregate, of which 9,773,952 remain available for issuance.

2000 Broad-Based Stock Incentive Plan

In 2000, the Board of Directors approved the adoption of the 2000 Broad-Based Stock Incentive Plan (2000 Broad-Based Plan) to provide incentives to key employees of the Company and its subsidiaries. Awards under the 2000 Broad-Based Plan were generally not restricted to any specific form or structure and could include, without limitation, stock options, stock units, restricted stock awards, cash or stock bonuses and stock appreciation rights. The 2000 Broad-Based Plan is administered by the Human Resources Committee of the Board of Directors, which may delegate its responsibilities to the chief executive officer or another executive officer. The 2000 Broad-Based Plan was terminated in February 2004 and no new awards may be made under the plan.

Originally, 2,000,000 shares of RR Donnelley common stock were reserved and authorized for issuance under the 2000 Broad-Based Plan. An additional 3,000,000 shares (for an aggregate of 5,000,000 shares) were subsequently reserved and authorized for issuance under the 2000 Broad-Based Plan. As of December 31, 2012, options to purchase 148,494 shares of common stock were outstanding under the 2000 Broad-Based Plan. These options have a purchase price equal to the fair market value of a share of common stock at the time of the grant. All of the outstanding options generally vest over a period of three years, are not exercisable unless vested (subject in some cases to early vesting and exercisability upon specified events, including the death or permanent disability of the optionee, termination of the optionee s employment under specified circumstances or a change in control) and generally expire ten years after the date of grant. No awards other than options were made under the 2000 Broad-Based Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence is incorporated herein by reference to the material under the heading Certain Transactions, The Board s Committees and Their Functions and Corporate Governance Independence of Directors of the 2013 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accounting fees and services is incorporated herein by reference to the material under the heading The Company s Independent Registered Public Accounting Firm of the 2013 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements
The financial statements listed in the accompanying index (page F-1) to the financial statements are filed as part of this Annual Report on Form 10-K.

(b) Exhibits
The exhibits listed on the accompanying index (pages E-1 through E-3) are filed as part of this Annual Report on Form 10-K.

(c) Financial Statement Schedules omitted
Certain schedules have been omitted because the required information is included in the consolidated financial statements and notes thereto or because they are not applicable or not required.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 26th day of February 2013.

R.R. DONNELLEY & SONS COMPANY

By: /s/ DANIEL N. LEIB
Daniel N. Leib

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 26th day of February 2013.

Signature and Title	Signature and Title
/s/ THOMAS J. QUINLAN, III **Thomas J. Quinlan, III** **President and Chief Executive Officer, Director** ***(Principal Executive Officer)***	/s/ THOMAS S. JOHNSON* **Thomas S. Johnson** **Director**
/s/ DANIEL N. LEIB **Daniel N. Leib** **Executive Vice President and Chief Financial Officer** ***(Principal Financial Officer)***	/s/ RICHARD K. PALMER* **Richard K. Palmer** **Director**
/s/ ANDREW B. COXHEAD **Andrew B. Coxhead** **Senior Vice President and Chief Accounting Officer** ***(Principal Accounting Officer)***	/s/ JOHN C. POPE* **John C. Pope** **Director**
/s/ SUSAN M. CAMERON* **Susan M. Cameron** **Director**	/s/ MICHAEL T. RIORDAN* **Michael T. Riordan** **Director**
/s/ LEE A. CHADEN* **Lee A. Chaden** **Director**	/s/ OLIVER R. SOCKWELL* **Oliver R. Sockwell** **Director**
/s/ RICHARD L. CRANDALL* **Richard L. Crandall** **Director**	/s/ STEPHEN M. WOLF* **Stephen M. Wolf** **Chairman of the Board, Director**
/s/ JUDITH H. HAMILTON*	

Judith H. Hamilton

Director

By: /s/ SUZANNE S. BETTMAN
Suzanne S. Bettman

As Attorney-in-Fact

* By Suzanne S. Bettman as Attorney-in-Fact pursuant to Powers of Attorney executed by the directors listed above, which Powers of Attorney have been filed with the Securities and Exchange Commission

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ITEM 15(a). INDEX TO FINANCIAL STATEMENTS

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R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Year Ended December 31, 2012	2011	2010
Net sales			
Products	$ 8,835.1	$ 9,375.1	$ 8,956.4
Services	1,386.8	1,235.9	1,062.5
Total net sales	10,221.9	10,611.0	10,018.9
Products cost of sales (exclusive of depreciation and amortization)	6,874.2	7,185.2	6,857.8
Services cost of sales (exclusive of depreciation and amortization)	1,014.8	906.6	785.1
Selling, general and administrative expenses (exclusive of depreciation and amortization)	1,102.6	1,236.3	1,123.4
Restructuring and impairment charges net (Note 3)	1,118.5	667.8	157.9
Depreciation and amortization	481.6	549.9	539.2
Total operating expenses	10,591.7	10,545.8	9,463.4
Income (loss) from operations	(369.8)	65.2	555.5
Interest expense net (Note 13)	251.8	243.3	222.6
Investment and other expense (income) net	2.3	(10.6)	9.9
Loss on debt extinguishment	16.1	69.9	
Earnings (loss) before income taxes	(640.0)	(237.4)	323.0
Income tax expense (benefit) (Note 12)	13.6	(116.3)	105.9
Net earnings (loss)	(653.6)	(121.1)	217.1
Less: Income (loss) attributable to noncontrolling interests	(2.2)	1.5	(4.6)
Net earnings (loss) attributable to RR Donnelley common shareholders	$ (651.4)	$ (122.6)	$ 221.7
Net earnings (loss) per share attributable to RR Donnelley common shareholders (Note 15):			
Basic net earnings (loss) per share	$ (3.61)	$ (0.63)	$ 1.07
Diluted net earnings (loss) per share	$ (3.61)	$ (0.63)	$ 1.06
Weighted average number of common shares outstanding (Note 15):			
Basic	180.4	193.8	206.4
Diluted	180.4	193.8	209.7

See accompanying Notes to Consolidated Financial Statements.

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R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	Year Ended December 31,		
	2012	**2011**	**2010**
Net earnings (loss)	$ (653.6)	$ (121.1)	$ 217.1
Other comprehensive income (loss), net of tax (Note 16):			
Translation adjustments	11.4	(70.1)	12.6
Adjustment for net periodic pension and other postretirement benefit plan cost	(177.6)	(303.1)	42.0
Change in fair value of derivatives	0.5	0.7	0.3
Other comprehensive income (loss)	(165.7)	(372.5)	54.9
Comprehensive income (loss)	(819.3)	(493.6)	272.0
Less: comprehensive income (loss) attributable to noncontrolling interests	(2.0)	1.9	(4.3)
Comprehensive income (loss) attributable to RR Donnelley common shareholders	$ (817.3)	$ (495.5)	$ 276.3

See accompanying Notes to Consolidated Financial Statements.

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R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)

CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 430.7	$ 449.7
Receivables, less allowances for doubtful accounts of $49.6 in 2012 (2011 $62.6) (Note 5)	1,878.8	1,844.2
Inventories (Note 6)	510.2	510.9
Prepaid expenses and other current assets	157.7	163.8
Total current assets	2,977.4	2,968.6
Property, plant and equipment net (Note 7)	1,616.6	1,854.6
Goodwill (Note 4)	1,436.4	2,222.1
Other intangible assets net (Note 4)	382.9	590.3
Deferred income taxes (Note 12)	445.1	273.8
Other noncurrent assets	404.3	372.3
Total assets	$ 7,262.7	$ 8,281.7
LIABILITIES		
Accounts payable	$ 1,210.3	$ 1,063.3
Accrued liabilities (Note 9)	825.2	817.0
Short-term and current portion of long-term debt (Note 13)	18.4	243.7
Total current liabilities	2,053.9	2,124.0
Long-term debt (Note 13)	3,420.2	3,416.8
Pension liabilities (Note 11)	1,150.5	1,076.3
Other postretirement plan benefits (Note 11)	241.7	227.3
Other noncurrent liabilities	327.7	375.1
Total liabilities	7,194.0	7,219.5
Commitments and Contingencies (Note 10)		
EQUITY		
RR Donnelley shareholders equity		
Preferred stock, $1.00 par value		
Authorized: 2.0 shares; Issued: None		
Common stock, $1.25 par value		
Authorized: 500.0 shares;		
Issued: 243.0 shares in 2012 and 2011	303.7	303.7
Additional paid-in-capital	2,839.4	2,888.7
Retained earnings (accumulated deficit)	(496.1)	342.4
Accumulated other comprehensive loss	(1,029.2)	(863.3)
Treasury stock, at cost, 62.6 shares in 2012 (2011 64.5 shares)	(1,565.0)	(1,628.8)
Total RR Donnelley shareholders equity	52.8	1,042.7

Noncontrolling interests	15.9	19.5
Total equity	68.7	1,062.2
Total liabilities and equity	$ 7,262.7	$ 8,281.7

See accompanying Notes to Consolidated Financial Statements.

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R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions, except per share data)

	Year Ended December 31, 2012	2011	2010
OPERATING ACTIVITIES			
Net earnings (loss)	$ (653.6)	$ (121.1)	$ 217.1
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Impairment charges	1,027.1	532.0	92.5
Depreciation and amortization	481.6	549.9	539.2
Provision for doubtful accounts receivable	8.7	18.8	22.8
Share-based compensation	25.4	28.3	28.6
Deferred income taxes	(52.0)	(123.0)	(34.6)
Change in uncertain tax positions	(26.4)	(107.8)	(42.6)
Gain on investments and other assets net	(1.0)	(16.0)	(1.8)
Loss related to Venezuela currency devaluation			8.9
Loss on debt extinguishment	16.1	69.9	
Net pension and other postretirement benefit plan (income) expense	(42.4)	61.6	49.1
Gain on pension curtailment	(3.7)	(38.7)	(0.4)
Other	41.7	27.3	47.5
Changes in operating assets and liabilities net of acquisitions:			
Accounts receivable net	(5.7)	38.3	(152.1)
Inventories	6.5	43.1	31.0
Prepaid expenses and other current assets	4.0	(1.8)	8.2
Accounts payable	120.8	135.4	17.7
Income taxes payable and receivable	6.5	9.5	15.0
Accrued liabilities and other	(113.0)	(104.8)	(44.8)
Pension and other postretirement benefit plan contributions	(148.7)	(54.6)	(48.8)
Net cash provided by operating activities	691.9	946.3	752.5
INVESTING ACTIVITIES			
Capital expenditures	(205.9)	(250.9)	(229.4)
Acquisitions of businesses, net of cash acquired	(126.9)	(142.4)	(439.8)
Proceeds from return of capital and sale of investments and other assets	50.7	27.2	26.1
Purchases of other investments	(2.5)	(7.0)	(31.7)
Transfers (to) from restricted cash net	(0.2)	(2.3)	0.3
Net cash used in investing activities	(284.8)	(375.4)	(674.5)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	450.0	600.0	400.0
Net change in short-term debt	(1.4)	10.7	(3.8)
Payments of current maturities and long-term debt	(625.2)	(495.1)	(355.2)
Net payments of credit facility borrowings	(65.0)	(55.0)	
Net proceeds from credit facility borrowings			120.0
Proceeds from termination of interest rate swaps	11.0		
Debt issuance costs	(23.6)	(10.0)	(12.2)
Issuance of common stock	4.9	7.1	9.2
Acquisition of common stock		(500.0)	
Dividends paid	(187.1)	(205.2)	(214.4)

Distributions to noncontrolling interests	(1.6)	(3.5)	(1.6)
Net cash used in financing activities	(438.0)	(651.0)	(58.0)
Effect of exchange rate on cash and cash equivalents	11.9	10.7	(0.1)
Net (decrease) increase in cash and cash equivalents	(19.0)	(69.4)	19.9
Cash and cash equivalents at beginning of year	449.7	519.1	499.2
Cash and cash equivalents at end of year	$ 430.7	$ 449.7	$ 519.1
Supplemental non-cash disclosure:			
Proceeds deposited in escrow from sale of property	$ 8.3	$	$
Use of restricted cash to pay restructuring costs			38.3

See accompanying Notes to Consolidated Financial Statements.

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R.R. DONNELLEY & SONS COMPANY AND SUBSIDIARIES (RR DONNELLEY)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in millions)

	Common Stock		Additional Paid-in-Capital	Treasury Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total RR Donnelley s Shareholders Equity	Noncontrolling Interests	Total Equity
	Shares	Amount		Shares	Amount					
Balance at January 1, 2010	243.0	$ 303.7	$ 2,906.2	(37.3)	$ (1,193.8)	$ 662.9	$ (545.0)	$ 2,134.0	$ 27.0	$ 2,161.0
Net earnings (loss)						221.7		221.7	(4.6)	217.1
Other comprehensive income (loss)							54.6	54.6	0.3	54.9
Share-based compensation			0.8	1.3	36.3			37.1		37.1
Withholdings for share-based awards and other				(0.4)	(8.7)			(8.7)		(8.7)
Cash dividends paid						(214.4)		(214.4)		(214.4)
Distributions to noncontrolling interests									(1.6)	(1.6)
Balance at December 31, 2010	243.0	$ 303.7	$ 2,907.0	(36.4)	$ (1,166.2)	$ 670.2	$ (490.4)	$ 2,224.3	$ 21.1	$ 2,245.4
Net earnings (loss)						(122.6)		(122.6)	1.5	(121.1)
Other comprehensive income (loss)							(372.9)	(372.9)	0.4	(372.5)
Share-based compensation			28.3					28.3		28.3
Issuance of share-based awards, net of withholdings and other			(46.6)	1.1	37.4			(9.2)		(9.2)
Cash dividends paid						(205.2)		(205.2)		(205.2)
Acquisition of common stock				(29.2)	(500.0)			(500.0)		(500.0)
Distributions to noncontrolling interests									(3.5)	(3.5)
Balance at December 31, 2011	243.0	$ 303.7	$ 2,888.7	(64.5)	$ (1,628.8)	$ 342.4	$ (863.3)	$ 1,042.7	$ 19.5	$ 1,062.2
Net earnings (loss)						(651.4)		(651.4)	(2.2)	(653.6)
Other comprehensive income (loss)							(165.9)	(165.9)	0.2	(165.7)
Share-based compensation			25.4					25.4		25.4
Issuance of share-based awards, net of withholdings and other			(74.7)	1.9	63.8			(10.9)		(10.9)
Cash dividends paid						(187.1)		(187.1)		(187.1)
Distributions to noncontrolling interests									(1.6)	(1.6)
Balance at December 31, 2012	243.0	$ 303.7	$ 2,839.4	(62.6)	$ (1,565.0)	$ (496.1)	$ (1,029.2)	$ 52.8	$ 15.9	$ 68.7

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated)

Note 1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation The accompanying consolidated financial statements include the accounts of R.R. Donnelley & Sons Company and its subsidiaries (the Company or RR Donnelley) and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions have been eliminated in consolidation. The accounts of businesses acquired during 2012, 2011 and 2010 are included in the consolidated financial statements from the dates of acquisition (see Note 2).

Nature of Operations The Company is a global provider of integrated communications which works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions that reduce costs, drive top line growth, enhance return on investment and ensure compliance. Drawing on a range of proprietary and commercially available digital and conventional technologies deployed across four continents, the Company employs a suite of leading Internet-based capabilities and other resources to provide premedia, printing, logistics and business process outsourcing services to clients in virtually every private and public sector.

Use of Estimates The preparation of consolidated financial statements, in conformity with GAAP, requires the extensive use of management s estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates. Estimates are used when accounting for items and matters including, but not limited to, allowance for uncollectible accounts receivable, inventory obsolescence, asset valuations and useful lives, employee benefits, self-insurance reserves, taxes, restructuring and other provisions and contingencies.

Foreign Operations Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rates existing at the respective balance sheet dates. Income and expense items are translated at the average rates during the respective periods. Translation adjustments resulting from fluctuations in exchange rates are recorded as a separate component of other comprehensive income (loss) while transaction gains and losses are recorded in net earnings (loss). Deferred taxes are not provided on cumulative foreign currency translation adjustments when the Company expects foreign earnings to be permanently reinvested. Throughout the three years ended December 31, 2012, the three-year cumulative inflation for Venezuela using the blended Consumer Price Index and National Consumer Price Index exceeded 100%. As a result, Venezuela s economy is considered highly inflationary and the financial statements of the Company s Venezuelan entities are remeasured as if the functional currency were the U.S. Dollar. Consistent with historical practices and the Company s future intent, the financial statements were remeasured based on the official rate determined by the government of Venezuela. On January 8, 2010, the government of Venezuela changed its primary fixed exchange rate from 2.15 Bolivars per U.S. Dollar to 4.3 Bolivars per U.S. Dollar, devaluing the Bolivar by 50%. This devaluation resulted in a pre-tax loss of $8.9 million ($8.1 million after-tax) and a reduction in income attributable to noncontrolling interest of $3.6 million.

Fair Value Measurements Certain assets and liabilities are required to be recorded at fair value on a recurring basis. Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company records the fair value of its foreign exchange forward contracts, interest rate swaps, pension plan assets and other postretirement plan assets on a recurring basis. Assets measured at fair value on a nonrecurring basis include long-lived assets held and used, long-lived assets held for sale, goodwill and other intangible assets. The fair value of cash and cash equivalents, accounts receivable, short-term debt and accounts payable approximate their carrying values. The three-tier value hierarchy, which prioritizes valuation methodologies based on the reliability of the inputs, is:

Level 1 Valuations based on quoted prices for identical assets and liabilities in active markets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

Level 2 Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs reflecting the Company s own assumptions, consistent with reasonably available assumptions made by other market participants.

Revenue Recognition The Company recognizes revenue for the majority of its products upon transfer of title and the passage of the risk of ownership, which is generally upon shipment to the customer. Contracts generally specify F.O.B. shipping point terms. Under agreements with certain customers, custom products may be stored by the Company for future delivery. In these situations, the Company may also receive a logistics or warehouse management fee for the services it provides. In certain of these cases, delivery and billing schedules are outlined in the customer agreement and product revenue is recognized when manufacturing is complete, title and risk of ownership transfer to the customer, and there is a reasonable assurance as to collectability. Because the majority of products are customized, product returns are not significant; however, the Company accrues for the estimated amount of customer credits at the time of sale.

During the year ended December 31, 2012, the Company identified and recognized $22.7 million, of which $19.8 million was recognized in the first quarter of 2012, to correct an over-accrual for rebates owed to certain office products customers, which understated accounts receivable and net sales during the years 2008 through 2011. Following qualitative and quantitative review, the Company concluded that the over-accrual was not material to any prior period, the full year 2012 or to the trend of annual operating results.

Revenue from services is recognized as services are performed. Within the Company s financial print operations, which serve the global financial services end market, the Company produces highly customized materials such as regulatory S-filings, initial public offerings, XBRL and EDGAR-related services. Revenue is recognized for these services following final delivery of the printed product or upon completion of the service performed. With respect to the Company s logistics operations, whose operations include the delivery of printed material and other products, the Company recognizes revenue upon completion of the delivery of services. Revenues related to the Company s premedia operations, which include digital content management, photography, color services and page production, are recognized in accordance with the terms of the contract, typically upon completion of the performed service and acceptance by the customer.

Certain revenues earned by the Company require judgment to determine if revenue should be recorded gross as a principal or net of related costs as an agent. Billings for third-party shipping and handling costs, primarily in the Company s logistics operations, and out-of-pocket expenses are recorded gross. In the Company s Global Turnkey Solutions operations, contracts are evaluated using various criteria to determine if revenue for components and other materials should be recognized on a gross or net basis. In general, these revenues are recognized on a gross basis if the Company has control over selecting vendors and pricing, is the primary obligor in the arrangement, bears all credit risk and bears the risk of loss for inventory in its possession. Revenue from contracts that do not meet these criteria is recognized on a net basis. Many of the Company s operations process materials, primarily paper, that may be supplied directly by customers or may be purchased by the Company and sold to customers. No revenue is recognized for customer-supplied paper, but revenues for Company-supplied paper are recognized on a gross basis.

The Company records deferred revenue in situations where amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met.

The Company records taxes collected from customers and remitted to governmental authorities on a net basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

By-product recoveries The Company records the sale of by-products as a reduction of cost of sales.

Cash and cash equivalents The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Short-term securities consist of investment grade instruments of governments, financial institutions and corporations.

Receivables Receivables are stated net of allowances for doubtful accounts and primarily include trade receivables, notes receivable and miscellaneous receivables from suppliers. No single customer comprised more than 10% of the Company s consolidated net sales in 2012, 2011 or 2010. Specific customer provisions are made when a review of significant outstanding amounts, utilizing information about customer creditworthiness and current economic trends, indicates that collection is doubtful. In addition, provisions are made at differing rates, based upon the age of the receivable and the Company s historical collection experience. See Note 5 for details of activity affecting the allowance for doubtful accounts.

Inventories Inventories include material, labor and factory overhead and are stated at the lower of cost or market. The cost of approximately 64.0% and 65.7% of the inventories at December 31, 2012 and 2011, respectively, has been determined using the Last-In, First-Out (LIFO) method. This method reflects the effect of inventory replacement costs within results of operations; accordingly, charges to cost of sales reflect recent costs of material, labor and factory overhead. The Company uses an external-index method of valuing LIFO inventories. The remaining inventories, primarily related to certain acquired and international operations, are valued using the First-In, First-Out (FIFO) or specific identification methods.

Long-lived Assets The Company assesses potential impairments to its long-lived assets if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indefinite-lived intangible assets are reviewed annually for impairment, or more frequently, if events or changes in circumstances indicate that the carrying value may not be recoverable. An impaired asset is written down to its estimated fair value based upon the most recent information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Long-lived assets, other than goodwill and other intangible assets, that are held for sale are recorded at the lower of the carrying value or the fair market value less the estimated cost to sell.

Property, plant and equipment Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives. Useful lives range from 15 to 40 years for buildings, the lesser of 7 years or the lease term for leasehold improvements and from 3 to 15 years for machinery and equipment. Maintenance and repair costs are charged to expense as incurred. Major overhauls that extend the useful lives of existing assets are capitalized. When properties are retired or disposed, the costs and accumulated depreciation are eliminated and the resulting profit or loss is recognized in the results of operations.

Goodwill Goodwill is reviewed for impairment annually as of October 31 or more frequently if events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is below its carrying value. For certain reporting units, the Company may perform a qualitative, rather than quantitative, assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In performing this qualitative analysis, the Company considers various factors, including the excess of prior year estimates of fair value compared to carrying value, the effect of market or industry changes and the reporting units actual results compared to projected results. Based on this qualitative analysis, if management determines that it is more likely than not that the fair value of the reporting unit is greater than its carrying value, no further impairment testing is performed.

For the remaining reporting units, the Company compares each reporting unit s fair value, estimated based on comparable company market valuations and expected future discounted cash flows to be generated by the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

reporting unit, to its carrying value. If the carrying value exceeds the reporting unit s fair value, the Company performs an additional fair value measurement calculation to determine the impairment loss, which is charged to operations in the period identified. See Note 3 for further discussion.

Amortization Certain costs to acquire and develop internal-use computer software are capitalized and amortized over their estimated useful life using the straight-line method, up to a maximum of five years. Amortization expense, primarily related to internally-developed software and excluding amortization expense related to other intangible assets, was $26.6 million, $21.8 million and $15.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. Deferred debt issue costs are amortized over the term of the related debt. Identifiable intangible assets, except for those intangible assets with indefinite lives, are recognized apart from goodwill and are amortized over their estimated useful lives. Identifiable intangible assets with indefinite lives are not amortized. See Note 4 for further discussion of other intangible assets and the related amortization expense.

Financial Instruments The Company uses derivative financial instruments to hedge exposures to interest rate and foreign exchange fluctuations in the ordinary course of business.

All derivatives are recorded as other current or noncurrent assets or other current or noncurrent liabilities on the balance sheet at their respective fair values with unrealized gains and losses recorded in comprehensive income (loss), net of applicable income taxes, or in the results of operations, depending on the purpose for which the derivative is held. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in the results of operations. Changes in the fair value of derivatives that do not meet the criteria for designation as a hedge at inception, or fail to meet the criteria thereafter, are recognized currently in the results of operations. At inception of a hedge transaction, the Company formally documents the hedge relationship and the risk management objective for undertaking the hedge. In addition, the Company assesses, both at inception of the hedge and on an ongoing basis, whether the derivative in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item and whether the derivative is expected to continue to be highly effective. The impact of any ineffectiveness is recognized currently in the results of operations. See Note 14 for further discussion.

Share-Based Compensation The Company recognizes share-based compensation expense based on estimated fair values for all share-based awards made to employees and directors, including stock options, restricted stock units and performance share units. The Company recognizes compensation expense for share-based awards expected to vest on a straight-line basis over the requisite service period of the award based on their grant date fair value. See Note 17 for further discussion.

Pension and Other Postretirement Benefit Plans The Company records annual income and expense amounts relating to its pension and other postretirement benefit plans based on calculations which include various actuarial assumptions, including discount rates, mortality, assumed rates of return, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of modifications on the value of plan obligations and assets is recognized immediately within other comprehensive income (loss) and amortized into operating earnings over future periods. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience, market conditions and input from its actuaries and investment advisors. See Note 11 for further discussion.

Taxes on Income Deferred taxes are provided using an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company is regularly audited by foreign and domestic tax authorities. These audits occasionally result in proposed assessments where the ultimate resolution might result in the Company owing additional taxes, including in some cases, penalties and interest. The Company recognizes a tax position in its financial statements when it is more likely than not (*i.e.,* a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. This recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Although management believes that its estimates are reasonable, the final outcome of uncertain tax positions may be materially different from that which is reflected in the Company s financial statements. The Company adjusts such reserves upon changes in circumstances that would cause a change to the estimate of the ultimate liability, upon effective settlement or upon the expiration of the statute of limitations, in the period in which such event occurs. See Note 12 for further discussion.

Comprehensive Income (Loss) Comprehensive income (loss) for the Company consists of net earnings (loss), unrecognized actuarial gains and losses, prior service cost for pension and other postretirement benefit plans, changes in the fair value of certain derivative financial instruments and foreign currency translation adjustments. See Note 16 for further discussion.

Note 2. Acquisitions

2012 Acquisitions

On December 28, 2012, the Company acquired Presort Solutions (Presort), a provider of mail presorting services to businesses in various industries. The acquisition of Presort will expand the range of logistics co-mailing capabilities that the Company can provide to its customers and will enhance its integrated offerings. The purchase price for Presort was $12.1 million, net of cash acquired of $0.6 million. Presort s operations are included in the U.S. Print and Related Services segment.

On December 17, 2012, the Company acquired Meisel Photographic Corporation (Meisel), a provider of custom designed visual graphics products to the retail market. The acquisition of Meisel will expand and enhance the range of services the Company offers to its customers. The purchase price for Meisel was $25.4 million, net of cash acquired of $1.0 million. Meisel s operations are included in the U.S. Print and Related Services segment.

On September 6, 2012, the Company acquired Express Postal Options International (XPO), a provider of international outbound mailing services to pharmaceutical, e-commerce, financial services, information technology, catalog, direct mail and other businesses. The acquisition of XPO expanded the range of logistics capabilities that the Company can provide to its customers and enhanced its integrated offerings. The purchase price for XPO, which includes the Company s estimate of contingent consideration, was $23.5 million, net of cash acquired of $1.0 million. The former owners of XPO may receive contingent consideration in the form of cash payments of up to $4.0 million subject to XPO achieving certain gross profit targets. As of the acquisition date, the Company estimated the fair value of the contingent consideration to be $3.5 million using a probability weighting of the potential payouts. Subsequent changes in the estimated contingent consideration from the final purchase price allocation will be recognized in selling, general and administrative expenses in the Consolidated Statements of Operations. XPO s operations are included in the U.S. Print and Related Services segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

On August 14, 2012, the Company acquired EDGAR Online, a leading provider of disclosure management services, financial data and enterprise risk analytics software and solutions. The acquisition of EDGAR Online expanded and enhanced the range of services that the Company offers to its customers. The purchase price for EDGAR Online was $71.5 million, including debt assumed of $1.4 million and net of cash acquired of $2.1 million. Immediately following the acquisition, the Company repaid the $1.4 million of debt assumed. EDGAR Online s operations are included in the U.S. Print and Related Services segment.

For the year ended December 31, 2012, the Company recorded $2.5 million of acquisition-related expenses associated with acquisitions completed or contemplated, within selling, general and administrative expenses in the Consolidated Statements of Operations.

The Presort, Meisel, XPO and EDGAR Online acquisitions were recorded by allocating the cost of the acquisitions to the assets acquired, including other intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost of the acquisitions and the fair value of the contingent consideration over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill. The preliminary tax deductible goodwill related to these acquisitions was $25.8 million. The Presort and Meisel purchase price allocations are preliminary as the Company is still in the process of obtaining data to finalize the estimated fair values of certain account balances. The purchase price allocations of XPO and EDGAR Online are final. Based on the current valuations, the purchase price allocations for these acquisitions were as follows:

Accounts receivable	$ 18.7
Inventories	1.4
Prepaid expenses and other current assets	4.6
Property, plant and equipment	8.3
Amortizable other intangible assets	36.4
Other noncurrent assets	15.1
Goodwill	57.9
Accounts payable and accrued liabilities	(20.2)
Other noncurrent liabilities	(0.1)
Deferred taxes-net	10.4
Total purchase price-net of cash acquired	132.5
Less: debt assumed	1.4
Less: fair value of contingent consideration	3.5
Net cash paid	$ 127.6

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The fair values of technology, amortizable other intangible assets, contingent consideration and goodwill associated with the acquisitions of Presort, Meisel, XPO and EDGAR Online were determined to be Level 3 under the fair value hierarchy. The following table presents the fair value, valuation techniques and related unobservable inputs for these Level 3 measurements:

	Fair Value	Valuation Technique	Unobservable Input	Range
Customer relationships	$ 29.9	Excess earnings, with and without method	Discount rate	16.0% - 17.0%
			Attrition rate	7.0% - 20.0%
Technology	14.5	Excess earnings, relief-from-royalty method, cost approach	Discount rate	16.0% - 17.0%
			Obsolescence factor	10.0% - 20.0%
			Royalty rate (after-tax)	4.5%
Trade names	3.5	Relief-from-royalty method	Discount rate	15.5% - 17.0%
			Royalty rate (after-tax)	0.3% - 1.2%
Non-compete agreements	3.0	With and without method	Discount rate	16.5% - 17.5%
Contingent consideration	3.5	Probability weighted discounted future cash flows	Discount rate	4.5%

2011 Acquisitions

On November 21, 2011, the Company acquired StratusGroup, Inc. (Stratus), a full service manufacturer of custom pressure sensitive label and paperboard packaging products for health and beauty, food, beverage and other segments. Stratus decorative labeling and paperboard resources complement the Company s prime label, corrugated and other global packaging capabilities. The purchase price for Stratus was $28.8 million net of cash acquired of $0.1 million. Stratus operations are included in the U.S. Print and Related Services segment.

On September 6, 2011, the Company acquired Genesis Packaging & Design Inc. (Genesis), a full service provider of custom packaging, including designing, printing, die cutting, finishing and assembling. The addition of Genesis complements the Company s existing packaging and merchandising business with a centrally located facility and enhanced ability to service customers in a range of industries. The purchase price for Genesis was $10.1 million. Genesis operations are included in the U.S. Print and Related Services segment.

On August 16, 2011, the Company acquired LibreDigital, Inc. (LibreDigital), a leading provider of digital content distribution, e-reading software, content conversion, data analytics and business intelligence services. LibreDigital s capabilities enable the Company to offer a broader selection of digital content creation and delivery services to publishing, retail, e-reader provider and other customers. The purchase price for LibreDigital was $19.5 million net of cash acquired of $0.1 million. LibreDigital s operations are included in the U.S. Print and Related Services segment.

On August 15, 2011, the Company acquired Sequence Personal LLC (Sequence), a provider of proprietary software that enables readers to select relevant content to be digitally produced as specialized publications. Sequence s software offers publishers and other customers a practical way to increase revenues by allowing advertisers to select unique ad selection criteria for targeted delivery. The purchase price for Sequence, which includes the Company s estimate of contingent consideration, was $14.6 million, net of cash acquired of $0.1 million. A former equity holder of Sequence may receive contingent consideration in the form of cash payments of up to $14.0 million, subject to Sequence achieving certain milestones related to volume or revenue in 2013 and 2014. As of the acquisition date, the Company estimated the fair value of the contingent consideration to be $6.8 million using a probability weighting of the potential payouts. The Company has subsequently revised the estimated fair value of the contingent consideration as the result of a decrease in the

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(In millions, except per share data and unless otherwise indicated) (Continued)

likelihood of achieving the 2013 and 2014 milestones. The adjustment to the fair value of the contingent consideration was recognized in selling, general and administrative expenses in the Consolidated Statements of Operations. Any further changes in the estimated contingent consideration will also be recognized in the Consolidated Statements of Operations. Sequence s operations are included in the U.S. Print and Related Services segment.

On June 21, 2011, the Company acquired Helium, Inc. (Helium), an online community offering publishers, catalogers and other customers stock and custom content, as well as a comprehensive range of editorial solutions. The ability to bundle Helium s content development solutions with the Company s complete offering of content delivery resources addresses customers needs across the full breadth of the supply chain. As the Company previously held a 23.7% equity investment in Helium, the purchase price for the remaining equity of Helium was $57.0 million net of cash acquired of $0.1 million and included an amount due from Helium of $1.1 million. The fair value of the Company s previously held equity investment was $12.8 million, resulting in the recognition of a $10.0 million gain, which is reflected in investment and other expense (income) in the Consolidated Statements of Operations for the year ended December 31, 2011. The fair value of the previously held equity investment was determined based on the purchase price paid for the remaining equity less an estimated control premium. The inputs used to determine the fair value of the previously held equity investment were determined to be Level 3 under the fair value hierarchy. Helium s operations are included in the U.S. Print and Related Services segment.

On March 24, 2011, the Company acquired Journalism Online, LLC (Journalism Online), an online provider of tools that allow consumers to purchase online subscriptions from publishers. Journalism Online s Press+ offering provides subscription management and online content payment services that increase the breadth of services the Company offers to its existing base of publishing customers. The purchase price for Journalism Online was $19.6 million net of cash acquired of $0.4 million. Journalism Online s operations are included in the U.S. Print and Related Services segment.

For the year ended December 31, 2011, the Company recorded $2.2 million of acquisition-related expenses, associated with acquisitions completed or contemplated, within selling, general and administrative expenses in the Consolidated Statements of Operations.

The Stratus, Genesis, LibreDigital, Sequence, Helium and Journalism Online acquisitions were recorded by allocating the cost of the acquisitions to the assets acquired, including other intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost of the acquisitions and the fair value of the previously-held investments in Helium and contingent consideration over the net amounts assigned to the fair

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(In millions, except per share data and unless otherwise indicated) (Continued)

value of the assets acquired was recorded as goodwill. The tax deductible goodwill related to these acquisitions was $46.7 million. Based on the valuations, the final purchase price allocations for these acquisitions were as follows:

Accounts receivable	$ 6.0
Inventories	2.3
Prepaid expenses and other current assets	0.4
Property, plant and equipment and other noncurrent assets	16.8
Amortizable other intangible assets	16.2
Goodwill	117.6
Accounts payable and accrued liabilities	(8.2)
Other noncurrent liabilities	(2.9)
Deferred taxes-net	14.2
Total purchase price-net of cash acquired	162.4
Less: fair value of Company s previously-held investments in Helium	13.9
Less: fair value of contingent consideration	6.8
Net cash paid	$ 141.7

The fair values of property, plant and equipment, amortizable other intangible assets, contingent consideration and goodwill associated with the acquisitions of Stratus, Genesis, LibreDigital, Sequence, Helium and Journalism Online were determined to be Level 3 under the fair value hierarchy. Property, plant and equipment values were estimated based on discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the equipment and current marketplace conditions. Customer relationships intangible asset values were estimated based on expected future cash flows discounted using an estimated weighted average cost of capital. Estimates of future customer attrition rates were considered in estimating the expected future cash flows from customer relationships. Tradename intangible asset values were estimated based on the relief-from-royalty method.

2010 Acquisitions

On December 31, 2010, the Company acquired 8touches, an online provider of tools that allow real estate associates, brokers, Multiple Listing Service (MLS) associations and other marketers to create customized communications materials. The purchase price for 8touches was $1.1 million. 8touches operations are included in the U.S. Print and Related Services segment.

On December 14, 2010, the Company acquired Nimblefish Technologies (Nimblefish), a provider of multi-channel marketing services to leading retail, technology, telecom, hospitality and other customers. The purchase price for Nimblefish was $3.9 million, including debt assumed of $2.0 million. The Company subsequently repaid $1.9 million of the debt assumed in December 2010. Nimblefish s operations are included in the U.S. Print and Related Services segment.

On November 24, 2010, the Company acquired Bowne & Co., Inc. (Bowne), a provider of shareholder and marketing communication services with operations in North America, Latin America, Europe and Asia. The purchase price for Bowne was $465.2 million, including debt assumed of $26.2 million and net of cash acquired of $41.4 million. Immediately following the acquisition, the Company repaid $25.4 million of the debt assumed. Bowne s operations are included in both the U.S. Print and Related Services and International segments.

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(In millions, except per share data and unless otherwise indicated) (Continued)

The operations of these acquired businesses are complementary to the Company s existing products and services. As a result, the additions of these businesses have improved the Company s ability to serve customers and reduced redundant management, real estate and manufacturing costs. For the year ended December 31, 2010, the Company s Consolidated Financial Statements included $61.2 million of net sales and a net loss of $9.3 million related to these acquired businesses. For the year ended December 31, 2010, the Company recorded $13.5 million of acquisition-related expenses, associated with acquisitions completed or contemplated, within selling, general and administrative expenses in the Consolidated Statements of Operations.

The Bowne, Nimblefish and 8touches acquisitions were recorded by allocating the cost of the acquisitions to the assets acquired, including other intangible assets, based on their estimated fair values at the acquisition date. The excess of the cost of the acquisitions over the net amounts assigned to the fair value of the assets acquired was recorded as goodwill, most of which is not tax deductible. Based on the valuations, the final purchase price allocations for these acquisitions were as follows:

Accounts receivable	$ 129.0
Inventories	32.1
Prepaid expenses and other current assets	18.1
Property, plant and equipment and other noncurrent assets	127.3
Amortizable other intangible assets	159.8
Goodwill	257.9
Accounts payable and accrued liabilities	(159.7)
Pension benefits and other noncurrent liabilities	(76.7)
Deferred taxes net	(17.6)
Total purchase price net of cash acquired	470.2
Less: debt assumed	28.2
Net cash paid	$ 442.0

The fair values of property, plant and equipment, amortizable other intangible assets and goodwill associated with the acquisitions of Bowne, Nimblefish and 8touches were determined to be Level 3 under the fair value hierarchy. Property, plant and equipment values were estimated using the cost approach or market approach, if a secondhand market existed. Customer relationships intangible asset values were estimated based on expected future cash flows discounted using an estimated weighted-average cost of capital. Estimates of future customer attrition rates were considered in estimating the expected future cash flows from customer relationships. The tradename intangible asset value was estimated based on the relief-from-royalty method.

Pro forma results

The following unaudited pro forma financial information for the years ended December 31, 2012 and 2011 presents the combined results of operations of the Company and the 2012 and 2011 acquisitions described above, as if the 2012 acquisitions had occurred at January 1, 2011 and the 2011 acquisitions had occurred at January 1, 2010.

The unaudited pro forma financial information is not intended to represent or be indicative of the Company s consolidated results of operations or financial condition that would have been reported had these acquisitions been completed as of the beginning of the periods presented and should not be taken as indicative of

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the Company s future consolidated results of operations or financial condition. Pro forma adjustments are tax-effected at the applicable statutory tax rates.

	2012	2011
Net sales	$ 10,461.1	$ 10,837.1
Net loss attributable to RR Donnelley common shareholders	(641.8)	(149.5)
Net loss per share attributable to RR Donnelley common shareholders:		
Basic	$ (3.56)	$ (0.77)
Diluted	$ (3.56)	$ (0.77)

The unaudited pro forma financial information for the years ended December 31, 2012 and 2011 included $92.6 million and $122.8 million, respectively, for the amortization of purchased intangibles. The unaudited pro forma financial information includes restructuring and impairment charges from operations of $1,115.8 million and $670.0 million for the years ended December 31, 2012 and 2011, respectively. Additionally, the pro forma adjustments affecting net loss attributable to RR Donnelley common shareholders for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Depreciation and amortization of purchased assets, pre-tax	$ (6.3)	$ (12.9)
Acquisition-related expenses, pre-tax	4.8	1.2
Restructuring and impairment charges, pre-tax	2.7	(2.2)
Inventory fair value adjustments, pre-tax	0.3	(0.2)
Other pro forma adjustments, pre-tax	0.1	(14.3)
Income taxes	(3.6)	12.4

Note 3. Restructuring and Impairment

The Company recorded restructuring and impairment charges of $1,118.5 million, $667.8 million and $157.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. The charges in 2012 included $848.4 million and $158.0 million for the impairment of goodwill and acquired customer relationship intangible assets, respectively. Additionally in 2012, the Company recorded restructuring charges of $66.6 million for employee termination costs, $25.3 million for other restructuring charges, primarily attributable to lease termination and other facility closure costs, and $20.2 million of impairment charges for other long-lived assets. The charges in 2011 included $392.3 million for the impairment of goodwill and $90.7 million of impairment primarily related to acquired customer relationship intangible assets. Additionally in 2011, the Company recorded restructuring charges of $76.7 million for employee termination costs, $59.6 million for other restructuring charges, of which $15.1 million related to multi-employer pension plan complete or partial withdrawal charges primarily attributable to the closing of three manufacturing facilities within the U.S. Print and Related Services segment and the remaining amount related to lease termination and other facility closure costs, and $48.5 million of impairment charges for other long-lived assets. The charges in 2010 included $87.9 million for the impairment of goodwill and acquired customer relationship intangible assets. Additionally in 2010, the Company recorded restructuring charges of $35.9 million for employee termination costs, $29.5 million for other restructuring charges, of which $13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment and the remaining amount related to lease termination and other facility closure costs, and $4.6 million of impairment charges for other long-lived assets.

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The restructuring charges recorded are based on restructuring plans that have been committed to by management and are, in part, based upon management s best estimates of future events. Changes to the estimates may require future adjustments to the restructuring liabilities.

Restructuring and Impairment Costs Charged to Results of Operations

2012	Employee Terminations	Other Charges	Total Restructuring	Impairment	Total
U.S. Print and Related Services	$ 48.5	$ 18.8	$ 67.3	$ 951.4	$ 1,018.7
International	11.4	3.8	15.2	74.0	89.2
Corporate	6.7	2.7	9.4	1.2	10.6
	$ 66.6	$ 25.3	$ 91.9	$ 1,026.6	$ 1,118.5

In the fourth quarter of 2012, as a result of the Company s annual goodwill impairment test, the Company recorded non-cash charges of $461.7 million and $318.7 million to recognize the impairment of goodwill in the magazines, catalogs and retail inserts and books and directories reporting units, respectively, within the U.S. Print and Related Services segment and $68.0 million of non-cash charges to recognize goodwill impairment in the Europe reporting unit within the International segment. The goodwill impairment charges resulted from a reduction in the estimated fair value of these three reporting units based on lower expectations for future revenue, profitability and cash flows as compared to expectations as of the last annual goodwill impairment test. The lower expectations for magazines, catalogs and retail inserts were due to price pressures driven by excess capacity in the industry and erosion of ad pages and circulation for magazines. The lower expectations for books and directories were due to lower demand for educational books as a result of state and local budget constraints, the impact of electronic substitution on consumer book and directory volumes and price pressures driven by excess capacity in the industry. The lower expectations for Europe were due to lower volumes from existing customers and price pressures driven by excess capacity in the industry. Because the fair values of these reporting units were below their carrying amounts, including goodwill, the Company performed an additional fair value measurement calculation to determine the amount of impairment charge for each reporting unit. As part of this calculation, the Company also estimated the fair values of the significant tangible and intangible long-lived assets of each reporting unit. The goodwill impairment charges were determined using Level 3 inputs, including discounted cash flow analyses, comparable marketplace fair value data and management s assumptions in valuing the significant tangible and intangible assets.

During the fourth quarter of 2012, the Company recorded non-cash charges of $158.0 million related to the impairment of acquired customer relationship intangible assets in the books and directories and magazines, catalogs and retail inserts reporting units within the U.S. Print and Related Services segment and the Latin America reporting unit within the International segment. The impairment of the acquired customer relationship intangible assets resulted from lower expectations for future revenue to be derived from these relationships, driven by the same factors that caused the goodwill impairment in the books and directories and magazines, catalogs and retail inserts reporting units and driven by the impact of electronic substitution on forms and statement printing in the Latin America reporting unit. The impairment of the acquired customer relationship intangible assets was determined using Level 3 inputs and estimated based on cash flow analysis, which included estimates of customer attrition rates and management s assumptions related to future revenues and profitability. After recording the impairment charges, remaining customer relationship intangible assets in the books and directories, magazines, catalogs and retail inserts and Latin America reporting units were $3.1 million, $22.8 million and $8.0 million, respectively, as of December 31, 2012. See Note 8 for further discussion of these Level 3 inputs.

For the year ended December 31, 2012, the Company also recorded net restructuring charges of $66.6 million for employee termination costs for 2,200 employees, of whom 2,146 were terminated as of December 31,

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2012. These charges primarily related to actions resulting from the reorganization of sales and administrative functions across all segments, the closing of five manufacturing facilities within the U.S. Print and Related Services segment and one manufacturing facility within the International segment and the reorganization of certain operations. Additionally, the Company incurred lease termination and other restructuring charges of $25.3 million for the year ended December 31, 2012. For the year ended December 31, 2012, the Company also recorded $20.2 million of impairment charges primarily related to land, buildings, machinery and equipment and leasehold improvements associated with the facility closings and other asset disposals. The fair values of the land, buildings, machinery and equipment and leasehold improvements were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with real estate brokers, review of comparable properties, if available, discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the current marketplace conditions.

2011	**Employee Terminations**	**Other Charges**	**Total Restructuring**	**Impairment**	**Total**
U.S. Print and Related Services	$ 49.2	$ 52.5	$ 101.7	$ 403.4	$ 505.1
International	24.2	7.0	31.2	125.8	157.0
Corporate	3.3	0.1	3.4	2.3	5.7
	$ 76.7	$ 59.6	$ 136.3	$ 531.5	$ 667.8

In the fourth quarter of 2011, as a result of the Company s annual goodwill impairment test, the Company recorded non-cash charges of $170.4 million and $99.9 million to recognize the impairment of goodwill in the commercial and forms and labels reporting units, respectively, within the U.S. Print and Related Services segment, as well as non-cash charges of $62.2 million and $59.8 million to recognize the impairment of goodwill in the Canada and Latin America reporting units, respectively, within the International segment. These goodwill impairment charges resulted from reductions in the estimated fair value of the commercial, forms and labels, Canada and Latin America reporting units, based on lower expectations for future revenue, profitability and cash flows due to the continued impact of electronic substitution on demand for business forms and other products and continued price pressure. Because the fair values of these reporting units were below their carrying amounts, including goodwill, the Company performed an additional fair value measurement calculation to determine the amount of impairment loss. As part of this calculation, the Company also estimated the fair value of the significant tangible and intangible long-lived assets of these reporting units. The goodwill impairments were determined using Level 3 inputs, including discounted cash flow analyses, comparable marketplace fair value data and management s assumptions in valuing the significant tangible and intangible assets.

Additionally, during the fourth quarter of 2011, the Company recorded non-cash charges of $90.7 million primarily related to the impairment of acquired customer relationship intangible assets in the forms and labels reporting unit within the U.S. Print and Related Services segment. The impairment of the acquired customer relationship intangible assets resulted from lower expectations for future revenue, profitability and cash flows due to the continued impact of electronic substitution on demand for business forms and continued price pressure. The impairment of the acquired customer relationship intangible assets was determined using Level 3 inputs and estimated based on cash flow analysis, which included estimates of customer attrition rates and management s assumptions related to future revenues and profitability. After recording the impairment charge, the remaining customer relationship intangible asset in the forms and labels reporting unit was $12.2 million as of December 31, 2011, related to the acquisition of Stratus on November 21, 2011.

For the year ended December 31, 2011, the Company also recorded net restructuring charges of $76.7 million for employee termination costs for 2,899 employees, substantially all of whom were terminated as of December 31, 2012. These charges primarily related to the closings of certain facilities and headcount reductions due to the Bowne acquisition. These charges also related to the closing of five manufacturing facilities within the

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U.S. Print and Related Services segment. These actions included the reorganization of certain operations within the U.S. Print and Related Services and International segments. Additionally, the Company incurred multi-employer pension plan complete or partial withdrawal charges, lease termination and other restructuring charges of $59.6 million for the year ended December 31, 2011. The multi-employer pension plan complete or partial withdrawal charges of $15.1 million were primarily attributable to the closing of three manufacturing facilities within the U.S. Print and Related Services segment. For the year ended December 31, 2011, the Company also recorded $48.5 million of impairment charges primarily related to land, buildings, machinery and equipment and leasehold improvements associated with the facility closings. The fair values of the land, buildings, machinery and equipment and leasehold improvements were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with real estate brokers, review of comparable properties, if available, discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the current marketplace conditions.

2010	**Employee Terminations**	**Other Charges**	**Total Restructuring**	**Impairment**	**Total**
U.S. Print and Related Services	$ 5.9	$ 24.0	$ 29.9	$ 64.1	$ 94.0
International	17.9	4.5	22.4	28.2	50.6
Corporate	12.1	1.0	13.1	0.2	13.3
	$ 35.9	$ 29.5	$ 65.4	$ 92.5	$ 157.9

In the fourth quarter of 2010, as a result of the Company s annual impairment test, the Company recorded a non-cash charge of $61.0 million to reflect the impairment of goodwill in the forms and labels reporting unit within the U.S. Print and Related Services segment. The goodwill impairment charge of $61.0 million resulted from reductions in the estimated fair value of the forms and labels reporting unit, based on lower expectations for future revenue and cash flows due to the continued impacts of electronic substitution on forms demand and increasing price pressure. In addition, the lower fair value reflected higher estimated spending on information technology and capital equipment, in part to better position this reporting unit for increased growth in labels volume as forms demand continues to decline. Because the fair value of this reporting unit was below its carrying amount including goodwill, the Company performed an additional fair value measurement calculation to determine the amount of impairment loss. As part of this calculation, the Company also estimated the fair value of the significant tangible and intangible long-lived assets of this reporting unit. The goodwill impairment was determined using Level 3 inputs, including discounted cash flow analyses, comparable marketplace fair value data, as well as management s assumptions in valuing the significant tangible and intangible assets.

Additionally, during the third quarter of 2010, the Company recorded a non-cash charge of $26.9 million for the impairment of acquired customer relationship intangible assets in the Global Turnkey Solutions reporting unit within the International segment. The impairment of the acquired customer relationship intangible assets primarily resulted from the termination of a customer contract and was determined using Level 3 inputs and estimated based on cash flow analysis and management s assumptions related to future revenues and profitability of certain customers. After recording the impairment charge, remaining customer relationship intangible assets in the Global Turnkey Solutions reporting unit were $43.0 million as of December 31, 2010.

For the year ended December 31, 2010, the Company recorded net restructuring charges of $35.9 million for employee termination costs for 1,458 employees, all of whom were terminated as of December 31, 2012, associated with actions resulting from the reorganization of certain operations. These actions included the reorganization of certain operations within the U.S. Print and Related Services segment due to the acquisition of Bowne. In addition, these actions included the closing of three manufacturing facilities within the International segment. Further, continuing charges resulting from the closing of two manufacturing facilities in 2009 within the International segment were recorded in 2010. These actions also included the reorganization of certain

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operations within the U.S. Print and Related Services segment. Additionally, the Company incurred other restructuring charges of $29.5 million for the year ended December 31, 2010, of which $13.6 million related to multi-employer pension plan partial withdrawal charges primarily attributable to two closed manufacturing facilities within the U.S. Print and Related Services segment. The remaining charges included lease termination and other facility closure costs partially offset by gains on the sales of two previously closed facilities within both the International and U.S. Print and Related Services segment. Finally, for the year ended December 31, 2010, the Company recorded $4.6 million of impairment charges primarily for machinery and equipment and leasehold improvements associated with the facility closings. The fair values of the machinery and equipment and leasehold improvements were determined to be Level 3 under the fair value hierarchy and were estimated based on discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the equipment and current marketplace conditions.

Restructuring Reserve

Activity impacting the Company s restructuring reserve for the year ended December 31, 2012 was as follows:

	December 31, 2011	Restructuring Charges	Foreign Exchange and Other	Cash Paid	December 31, 2012
Employee terminations	$ 27.2	$ 66.6	$ (1.7)	$ (68.7)	$ 23.4
Multi-employer pension withdrawal obligations	27.9	(0.4)		(2.4)	25.1
Lease terminations and other	32.6	25.7	2.0	(30.3)	30.0
Total	$ 87.7	$ 91.9	$ 0.3	$ (101.4)	$ 78.5

The current portion of restructuring reserves of $35.8 million was included in accrued liabilities at December 31, 2012, while the long-term portion of $42.7 million, primarily related to multi-employer pension plan complete or partial withdrawal obligations and lease termination costs, was included in other noncurrent liabilities at December 31, 2012.

The Company anticipates that payments associated with the employee terminations reflected in the above table will be substantially completed by December 2013 and payments on certain of the multi-employer pension plan complete or partial withdrawal obligations are scheduled to be substantially completed by 2031.

As of December 31, 2012, the restructuring liabilities classified as lease terminations and other consisted of lease terminations, other facility closing costs and contract termination costs. Payments on certain of the lease obligations are scheduled to continue until 2026. Market conditions and the Company s ability to sublease these properties could affect the ultimate charge related to the lease obligations. Any potential recoveries or additional charges could affect amounts reported in the Consolidated Financial Statements of future periods.

Activity impacting the Company s restructuring reserve for the year ended December 31, 2011 was as follows:

	December 31, 2010	Restructuring Charges	Foreign Exchange and Other	Cash Paid	December 31, 2011
Employee terminations	$ 11.2	$ 76.7	$ (0.5)	$ (60.2)	$ 27.2
Multi-employer pension withdrawal obligations	13.6	15.1		(0.8)	27.9
Lease terminations and other	29.2	44.5	2.1	(43.2)	32.6

Total	$ 54.0	$ 136.3	$ 1.6	$ (104.2)	$ 87.7

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The current portion of restructuring reserves of $43.9 million was included in accrued liabilities at December 31, 2011, while the long-term portion of $43.8 million, primarily related to multi-employer pension plan complete or partial withdrawal obligations and lease termination costs, was included in other noncurrent liabilities at December 31, 2011.

As of December 31, 2011, the restructuring liabilities classified as lease terminations and other consisted of lease terminations, other facility closing costs and contract termination costs.

Note 4. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 were as follows:

	U.S. Print and Related Services	International	Total
Net book value at January 1, 2011			
Goodwill	$ 3,141.7	$ 1,298.5	$ 4,440.2
Accumulated impairment losses	(939.2)	(974.2)	(1,913.4)
Total	2,202.5	324.3	2,526.8
Acquisitions	118.3		118.3
Foreign exchange and other adjustments	(17.4)	(13.3)	(30.7)
Impairment charges	(270.3)	(122.0)	(392.3)
Net book value at December 31, 2011			
Goodwill	3,242.6	1,278.4	4,521.0
Accumulated impairment losses	(1,209.5)	(1,089.4)	(2,298.9)
Total	2,033.1	189.0	2,222.1
Acquisitions	57.9		57.9
Foreign exchange and other adjustments	(1.3)	6.1	4.8
Impairment charges	(780.4)	(68.0)	(848.4)
Net book value at December 31, 2012			
Goodwill	3,299.2	1,321.5	4,620.7
Accumulated impairment losses	(1,989.9)	(1,194.4)	(3,184.3)
Total	$ 1,309.3	$ 127.1	$ 1,436.4

In the fourth quarters of 2012 and 2011, the Company recorded non-cash charges of $848.4 million and $392.3 million, respectively, to reflect impairment of goodwill. See Note 3 for further discussion regarding these impairment charges.

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The components of other intangible assets at December 31, 2012 and 2011 were as follows:

	December 31, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	$ 731.1	$ (388.0)	$ 343.1	$ 1,164.4	$ (613.6)	$ 550.8
Patents	98.3	(98.1)	0.2	98.3	(95.8)	2.5
Trademarks, licenses and agreements	31.7	(26.1)	5.6	28.7	(24.4)	4.3
Trade names	27.1	(11.2)	15.9	23.9	(9.3)	14.6
Total amortizable other intangible assets	888.2	(523.4)	364.8	1,315.3	(743.1)	572.2
Indefinite-lived trade names	18.1		18.1	18.1		18.1
Total other intangible assets	$ 906.3	$ (523.4)	$ 382.9	$ 1,333.4	$ (743.1)	$ 590.3

The gross carrying amount and accumulated amortization for customer relationships were adjusted as of December 31, 2012 to reflect the impairment of certain customer relationships recognized in periods prior to December 31, 2011. This adjustment had no impact on the net book value of other intangible assets as reported on the Company s Consolidated Balance Sheet.

In the fourth quarter of 2012, the Company recorded non-cash charges of $152.3 million and $5.7 million to reflect the impairment of acquired customer relationships within the U.S. Print and Related Services and International segments, respectively. In the fourth quarter of 2011, the Company recorded non-cash charges of $90.7 million to reflect the impairment of acquired customer relationships and other intangible assets within the U.S. Print and Related Services segment. See Note 3 for further discussion regarding these impairment charges.

During the years ended December 31, 2012 and 2011, the Company recorded additions to other intangible assets of $36.4 million and $19.9 million, respectively. The components of other intangible assets added during 2012 and 2011 were as follows:

	December 31, 2012		December 31, 2011	
	Amount	Weighted Average Amortization Period	Amount	Weighted Average Amortization Period
Customer relationships	$ 29.9	6.1	$ 14.7	13.9
Trade names	3.5	1.7	1.1	3.5
Trademarks, licenses and agreements	3.0	4.3	4.1	4.5
Total additions	$ 36.4		$ 19.9	

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Amortization expense for other intangible assets was $87.6 million, $112.2 million and $99.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. The following table outlines the estimated future amortization expense related to other intangible assets as of December 31, 2012:

	Amount
2013	$ 64.5
2014	63.6
2015	57.9
2016	39.4
2017	32.9
2018 and thereafter	106.5
Total	$ 364.8

Note 5. Accounts Receivable

Transactions affecting the allowance for doubtful accounts during the years ended December 31, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Balance, beginning of year	$ 62.6	$ 71.0	$ 70.3
Provisions charged to expense	8.7	18.8	22.8
Write-offs and other	(21.7)	(27.2)	(22.1)
Balance, end of year	$ 49.6	$ 62.6	$ 71.0

Note 6. Inventories

The components of the Company s inventories at December 31, 2012 and 2011 were as follows:

	2012	2011
Raw materials and manufacturing supplies	$ 214.2	$ 218.0
Work in process	158.8	171.2
Finished goods	229.3	218.1
LIFO reserve	(92.1)	(96.4)
Total	$ 510.2	$ 510.9

The Company recognized a LIFO benefit of $4.3 million in 2012 and expense of $8.4 million and $10.2 million in 2011 and 2010, respectively.

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Note 7. Property, Plant and Equipment

The components of the Company s property, plant and equipment at December 31, 2012 and 2011 were as follows:

	2012	2011
Land	$ 98.7	$ 107.4
Buildings	1,167.0	1,173.2
Machinery and equipment	6,022.7	6,054.4
	7,288.4	7,335.0
Accumulated depreciation	(5,671.8)	(5,480.4)
Total	$ 1,616.6	$ 1,854.6

On September 20, 2012, the Company entered into a sale-leaseback agreement in which it sold an office building and land at fair market value for net proceeds of $34.2 million, and entered into an operating lease of the property through September 2027. The $7.6 million gain on the sale of the property is being amortized over the remaining life of the lease and is recorded in selling, general and administrative expenses in the Consolidated Statements of Operations.

During the years ended December 31, 2012, 2011 and 2010, depreciation expense was $367.4 million, $415.9 million and $424.6 million, respectively.

Assets Held for Sale

Primarily as a result of restructuring actions, certain facilities and equipment are considered held for sale. The net book value of assets held for sale was $19.2 million and $20.2 million at December 31, 2012 and 2011, respectively. These assets were included in other current assets in the Consolidated Balance Sheets at the lower of their historical net book value or their estimated fair value, less estimated costs to sell.

Note 8. Fair Value Measurement

Certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Company s only assets and liabilities adjusted to fair value on a recurring basis are pension and other postretirement benefit plan assets, foreign exchange forward contracts and interest rate swaps. See Note 11 for the fair value of the Company s pension and other postretirement benefit plan assets as of December 31, 2012 and 2011 and Note 14 for further discussion on the fair value of the Company s foreign exchange forward contracts and interest rate swaps as of December 31, 2012 and 2011.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record certain assets and liabilities at fair value on a nonrecurring basis, generally as a result of acquisitions or the remeasurement of assets resulting in impairment charges. See Note 2 for further discussion on the fair value of assets and liabilities associated with acquisitions. Assets measured at fair value on a

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(In millions, except per share data and unless otherwise indicated) (Continued)

nonrecurring basis subsequent to initial recognition during the years ended December 31, 2012, 2011 and 2010 are summarized below:

2012	Impairment charge	Fair value measurement (Level 3)	Net book value
Long-lived assets held and used	$ 8.0	$ 9.8	$ 8.5
Long-lived assets held for sale or disposal	15.6	16.4	6.3
Goodwill	848.4	18.1	18.1
Other intangible assets	158.0	3.1	3.1
Total	$ 1,030.0	$ 47.4	$ 36.0

2011	Impairment charge	Fair value measurement (Level 3)	Net book value
Long-lived assets held and used	$ 14.7	$ 68.8	$ 61.3
Long-lived assets held for sale or disposal	34.3	12.8	11.7
Goodwill	392.3		
Other intangible assets	90.7	2.2	2.1
Total	$ 532.0	$ 83.8	$ 75.1

2010	Impairment charge	Fair value measurement (Level 3)	Net book value
Long-lived assets held and used	$ 2.2	$ 3.0	$ 2.7
Long-lived assets held for sale or disposal	2.2	3.6	3.5
Goodwill	61.0	102.7	102.7
Other intangible assets	26.9		
Total	$ 92.3	$ 109.3	$ 108.9

For the years ended December 31, 2012 and 2010, the fair values of assets held for sale were reduced by $0.7 million and $0.1 million, respectively, for estimated costs to sell. There were no estimated costs to sell related to long-lived assets held for sale as of December 31, 2011.

During the year ended December 31, 2012, goodwill for the magazines, catalogs and retail inserts, books and directories and Europe reporting units were written down to implied fair values of $18.1 million for magazines, catalogs and retail inserts, and zero for both the books and directories and Europe reporting units, respectively. During the year ended December 31, 2011, goodwill for the commercial, forms and labels, Canada and Latin America reporting units as of October 31, 2011, were written down to implied fair values of zero. As of December 31, 2011, $7.4 million of goodwill remained on the forms and labels reporting unit related to the acquisition of Stratus, which was acquired on November 21, 2011. During the year ended December 31, 2010, goodwill for the forms and labels reporting unit was written down to an implied fair value of $102.7 million.

During the year ended December 31, 2012, certain acquired customer relationship assets related to the books and directories, magazines, catalogs and retail inserts and Latin America reporting units were written down to an implied fair value of $3.1 million for the books and directories reporting unit, and zero for both the magazines, catalogs and retail inserts and Latin America reporting units, respectively. After recording the impairment charges, remaining customer relationship intangible assets in the books and directories, magazines, catalogs and retail inserts and Latin America reporting units were $3.1 million, $22.8 million and $8.0 million, respectively, as

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(In millions, except per share data and unless otherwise indicated) (Continued)

of December 31, 2012. During the year ended December 31, 2011, certain acquired customer relationship assets, substantially all of which were related to the forms and labels reporting unit, were written down to an implied fair value of zero. The remaining acquired customer relationship asset in the forms and labels reporting unit as of December 31, 2011 was $12.2 million related to the acquisition of Stratus on November 21, 2011. Additionally, other intangible assets for the financial print reporting unit were written down to an implied fair value of $2.2 million during the year ended December 31, 2011. During the year ended December 31, 2010, certain acquired customer relationship assets for the Global Turnkey Solutions reporting unit were written down to an implied fair value of zero. After recording the impairment charge, remaining customer relationship assets in the Global Turnkey Solutions reporting unit were $43.0 million as of December 31, 2010. See Note 3 for further discussion regarding the impairment charge.

The Company s accounting and finance management determines the valuation policies and procedures for Level 3 fair value measurements and is responsible for the development and determination of unobservable inputs.

The fair values of the long-lived assets held and used and long-lived assets held for sale or disposal were determined using Level 3 inputs and were estimated based on discussions with real estate brokers, review of comparable properties, if available, discussions with machinery and equipment brokers, dealer quotes and internal expertise related to the current marketplace conditions. Unobservable inputs obtained from third parties are adjusted as necessary for the condition and attributes of the specific asset.

Determination of goodwill impairment was based on Level 3 inputs, which included discounted cash flow analyses, comparable marketplace fair value data, as well as management s assumptions in valuing significant tangible and intangible assets. See Note 3 for further discussion on the factors leading to the recognition of the impairment.

Determinations of other intangible assets impairment charges were based on Level 3 measurements under the fair value hierarchy. The following table presents the fair value, valuation techniques and related unobservable inputs for these Level 3 measurements:

	Fair Value	Valuation Technique	Unobservable Input	Range
Customer relationships	$ 3.1	Excess earnings	Discount rate	12.5%-15.0%
			Attrition rate	2.0%-15.9%

See Note 13 for the fair value of the Company s debt.

Note 9. Accrued Liabilities

The components of the Company s accrued liabilities at December 31, 2012 and 2011 were as follows:

	2012	2011
Employee-related liabilities	$ 266.3	$ 285.8
Deferred revenue	150.8	139.5
Restructuring liabilities	35.8	43.9
Other	372.3	347.8
Total accrued liabilities	$ 825.2	$ 817.0

Employee-related liabilities consist primarily of payroll, incentive compensation, sales commission, workers compensation and employee benefit accruals. Incentive compensation accruals include amounts earned

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(In millions, except per share data and unless otherwise indicated) (Continued)

pursuant to the Company s primary employee incentive compensation plans. Other accrued liabilities include income and other tax liabilities, interest expense accruals and miscellaneous operating accruals.

Note 10. Commitments and Contingencies

As of December 31, 2012, authorized expenditures on incomplete projects for the purchase of property, plant and equipment totaled approximately $77.1 million. Of this total, approximately $36.6 million had been committed. In addition, as of December 31, 2012, the Company had a commitment of $23.4 million for severance payments related to employee restructuring activities. The Company also has contractual commitments of approximately $110.7 million for outsourced services, including technology, professional, maintenance and other services. The Company has a variety of contracts with suppliers for the purchase of paper, ink and other commodities for delivery in future years at prevailing market prices. In addition, the Company has natural gas purchase commitments that are at fixed prices. As of December 31, 2012, the Company was committed to purchase $6.6 million of natural gas under these contracts.

Future minimum rental commitments under operating leases are as follows:

Year Ended December 31	Amount
2013	$ 133.1
2014	101.9
2015	74.7
2016	52.7
2017	41.1
2018 and thereafter	129.2
	$ 532.7

The Company has operating lease commitments totaling $532.7 million extending through various periods to 2044. Rent expense was $143.7 million, $152.7 million and $212.5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Future rental commitments for leases have not been reduced by minimum non-cancelable sublease rentals aggregating approximately $40.5 million. The Company remains secondarily liable under these leases in the event that the sub-lessee defaults under the sublease terms. The Company does not believe that material payments will be required as a result of the secondary liability provisions of the primary lease agreements.

Litigation

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change and are generally not discounted. The Company has been designated as a potentially responsible party in ten active federal and state Superfund and other multiparty remediation sites. In addition to these sites, the Company may also have the obligation to remediate eleven other previously and currently owned facilities. At the Superfund sites, the Comprehensive Environmental Response, Compensation and Liability Act provides that the Company s liability could be joint and several, meaning that the Company could be required to pay an amount in excess of its proportionate share of the remediation costs.

The Company s understanding of the financial strength of other potentially responsible parties at the multiparty sites and of other liable parties at the previously owned facilities has been considered, where

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

appropriate, in the determination of the Company s estimated liability. The Company established reserves, recorded in accrued liabilities and other noncurrent liabilities, that it believes are adequate to cover its share of the potential costs of remediation at each of the multiparty sites and the previously and currently owned facilities. It is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly remediation and other compliance efforts that the Company may undertake in the future. However, in the opinion of management, compliance with the present environmental protection laws, before taking into account estimated recoveries from third parties, will not have a material effect on the Company s consolidated results of operations, financial position or cash flows.

From time to time, the Company s customers and others file voluntary petitions for reorganization under United States bankruptcy laws. In such cases, certain pre-petition payments received by the Company from these parties could be considered preference items and subject to return. In addition, the Company may be party to certain litigation arising in the ordinary course of business. Management believes that the final resolution of these preference items and litigation will not have a material effect on the Company s consolidated results of operations, financial position or cash flows.

Note 11. Retirement Plans

The Company sponsors for the benefit of most of its employees in the U.S., Canada and certain other international locations, various defined benefit retirement income pension plans, including both funded and unfunded arrangements. Further benefit accruals under the primary defined benefit plans maintained by the Company have been frozen. Benefits are generally based upon years of service and compensation. These defined benefit retirement income plans are funded in conformity with the applicable government regulations. The Company funds at least the minimum amount required for all funded plans using actuarial cost methods and assumptions acceptable under government regulations.

On December 20, 2012, the Company announced a freeze on further benefit accruals under its U.K. pension plan as of December 31, 2012. Beginning January 1, 2013, participants ceased earning additional benefits under the plans and no new participants entered these plans. The U.K. plan freeze required a remeasurement of the plan s assets and obligations as of December 31, 2012, which resulted in a non-cash curtailment gain of $3.7 million, which was recognized in the Consolidated Statement of Operations during the fourth quarter of 2012. Additionally, on February 1, 2012, the Company announced a freeze on further benefit accruals under its Canadian pension plans as of March 31, 2012. On November 2, 2011, the Company announced a freeze on further benefit accruals under all of its U.S. pension plans as of December 31, 2011. The remeasurement of the U.S. pension plans assets and obligations as of November 2, 2011, resulted in a non-cash curtailment gain of $38.7 million, which was recognized in the Consolidated Statement of Operations during the fourth quarter of 2011. The remeasurement of the U.S. pension plans assets and obligations also resulted in a reduction in the Company s pension liability of $61.6 million as of December 31, 2011.

The Company also participates in various multi-employer pension plans in the U.S. and makes contributions pursuant to the terms of the applicable collective bargaining agreements. In addition to the pension plans, the Company sponsors a 401(k) savings plan, which is a defined contribution retirement income plan.

Former employees are entitled to certain healthcare and life insurance benefits provided they have met certain eligibility requirements. Generally, the Company s benefits eligible U.S. employees become eligible for these retiree healthcare benefits if they meet all of the following requirements at the time of termination: (a) have attained at least 55 or more points (full years of service and age combined), (b) are at least fifty years of age, (c) have at least two years of continuous, regular, full-time, benefits-eligible service and (d) have completed at least two or more years of continuous service with a participating employer, which ends on their termination

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date. Different requirements need to be met in order to receive subsidized medical and life insurance coverage. Certain of the plan expenses are paid through a tax-exempt trust. Most of the assets of the trust are invested in trust-owned life insurance policies covering certain current and former employees of the Company. The underlying assets of the policies are invested primarily in marketable equity, corporate fixed income and government securities.

On August 3, 2011, the Company announced the decision to convert its current prescription drug program for certain medicare-eligible retirees to a group-based Company sponsored Medicare Part D program, or Employer Group Waiver Program (EGWP), available due to the adoption of the Patient Protection and Affordable Care Act. Beginning January 1, 2013, the EGWP subsidies provided to or for the benefit of this program will be used to reduce the Company s net retiree medical and prescription drug costs on a group by group basis until such net costs of the Company for such group are eliminated, and any EGWP subsidies received in excess of the amount necessary to offset such net costs will be used to reduce the included group of retirees premiums. The Company accounted for this change as a plan amendment requiring remeasurement of plan assets and obligations, which resulted in the Company reducing its postretirement benefits liability by $81.5 million in the second quarter of 2011.

As noted above, the Company also maintains several pension and other postretirement benefit plans in certain international locations. The expected returns on plan assets and discount rates for these plans are determined based on each plan s investment approach, local interest rates and plan participant profiles.

The pension and other postretirement benefit plan obligations are calculated using generally accepted actuarial methods and are measured as of December 31. Prior to the plan freezes, actuarial gains and losses were amortized using the corridor method over the average remaining service life of active plan participants. Actuarial gains and losses for frozen plans are amortized using the corridor method over the average remaining expected life of active plan participants.

The components of the net periodic benefit (income) expense and total (income) expense were as follows:

	Pension Benefits			Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
Service cost	$ 5.9	$ 86.6	$ 80.4	$ 6.6	$ 8.2	$ 12.2
Interest cost	189.2	192.0	184.0	18.4	22.7	28.4
Expected return on plan assets	(262.6)	(266.4)	(258.7)	(13.9)	(14.8)	(15.5)
Amortization of prior service credit	0.6	(4.4)	(1.9)	(19.7)	(12.5)	(10.8)
Amortization of actuarial loss (gain)	32.1	50.1	29.7	(0.1)	0.1	1.3
Curtailments	(3.7)	(38.7)	(0.4)			
Settlements	1.1					
Net periodic benefit (income) expense	(37.4)	19.2	33.1	(8.7)	3.7	15.6
Weighted average assumption used to calculate net periodic benefit expense:						
Discount rate	4.9%	5.5%	6.0%	4.8%	5.2%	5.7%
Rate of compensation increase	0.9%	4.0%	4.0%	3.6%	3.6%	4.0%
Expected return on plan assets	8.4%	8.4%	8.3%	7.6%	7.6%	7.6%

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	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Benefit obligation at beginning of year	$ 3,923.6	$ 3,583.1	$ 403.1	$ 490.3
Service cost	5.9	86.6	6.6	8.2
Interest cost	189.2	192.0	18.4	22.7
Plan participants contributions	1.2	1.2	14.4	17.8
Medicare reimbursements			3.3	3.3
Actuarial loss (gain)	411.2	306.4	27.6	(22.5)
Plan amendments and other	2.6	(0.5)	0.5	(72.4)
Curtailments and settlements	(6.5)	(61.6)		
Foreign currency translation	17.5	(5.4)	1.1	(0.8)
Benefits paid	(175.9)	(178.2)	(44.8)	(43.5)
Benefit obligation at end of year	$ 4,368.8	$ 3,923.6	$ 430.2	$ 403.1
Fair value of plan assets at beginning of year	$ 2,849.6	$ 3,029.6	$ 174.7	$ 191.9
Actual return on assets	389.9	(44.4)	21.0	(4.7)
Settlements	(3.7)			
Employer contributions	140.7	44.7	8.0	13.2
Medicare reimbursements			3.3	
Plan participants contributions	1.2	1.2	14.4	17.8
Other			10.2	
Foreign currency translation	13.5	(3.3)	0.3	
Benefits paid	(175.9)	(178.2)	(44.8)	(43.5)
Fair value of plan assets at end of year	$ 3,215.3	$ 2,849.6	$ 187.1	$ 174.7
Funded status at end of year	$ (1,153.5)	$ (1,074.0)	$ (243.1)	$ (228.4)

The accumulated benefit obligation for all defined benefit pension plans was $4,343.9 million and $3,901.7 million at December 31, 2012 and 2011, respectively.

Amounts recognized in the Consolidated Balance Sheets as of December 31, 2012 and 2011 were as follows:

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Prepaid pension cost (included in other noncurrent assets)	$ 4.4	$ 9.5	$	$
Accrued benefit cost (included in accrued liabilities)	(7.4)	(7.2)	(1.4)	(1.1)
Pension liabilities	(1,150.5)	(1,076.3)		
Postretirement benefits			(241.7)	(227.3)
Net liabilities recognized in the consolidated balance sheets	$ (1,153.5)	$ (1,074.0)	$ (243.1)	$ (228.4)

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The amounts included in accumulated other comprehensive loss in the Consolidated Balance Sheets, excluding tax effects, that have not yet been recognized as components of net periodic benefit cost at December 31, 2012 and 2011 were as follows:

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Accumulated other comprehensive loss (income)				
Net actuarial loss (gain)	$ 1,828.9	$ 1,574.3	$ 1.6	$ (9.1)
Net transition obligation	0.2	0.2		
Net prior service credit			(68.0)	(87.8)
Total	$ 1,829.1	$ 1,574.5	$ (66.4)	$ (96.9)

The pre-tax amounts recognized in other comprehensive income (loss) in 2012 as components of net periodic benefit costs were as follows:

	Pension Benefits	Postretirement Benefits
Amortization of:		
Net actuarial (loss) gain	$ (32.1)	$ 0.1
Net prior service credit	(0.6)	19.7
Amounts arising during the period:		
Net actuarial loss	283.9	10.5
Net prior service credit	0.6	
Foreign currency gain	2.8	0.2
Total	$ 254.6	$ 30.5

Actuarial gains and losses in excess of 10.0% of the greater of the projected benefit obligation or the market-related value of plan assets were recognized as a component of net periodic benefit costs over the average remaining service period of a plan s active employees. As a result of the plan freezes, the actuarial gains and losses are recognized as a component of net periodic benefit costs over the average remaining life of a plan s active employees. Unrecognized prior service costs or credit are also recognized as a component of net periodic benefit cost over the average remaining service period of a plan s active employees. The amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit costs in 2013 are shown below:

	Pension Benefits	Postretirement Benefits
Amortization of:		
Net actuarial loss	$ 50.2	$ 0.1
Net prior service credit		(19.7)
Total	$ 50.2	$ (19.6)

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(In millions, except per share data and unless otherwise indicated) (Continued)

The weighted average assumptions used to determine the benefit obligation at the measurement date were as follows:

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Discount rate	4.2%	4.9%	3.9%	4.8%
Rate of compensation increase	n/a	0.9%	3.6%	3.6%
Health care cost trend:				
Current				
Pre-Age 65			7.4%	7.0%
Post-Age 65			7.4%	7.0%
Ultimate			5.8%	5.9%

The following table provides a summary of under-funded or unfunded pension benefit plans with projected benefit obligation in excess of plan assets as of December 31, 2012 and 2011:

	Pension Benefits	
	2012	2011
Projected benefit obligation	$ 4,348.3	$ 3,906.7
Fair value of plan assets	3,190.3	2,823.2

The following table provides a summary of pension plans with accumulated benefit obligations in excess of plan assets as of December 31, 2012 and 2011:

	Pension Benefits	
	2012	2011
Accumulated benefit obligation	$ 4,321.6	$ 3,881.6
Fair value of plan assets	3,187.4	2,818.7

The current health care cost trend rate gradually declines through 2019 to the ultimate trend rate and remains level thereafter. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	1.0% Increase	1.0% Decrease
Postretirement benefit obligation	$ 6.8	$ (5.7)
Total postretirement service and interest cost components	0.5	(0.5)

The Company determines its assumption for the discount rate to be used for purposes of computing annual service and interest costs based on an index of high-quality corporate bond yields and matched-funding yield curve analysis as of the measurement date.

On July 6, 2012, the Surface Transportation Extension Act of 2012 (the Act) was signed into law. The Act includes certain pension-related provisions designed to stabilize interest rates used to calculate the minimum required annual contributions for defined benefit pension plans. The Company anticipates that provisions in the Act will significantly reduce the minimum required annual contributions related to its defined benefit pension plans over the next few years, though these contributions are dependent on many factors, including returns on invested assets and discount rates used to determine pension obligations. The Company made contributions of

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$140.7 million to its pension plans and $8.0 million to its postretirement plans during the year ended December 31, 2012. The Company expects to make cash contributions of approximately $21.7 million to its pension plans and approximately $1.4 million to its postretirement plans in 2013, and additional non-required contributions could be made. The Company currently estimates the amount of pension and other postretirement benefit plan contributions that will be required in 2014 to be approximately $85 million.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 included a prescription drug benefit under Medicare Part D, as well as a federal subsidy that began in 2006, to sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent, as defined in the Act, to Medicare Part D. Two of the Company s retiree health care plans are at least actuarially equivalent to Medicare Part D and were eligible for the federal subsidy. During the years ended December 31, 2012 and 2011, the Company received approximately $3.3 million in subsidies in each year. The Company will no longer receive certain of these subsidies after January 1, 2013, when the EGWP subsidies became effective.

Benefit payments are expected to be paid as follows:

	Pension Benefits	Postretirement Benefits-Gross	Estimated Subsidy Reimbursements
2013	$ 189.3	$ 35.7	$ 5.9
2014	192.2	36.1	6.3
2015	195.6	36.6	6.8
2016	201.1	37.0	7.1
2017	210.3	37.3	7.6
2018-2022	1,178.8	188.0	44.1

Plan Assets

The Company employed a total return investment approach for its pension and other postretirement benefit plans, whereby a mix of equities, fixed income and alternative investments are used to maximize the long-term return of pension and other postretirement benefit plan assets. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolios contain a diversified blend of equity, fixed income and alternative investments. Furthermore, equity investments are diversified across geography, market capitalization and investment style. Fixed income investments are diversified across geography and include holdings of corporate bonds, government and agency bonds and asset-backed securities. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews. The expected long-term rate of return for plan assets is based upon many factors including asset allocations, historical asset returns, current and expected future market conditions, risk and active management premiums. The target asset allocation percentage for both the pension and other postretirement benefit plans was approximately 75% for equity and other securities and approximately 25% for fixed income.

The Company segregated its plan assets by the following major categories and levels for determining their fair value as of December 31, 2012 and 2011:

Cash and cash equivalents Carrying value approximates fair value. As such, these assets were classified as Level 1. The Company also invests in certain short-term investments which are valued using the amortized cost method. As such, these assets were classified as Level 2.

Equity The values of individual equity securities were based on quoted prices in active markets. As such, these assets are classified as Level 1. Additionally, the Company invests in certain equity funds that are

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(In millions, except per share data and unless otherwise indicated) (Continued)

valued at calculated net asset value per share (NAV), but are not quoted on active markets. As such, these assets were classified as Level 2. Additionally, this category includes underlying securities in trust owned life insurance policies which are invested in certain equity securities. These investments are not quoted on active markets; therefore, they are classified as Level 2.

Fixed income Fixed income securities are typically priced based on a valuation model rather than a last trade basis and are not exchange-traded. These valuation models involve utilizing dealer quotes, analyzing market information, estimating prepayment speeds and evaluating underlying collateral. Accordingly, the Company classified these fixed income securities as Level 2. Fixed income securities also include investments in various asset-backed securities that are part of a government sponsored program. The prices of these asset-backed securities were obtained by independent third parties using multi-dimensional, collateral specific prepayments tables. Inputs include monthly payment information and collateral performance. As the values of these assets was determined based on models incorporating observable inputs, these assets were classified as Level 2. The Company also invests in certain fixed income funds that were priced on active markets and were classified as Level 1. Additionally, this category includes underlying securities in trust owned life insurance policies which are invested in certain fixed income securities. These investments are not quoted on active markets; therefore, they are classified as Level 2.

Derivatives and other This category includes assets and liabilities that are futures or swaps traded on a primary exchange and are priced by multiple providers. Accordingly, the Company classified these assets and liabilities as Level 1. This category also includes various other assets in which carrying value approximates fair value. Additionally, this category includes investments in commodity and structured credit funds that are not quoted on active markets; therefore, they are classified as Level 2.

Real estate The fair market value of real estate investment trusts is based on observable inputs for similar assets in active markets, for instance, appraisals and market comparables. Accordingly, the real estate investments were categorized as Level 2. The Company also invests in certain exchange-traded real estate investment trust funds that were classified as Level 1.

Private equity Includes the Company s interest in various private equity funds that are valued by the investment manager on a periodic basis with models that use market, income and cost valuation methods. The valuation inputs are not highly observable, and these interests are not actively traded on an open market. Accordingly, this interest was categorized as Level 3.

For Level 2 and Level 3 plan assets, management reviews significant investments on a quarterly basis including investigation of unusual fluctuations in price or returns and obtaining an understanding of the pricing methodology to assess the reliability of third-party pricing estimates.

The valuation methodologies described above may generate a fair value calculation that may not be indicative of net realizable value or future fair values. While the Company believes the valuation methodologies used are appropriate, the use of different methodologies or assumptions in calculating fair value could result in different amounts. The Company invests in various assets in which valuation is determined by NAV. The Company believes that the NAV is representative of fair value at the reporting date, as there are no significant restrictions on redemption of these investments or other reasons to indicate that the investment would be redeemed at an amount different than the NAV.

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(In millions, except per share data and unless otherwise indicated) (Continued)

The fair values of the Company s pension plan assets at December 31, 2012 and 2011, by asset category were as follows:

	December 31, 2012				December 31, 2011			
Asset Category	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 56.9	$ 27.4	$ 29.5	$	$ 65.2	$ 43.4	$ 21.8	$
Equity	2,169.0	1,887.4	281.6		1,857.0	1,604.4	252.6	
Fixed income	828.0	240.5	587.5		779.1	214.8	564.3	
Derivatives and other	8.9	0.5	8.4		6.9	3.6	3.3	
Real estate	113.6		113.6		111.3	7.1	104.2	
Private equity	38.9			38.9	30.1			30.1
Total	$ 3,215.3	$ 2,155.8	$ 1,020.6	$ 38.9	$ 2,849.6	$ 1,873.3	$ 946.2	$ 30.1

The fair values of the Company s other postretirement benefit plan assets at December 31, 2012 and 2011, all of which were determined to be Level 2 under the fair value hierarchy, by asset category were as follows:

Asset Category	**2012**	**2011**
Cash and cash equivalents	$ 8.4	$ 17.7
Equity	133.3	114.3
Fixed income	35.9	42.7
Derivatives and other	9.5	
Total	$ 187.1	$ 174.7

The following table provides a summary of changes in the fair value of the Company s Level 3 assets:

	Private Equity
Balance at January 1, 2011	$ 15.5
Unrealized losses net	3.2
Purchases, sales and settlements	11.4
Balance at December 31, 2011	$ 30.1
Unrealized gains net	5.8
Purchases, sales and settlements	3.0
Balance at December 31, 2012	$ 38.9

Employee 401(k) Savings Plan For the benefit of most of its U.S. employees, the Company maintains a defined contribution retirement savings plan that is intended to be qualified under Section 401(a) of the Internal Revenue Code. Under this plan, employees may contribute a percentage of eligible compensation on both a before-tax and after-tax basis. The Company may match a percentage of a participating employee s before-tax contributions. The plan provides that annual matching contributions are discretionary. In 2012, the Company made matching contributions for most U.S. employees on a pay period basis equal to 40% of contributions on up to 6% of eligible compensation. The cost of the match was determined by the level of eligible employee before-tax contributions and Roth 401(k) contributions made to the plan. The Company recognized expense of $30.8 million for matching contributions under its reinstated 401(k) match for the year ended December 31, 2012. The Company suspended its 401(k) match for 2013 and did not make any matching contributions in 2011 and 2010.

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(In millions, except per share data and unless otherwise indicated) (Continued)

Multi-Employer Pension Plans The Company contributes to six defined benefit multi-employer pension plans in which employees across several facilities within the U.S. Print and Related Services segment do or did participate. The Company is required to make contributions to these plans as determined by the terms and conditions of collective bargaining agreements and plan terms. For the years ended December 31, 2012, 2011 and 2010, the Company made regular contributions of $1.3 million, $1.7 million and $1.7 million, respectively, to these multi-employer pension plans. The Company cannot currently estimate the amount of multi-employer pension plan contributions that will be required in 2013 and future years, but these contributions could significantly increase due to other employers withdrawals, changes in the funded status of the plans or changes in the Company s workforce. The Company s contributions for 2012, 2011 and 2010 represented more than 5.0% of total contributions for three of the multi-employer pension plans.

Multi-employer plans receive contributions from two or more unrelated employers pursuant to one or more collective bargaining agreements and the assets contributed by one employer may be used to fund the benefits of all employees covered within the plan. The risk and level of uncertainty related to participating in these multi-employer pension plans differs significantly from the risk associated with the Company-sponsored defined benefit plans. For example, investment decisions are made by parties unrelated to the Company and the financial stability of other employers participating in a plan may affect the Company s obligations under the plan. In addition, the Company s liability, were it to withdraw from a plan, may be disproportionate to the Company s obligations for continuing to participate in the plan.

The Company s participation in multi-employer pension plans is subject to collective bargaining agreements with expiration dates ranging from December 5, 2012 (contract renewal negotiations are ongoing) to December 31, 2013. All six plans to which the Company contributes are estimated to be underfunded as of December 31, 2012, with five plans having a Pension Protection Act zone status of red and one having a zone status of yellow. All six plans have rehabilitation plans in place. A zone status of red identifies plans that are under 65.0% funded, with a short-term credit balance deficiency. A zone status of yellow identifies plans that are 65% or more, but less than 80.0% funded. All six of the plans have imposed surcharges due to their critical funding status. Surcharges are imposed by a multi-employer pension plan when the plan reaches critical status, as defined under the Pension Protection Act, and such surcharges are based on a percentage of required contributions for each plan year.

There were no charges due to partial or complete withdrawal liabilities for the year ended December 31, 2012. For the year ended December 31, 2011, the Company recorded charges of $15.1 million relating to the complete or partial withdrawal from certain multi-employer pension plans primarily resulting from the closure of three manufacturing facilities. These charges were recorded as restructuring and impairment charges and represent the Company s best estimate of the expected settlement of these withdrawal liabilities. For the year ended December 31, 2010, the Company recorded charges of $13.6 million relating to the partial withdrawal from certain multi-employer pension plans resulting from the closure of two manufacturing facilities. As of December 31, 2011, the Company had completely withdrawn from two multi-employer pension plans and had partially withdrawn from three other plans. While it is not possible to quantify the potential impact of future events or circumstances, further reductions in participation or withdrawal from these multi-employer pension plans could have a material impact on the Company s consolidated annual results of operations, financial position, or cash flows.

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(In millions, except per share data and unless otherwise indicated) (Continued)

Note 12. Income Taxes

Income taxes have been based on the following components of earnings (loss) from operations before income taxes for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
U.S.	$ (710.1)	$ (274.5)	$ 171.0
Foreign	70.1	37.1	152.0
Total	$ (640.0)	$ (237.4)	$ 323.0

The components of income tax expense (benefit) from operations for the years ended December 31, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Federal:			
Current	$ 8.6	$ (10.1)	$ 100.1
Deferred	(55.5)	(82.1)	(1.7)
State:			
Current	10.5	(19.5)	(1.2)
Deferred	(18.3)	(21.5)	(10.3)
Foreign:			
Current	46.5	36.3	41.6
Deferred	21.8	(19.4)	(22.6)
Total	$ 13.6	$ (116.3)	$ 105.9

The following table outlines the reconciliation of differences between the Federal statutory tax rate and the Company s effective income tax rate:

	2012	2011	2010
Federal statutory tax rate	35.0%	35.0%	35.0%
Adjustment of uncertain tax positions	3.1	30.2	(4.0)
Foreign tax rate differential	3.2	15.5	(6.1)
Adjustment of interest on uncertain tax positions	0.6	10.1	0.6
Domestic manufacturing deduction	0.5	2.2	(2.6)
Acquisition-related expenses	(0.1)	(0.1)	1.2
Change in valuation allowances	(4.4)	(1.0)	(4.4)
State and local income taxes, net of U.S. federal income tax benefit		(1.6)	(0.2)
Restructuring and impairment charges	(40.1)	(39.5)	8.3
International reorganization	3.9		
Foreign withholding tax	(1.7)		2.2
Enactment of Health Care Reform Act			1.0
Other	(2.1)	(1.8)	1.8

Effective income tax rate	(2.1%)	49.0%	32.8%

Included in 2012 is a benefit of $26.1 million reflecting the recognition of previously unrecognized tax benefits due to the resolution of certain U.S. federal uncertain tax positions and a $22.4 million benefit related to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

the decline in value and reorganization of certain entities within the International segment, partially offset by a valuation allowance provision of $32.7 million on certain deferred tax assets in Latin America and an $11.0 million provision related to certain foreign earnings no longer considered to be permanently reinvested.

Included in 2011 is a benefit of $74.8 million reflecting the expiration of U.S. federal statutes of limitations for certain years.

Included in 2010 is a benefit of $19.3 million reflecting the release of a valuation allowance on deferred tax assets due to the forecasted increase in net earnings for certain operations within the Latin America reporting unit.

Deferred income taxes

The significant deferred tax assets and liabilities at December 31, 2012 and 2011 were as follows:

	2012	2011
Deferred tax assets:		
Pension and other postretirement benefit plan liabilities	$ 524.1	$ 489.3
Net operating losses and other tax carryforwards	331.6	339.3
Accrued liabilities	155.2	178.5
Other	99.4	81.8
Total deferred tax assets	1,110.3	1,088.9
Valuation allowances	(273.6)	(273.2)
Net deferred tax assets	$ 836.7	$ 815.7
Deferred tax liabilities:		
Accelerated depreciation	$ (226.3)	$ (257.7)
Other intangible assets	(98.6)	(212.5)
Inventories	(30.7)	(47.1)
Other	(30.2)	(22.5)
Total deferred tax liabilities	(385.8)	(539.8)
Net deferred tax assets	$ 450.9	$ 275.9

The above amounts are classified as current or long-term in the Consolidated Balance Sheets in accordance with the asset or liability to which they relate on a jurisdiction by jurisdiction basis.

Transactions affecting the valuation allowances on deferred tax assets during the years ended December 31, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Balance, beginning of year	$ 273.2	$ 259.5	$ 277.5
Current year expense (benefit) net	28.2	2.4	(9.6)

Write-offs	(37.9)	(1.8)	(9.4)
Foreign exchange and other	10.1	13.1	1.0
Balance, end of year	$ 273.6	$ 273.2	$ 259.5

As of December 31, 2012, the Company had domestic and foreign net operating loss and other tax carryforwards of approximately $87.6 million and $244.0 million, respectively ($75.1 million and $264.2

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(In millions, except per share data and unless otherwise indicated) (Continued)

million, respectively, at December 31, 2011), of which $175.9 million expires between 2013 and 2022. Limitations on the utilization of these tax assets may apply. The Company has provided valuation allowances to reduce the carrying value of certain deferred tax assets, as management has concluded that, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be fully realized.

Deferred income taxes are not provided on the excess of the investment value for financial reporting over the tax basis of investments in those foreign subsidiaries for which such excess is considered to be permanently reinvested in those operations. The Company has recognized deferred tax liabilities of $9.1 million and $3.0 million as of December 31, 2012 and December 31, 2011, respectively, related to local withholding taxes on certain foreign earnings which are not considered to be permanently reinvested. Determination of the amount of unrecognized U.S. income tax liabilities with respect to certain foreign earnings which have been reinvested abroad is not practical.

Cash payments for income taxes were $100.0 million, $106.5 million and $181.1 million in 2012, 2011 and 2010, respectively. Cash refunds for income taxes were $18.5 million, $11.2 million and $52.0 million in 2012, 2011 and 2010, respectively.

The Company s income taxes payable for federal and state purposes has been reduced by the tax benefits associated with the exercise of employee stock options and the vesting of restricted stock units. A component of the income tax benefit, calculated as the tax effect of the difference between the fair market value at the time stock options are exercised or restricted stock units vest and the grant date fair market value, directly increases or reduces RR Donnelley shareholders equity. For the year ended December 31, 2012, the tax expense recognized as a reduction of RR Donnelley shareholders equity was $1.2 million. For the years ended December 31, 2011 and 2010, tax benefits of $3.6 million and $1.1 million, respectively, were recognized in RR Donnelley shareholders equity.

See Note 16 for details of the income tax expense or benefit allocated to each component of other comprehensive income.

Uncertain tax positions

Changes in the Company s unrecognized tax benefits at December 31, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Balance at beginning of year	$ 76.4	$ 157.1	$ 176.4
Additions for tax positions of the current year	6.3	6.1	10.2
Additions for tax positions of prior years	3.9	6.0	9.5
Reductions for tax positions of prior years	(29.6)	(26.9)	(18.1)
Settlements during the year	(5.6)	(3.3)	(9.6)
Lapses of applicable statutes of limitations	(3.5)	(62.3)	(13.6)
Foreign exchange and other		(0.3)	2.3
Balance at end of year	$ 47.9	$ 76.4	$ 157.1

As of December 31, 2012, 2011 and 2010, the Company had $47.9 million, $76.4 million and $157.1 million, respectively, of unrecognized tax benefits. Unrecognized tax benefits of $29.3 million as of December 31, 2012, if recognized, would have decreased income taxes and the corresponding effective income tax rate and increased net earnings. This potential impact on net earnings (loss) reflects the reduction of these unrecognized tax benefits, net of certain deferred tax assets and the federal tax benefit of state income tax items.

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(In millions, except per share data and unless otherwise indicated) (Continued)

As of December 31, 2012, it is reasonably possible that the total amount of unrecognized tax benefits will decrease within twelve months by as much as $16.9 million due to the resolution of audits or expirations of statutes of limitations related to U.S. federal, state and international tax positions.

The Company classifies interest expense and any related penalties related to income tax uncertainties as a component of income tax expense. The total interest expense, net of tax benefits, related to tax uncertainties recognized in the Consolidated Statements of Operations for the years ended December 31, 2012 and 2011, was a benefit of $4.1 million and $24.0 million, respectively, due to the reversal of interest accrued on previously unrecognized tax benefits that were recognized during the year. For the year ended December 31, 2010, the Company recognized total interest expense, net of tax benefits, related to tax uncertainties of $1.9 million. Benefits of $1.1 million and $2.5 million were recognized for the years ended December 31, 2012 and 2011, respectively, from the reversal of accrued penalties. A provision for penalties of $0.9 million was recognized for the year ended December 31, 2010. Accrued interest of $8.5 million and $13.4 million related to income tax uncertainties were reported as a component of other noncurrent liabilities in the Consolidated Balance Sheets at December 31, 2012 and 2011, respectively. Accrued penalties of $2.7 million and $3.9 million related to income tax uncertainties were reported in other noncurrent liabilities in the Consolidated Balance Sheets at December 31, 2012 and 2011, respectively.

The Company has tax years from 2003 that remain open and subject to examination by the IRS, certain state taxing authorities and certain foreign tax jurisdictions.

Tax Holidays

The Company has been granted tax holidays in certain foreign countries as an incentive to attract international investment. Generally, a tax holiday is an agreement between the Company and a foreign government under which the Company receives certain tax benefits in that country. The Company s most significant tax holiday agreements expired in 2011. The aggregate effect on income tax expense in 2012, 2011 and 2010, as a result of these agreements, was approximately $0.2 million, $7.9 million and $8.1 million, respectively.

Note 13. Debt

The Company s debt at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Borrowings under credit agreement	$	$ 65.0
5.625% senior notes due January 15, 2012		158.6
4.95% senior notes due April 1, 2014	258.1	599.5
5.50% senior notes due May 15, 2015	299.9	399.8
8.60% senior notes due August 15, 2016	347.4	346.8
6.125% senior notes due January 15, 2017	523.3	522.9
7.25% senior notes due May 15, 2018	600.0	600.0
11.25% senior notes due February 1, 2019(a)	172.2	172.2
8.25% senior notes due March 15, 2019	450.0	
7.625% senior notes due June 15, 2020	400.0	400.0
8.875% debentures due April 15, 2021	80.9	80.9
6.625% debentures due April 15, 2029	199.4	199.3
8.820% debentures due April 15, 2031	69.0	69.0
Other(b)	38.4	46.5
Total debt	3,438.6	3,660.5
Less: current portion	(18.4)	(243.7)

Long-term debt	$ 3,420.2	$ 3,416.8

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(a) On May 17, 2011, June 14, 2012, August 2, 2012 and September 20, 2012, the interest rate on the 11.25% senior notes due February 1, 2019 was increased to 11.75%, 12.0%, 12.25% and 12.50%, respectively, as a result of downgrades in the ratings of the notes by the rating agencies.

(b) Includes miscellaneous debt obligations, fair value adjustments to the 4.95% senior notes due April 1, 2014 and 8.25% senior notes due March 15, 2019 related to the Company s fair value hedges and capital leases.

The fair values of the senior notes and debentures, which were determined using the market approach based upon interest rates available to the Company for borrowings with similar terms and maturities, were determined to be Level 2 under the fair value hierarchy. The fair value of the Company s debt was less than its book value by approximately $3.7 million and $80.1 million at December 31, 2012 and 2011, respectively.

On October 15, 2012, the Company entered into a $1.15 billion senior secured revolving credit facility (the Credit Agreement) which expires October 15, 2017. Borrowings under the Credit Agreement bear interest at a base or Eurocurrency rate plus an applicable margin determined at the time of the borrowing. In addition, the Company pays facility commitment fees. The applicable margin and rate for the facility commitment fees are set at agreed upon pricing levels until April 15, 2013 and will fluctuate thereafter dependent on the Credit Agreement s credit ratings. The Credit Agreement replaced the Company s previous $1.75 billion unsecured revolving credit agreement (the Previous Credit Agreement) which was due to expire on December 17, 2013. All amounts outstanding under the Previous Credit Agreement were repaid with borrowings under the Credit Agreement resulting in a $4.0 million pre-tax loss on debt extinguishment related to unamortized debt issuance costs. The Credit Agreement is used for general corporate purposes, including acquisitions and letters of credit. The Company s obligations under the Credit Agreement are guaranteed by material domestic subsidiaries and are secured by a pledge of the equity interests of certain subsidiaries, including most of its domestic subsidiaries, and a security interest in substantially all of the domestic current assets and mortgages of certain domestic real property of the Company.

The Credit Agreement is subject to a number of covenants, including a minimum interest coverage ratio and a maximum leverage ratio, that, in part, restrict the Company s ability to incur additional indebtedness, create liens, engage in mergers and consolidations, make restricted payments and dispose of certain assets and may also limit the use of proceeds. The Credit Agreement generally allows annual dividend payments of up to $200.0 million in aggregate, though additional dividends may be allowed subject to certain conditions.

On March 13, 2012, the Company issued $450.0 million of 8.25% senior notes due March 15, 2019. Interest on the notes is payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2012. The net proceeds from the offering and cash on hand were used to repurchase $341.8 million of the 4.95% senior notes due April 1, 2014 and $100.0 million of the 5.50% senior notes due May 15, 2015. The repurchases resulted in a pre-tax loss on debt extinguishment of $12.1 million for the year ended December 31, 2012, consisting of a loss of $23.2 million related to the premiums paid, unamortized debt issuance costs and other expenses, partially offset by the elimination of $11.1 million of the fair value adjustment on the 4.95% senior notes.

On January 15, 2012, proceeds from borrowings under the Previous Credit Agreement were used to pay the $158.6 million 5.625% senior notes that matured on January 15, 2012.

On June 1, 2011, the Company issued $600.0 million of 7.25% senior notes due May 15, 2018. Interest on the notes is payable semi-annually on May 15 and November 15 of each year, commencing on November 15, 2011. The net proceeds from the offering were used to repurchase $216.2 million of the 11.25% senior notes due

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February 1, 2019, $100.0 million of the 6.125% senior notes due January 15, 2017 and $100.0 million of the 5.50% senior notes due May 15, 2015. The remaining net proceeds were used for general corporate purposes and to repay outstanding borrowings under the Previous Credit Agreement. On September 28, 2011, the Company repurchased an additional $11.6 million of the 11.25% senior notes due February 1, 2019. The repurchases resulted in pre-tax losses on debt extinguishment of $69.9 million for the year ended December 31, 2011.

As of December 31, 2012, the Company had no borrowings outstanding under the Credit Agreement. The weighted average interest rate on borrowings under the Credit Agreement and Previous Credit Agreement during the years ended December 31, 2012 and 2011 was 2.19% and 2.08% per annum, respectively.

Additionally, the Company had $170.0 million in credit facilities (the Foreign Facilities) at its foreign locations, most of which are uncommitted. As of December 31, 2012 and 2011, total borrowings under the Credit Agreement, Previous Credit Agreement and the Foreign Facilities (the Combined Facilities) were $10.4 million and $82.2 million, respectively. As of December 31, 2012, the Company had $71.1 million in outstanding letters of credit. At December 31, 2012, approximately $1.3 billion was available under the Company s Combined Facilities.

At December, 31, 2012, the future maturities of debt, including capitalized leases, were as follows:

	Amount
2013	$ 18.4
2014	259.2
2015	304.1
2016	350.7
2017	525.0
2018 and thereafter	1,972.2
Total	$ 3,429.6

The following table summarizes interest expense included in the Consolidated Statements of Operations:

	2012	2011	2010
Interest incurred	$ 271.1	$ 259.8	$ 233.3
Less: interest income	(15.2)	(13.6)	(9.1)
Less: interest capitalized as property, plant and equipment	(4.1)	(2.9)	(1.6)
Interest expense, net	$ 251.8	$ 243.3	$ 222.6

Interest paid net of interest received was $250.1 million, $252.2 million and $235.2 million in 2012, 2011 and 2010, respectively.

Note 14. Derivatives

All derivatives are recorded as other current or noncurrent assets or other current or noncurrent liabilities in the Consolidated Balance Sheets at their respective fair values. Unrealized gains and losses related to derivatives are recorded in other comprehensive income (loss), net of applicable income taxes, or in the Consolidated Statements of Operations, depending on the purpose for which the derivative is held. For derivatives designated and that qualify as cash flow hedges, the effective portion of the unrealized gain or loss related to the derivatives

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(In millions, except per share data and unless otherwise indicated) (Continued)

are generally recorded in other comprehensive income (loss) until the transaction affects earnings. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in the Consolidated Statements of Operations. Changes in the fair value of derivatives that do not meet the criteria for designation as a hedge at inception, or fail to meet the criteria thereafter, are recognized currently in the Consolidated Statements of Operations. At the inception of a hedge transaction, the Company formally documents the hedge relationship and the risk management objective for undertaking the hedge. In addition, the Company assesses both at inception of the hedge and on an ongoing basis, whether the derivative in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item and whether the derivative is expected to continue to be highly effective. The impact of any ineffectiveness is also recognized currently in the Consolidated Statements of Operations.

The Company is exposed to the impact of foreign currency fluctuations in certain countries in which it operates. The exposure to foreign currency movements is limited in many countries because the operating revenues and expenses of its various subsidiaries and business units are substantially in the local currency of the country in which they operate. To the extent borrowings, sales, purchases, revenues, expenses or other transactions are not in the local currency of the subsidiary or operating unit, the Company is exposed to currency risk. Periodically, the Company uses foreign exchange spot and forward contracts to hedge exposures resulting from foreign exchange fluctuations. Accordingly, the implied gains and losses associated with the fair values of foreign currency exchange contracts are generally offset by gains and losses on underlying payables, receivables and net investments in foreign subsidiaries. The Company does not use derivative financial instruments for trading or speculative purposes.

The Company has entered into foreign exchange forward contracts in order to manage the currency exposure of certain assets and liabilities. The foreign exchange forward contracts were not designated as hedges, and accordingly, the fair value gains or losses from these foreign currency derivatives are recognized currently in the Consolidated Statements of Operations, generally offsetting the foreign exchange gains or losses on the exposures being managed. The aggregate notional value of the forward contracts at December 31, 2012 and 2011 was $654.2 million and $78.3 million, respectively. The fair values of foreign exchange forward contracts were determined to be Level 2 under the fair value hierarchy and are valued using market exchange rates.

On March 13, 2012, the Company entered into interest rate swap agreements to manage interest rate risk exposure, effectively changing the interest rate on $400.0 million of its fixed-rate senior notes to a floating rate based on LIBOR plus a basis point spread. The interest rate swaps, with a notional value of $400.0 million, are designated as fair value hedges against changes in the value of the Company s $450.0 million 8.25% senior notes due March 15, 2019, which are attributable to changes in the benchmark interest rate.

On April 9, 2010, the Company entered into interest rate swap agreements to manage interest rate risk exposure, effectively changing the interest rate on $600.0 million of its fixed-rate senior notes to a floating rate based on LIBOR plus a basis point spread. The interest rate swaps, with a notional value of $600.0 million at inception, are designated as fair value hedges against changes in the value of the Company s 4.95% senior notes due April 1, 2014 which are attributable to changes in the benchmark interest rate. During March 2012, the Company repurchased $341.8 million of the 4.95% senior notes due April 1, 2014, and related interest rate swaps with a notional amount of $342.0 million were terminated, resulting in proceeds of $11.0 million for the fair value of the interest rate swaps.

The fair values of interest rate swaps were determined to be Level 2 under the fair value hierarchy and were developed using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and unless otherwise indicated) (Continued)

interest rates derived from observed market interest rate curves. In addition, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk. The Company evaluates the credit value adjustments of the interest rate swap agreements, which take into account the possibility of counterparty and the Company s own default, on at least a quarterly basis.

The Company manages credit risk for its derivative positions on a counterparty-by-counterparty basis, considering the net portfolio exposure with each counterparty, consistent with its risk management strategy for such transactions. The Company s agreements with each of its counterparties contain a provision where the Company could be declared in default on its derivative obligations if it either defaults or, in certain cases, is capable of being declared in default of any of its indebtedness greater than specified thresholds. These agreements also contain a provision where the Company could be declared in default subsequent to a merger or restructuring type event if the creditworthiness of the resulting entity is materially weaker.

At December 31, 2012 and 2011, the total fair value of the Company s foreign exchange forward contracts, which were the only derivatives not designated as hedges, and fair value hedges, along with the accounts in the Consolidated Balance Sheets in which the fair value amounts are included were as follows:

	2012	2011
Derivatives not designated as hedges		
Prepaid expenses and other current assets	$ 0.6	$ 0.3
Accrued liabilities	24.0	0.3
Derivatives designated as fair value hedges		
Other noncurrent assets	$ 14.7	$ 19.9

The pre-tax losses related to derivatives not designated as hedges recognized in the Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010 were as follows:

	Classification of Loss Recognized in the Consolidated Statements of Operations	2012	2011	2010
Derivatives not designated as hedges				
Foreign exchange forward contracts	Selling, general and administrative expenses	$ 24.8	$ 4.7	$ 2.5

For derivatives designated as fair value hedges, the pre-tax (gains) losses related to the hedged items, attributable to changes in the hedged benchmark interest rate and the offsetting gain on the related interest rate swaps for the years ended December 31, 2012, 2011 and 2010 were as follows:

	Classification of (Gain) Loss Recognized in the Consolidated Statements of Operations	2012	2011	2010
Fair Value Hedges				
Interest rate swaps	Investment and other expense (income) net	$ (5.7)	$ (3.1)	$ (16.8)
Hedged items		4.4	1.9	14.7

Investment and other expense (income) net			
Total gain recognized as ineffectiveness in the consolidat/FONT>			
Short-term debt	$ (10.5)	$ 350.0	$ 339.5
Long-term debt	(2,699.4)	4,245.0	1,545.6
Total	$(2,709.9)	$4,595.0	$1,885.1

Included within the debt balances for Nalco are $24.5 million of outstanding checks and $25.0 million related to accounts receivable securitization which are included within the short-term debt balance and $125.0 million related to accounts receivable securitization that are included within the long-term debt balance. These balances will not be eliminated as a result of the merger and will remain within their respective classifications.

(m) *Income taxes payable.* Represents the adjustment to income taxes payable corresponding to fair value debt adjustments and deferred financing costs of $59.6 million and $25.4 million, respectively, transaction fees of $13.3 million, change in control and other equity-based awards payments of $10.1 million, and other transaction related items of $25.2 million. Adjustments to income taxes payable are based on Nalco's statutory U.S. federal and state tax rate of 37.5%.

(n) *Other liability.* Represents the adjustment of $0.3 million to increase the Nalco pension and other post-retirement benefit liabilities to their funded status of $517.7 million as of the June 30, 2011 unaudited pro forma condensed combined balance sheet date utilizing the current fair value of plan assets and applicable discount rates.

(o) *Deferred income taxes.* Deferred taxes arising from the estimated fair value adjustments for acquired inventory, property, plant, and equipment, patents and developed technology, customer relationships, and trade names and other intangibles, as well as the settlement of restricted stock units

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NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Continued)

Note 4. Adjustments to Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

that are converted to Nalco common stock prior to the merger, are primarily based on Nalco's estimated global tax rate of 34.0%.

(p) *Stockholders' equity.* The unaudited pro forma condensed combined balance sheet reflects the elimination of Nalco's historical equity balances and the recognition of approximately 68.4 million Ecolab common stock issued ($68.4 million of common stock at $1.00 par value and $3,516.4 million of additional paid-in capital). Amounts in additional paid-in capital also include $73.9 million to reflect the portion of the purchase price related to the total estimated fair value of stock compensation awards outstanding as of June 30, 2011, excluding the value associated with employee service yet to be rendered.

Additionally, retained earnings were further reduced by $142.7 million for estimated transaction costs, net of tax effects, including make-whole payments of $41.9 million, transaction fees of $91.4 million, which is net of previously accrued transaction fees of $0.3 million, and other change in control payments of $9.4 million. These estimated transaction costs have been excluded from the unaudited pro forma condensed combined income statement as they reflect charges directly related to the merger that do not have an ongoing impact. The gross amounts and related net tax effects are as follows (in millions):

	Make-whole payments	Transaction fees	Other change in control payments	Total
Gross expense	$ (67.1)	$ (104.7)	$ (15.0)	$ (186.8)
Tax effect	25.2	13.3	5.6	44.1
Net adjustment	$ (41.9)	$ (91.4)	$ (9.4)	$ (142.7)

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COMPARATIVE STOCK PRICE DATA AND DIVIDENDS

Ecolab common stock is traded on the NYSE under the symbol "ECL" and Nalco common stock is traded on the NYSE under the symbol "NLC." The following table sets forth, for the periods indicated, dividends declared and the high and low sales prices per share of Ecolab common stock and of Nalco common stock as reported by the NYSE Composite Transaction Tape. For current price information, Ecolab and Nalco stockholders are urged to consult publicly available sources.

	Ecolab Common Stock			Nalco Common Stock		
Calendar Period	**High**	**Low**	**Dividends Declared**	**High**	**Low**	**Dividends Declared**
2009						
First Quarter	$ 36.78	$ 29.27	$ 0.14	$ 13.21	$ 9.38	$ 0.035
Second Quarter	40.04	34.11	0.14	18.34	12.82	0.035
Third Quarter	47.88	36.89	0.14	21.05	15.22	0.035
Fourth Quarter	46.89	43.39	0.155	26.05	18.76	0.035
2010						
First Quarter	47.40	40.66	0.155	26.63	21.49	0.035
Second Quarter	49.70	44.10	0.155	29.25	20.15	0.035
Third Quarter	51.23	44.66	0.155	25.87	20.38	0.035
Fourth Quarter	52.46	46.64	0.175	32.62	24.69	0.035
2011						
First Quarter	51.08	46.80	0.175	32.46	24.30	0.035
Second Quarter	56.45	49.97	0.175	29.46	25.53	0.035
Third Quarter	57.19	43.81	0.175	37.34	27.77	0.035
Fourth Quarter (through October 27, 2011)	55.57	47.27		38.56	34.09	

The following table sets forth the high, low and closing prices per share of Ecolab common stock and of Nalco common stock as reported by the NYSE Composite Transaction Tape, and the price per share of Nalco common stock on an equivalent basis, as determined by reference to the value of the merger consideration to be received in respect of each share of Nalco common stock in the merger, in each case on July 19, 2011, the last full trading day prior to the public announcement of the merger, and on October 27, 2011, the latest practicable date before the date of this joint proxy statement/prospectus. The equivalent per share value of Nalco common stock reflects the value that Nalco stockholders would receive in exchange for their shares of Nalco common stock if the merger were completed on either date, assuming that such stockholder received, on either date, 0.4903 shares of Ecolab common stock and $11.64 of cash for each share of Nalco common stock held by such stockholder.

	Ecolab Common Stock			Nalco Common Stock			Equivalent Price per Share of Nalco Common Stock(1)
	High	**Low**	**Close**	**High**	**Low**	**Close**	
July 19, 2011	$ 55.46	$ 55.11	$ 55.39	$ 28.99	$ 28.59	$ 28.87	$ 38.80
October 27, 2011	$ 55.57	$ 53.97	$ 55.20	$ 38.56	$ 37.77	$ 38.36	$ 38.70

(1) The equivalent price per share is calculated as the sum of (a) $11.64 (the product determined by multiplying $38.80 (the cash portion of the merger consideration) by 30%) and (b) the closing price per share of Ecolab common stock on July 19, 2011 or October 27, 2011, as applicable, multiplied by 0.4903 (the product determined by multiplying 0.7005 (the exchange ratio) by 70%).

These prices will fluctuate prior to the special meeting and the closing of the merger, and stockholders are urged to obtain current market quotations prior to making any decision with respect to the merger.

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COMPARATIVE RIGHTS OF ECOLAB AND NALCO STOCKHOLDERS

General

Ecolab and Nalco are incorporated under the laws of the State of Delaware and, accordingly, the rights of the stockholders are each governed by the General Corporation Law of the State of Delaware, which we refer to as the DGCL. Before the completion of the merger, the rights of Nalco stockholders are also governed by the Nalco certificate of incorporation and the Nalco bylaws. Upon completion of the merger, each share of Nalco common stock issued and outstanding prior to the effective date of the merger will be converted into the right to receive the merger consideration, which may include shares of Ecolab common stock or cash, subject to certain adjustments. As a result, upon completion of the merger, the rights of Nalco stockholders who become Ecolab stockholders in the merger will be governed by the DGCL, the Ecolab restated certificate of incorporation and the Ecolab bylaws.

Certain Differences Between the Rights of Ecolab and Nalco Stockholders

The following is a summary of material differences between the current rights of Ecolab stockholders and the current rights of Nalco stockholders. While Ecolab and Nalco believe that this summary covers the material differences between the two, this summary may not contain all the information that is important to you. This summary is not intended to be a complete discussion of the respective rights of Ecolab stockholders and Nalco stockholders, and it is qualified in its entirety by reference to the various documents of Ecolab and Nalco to which Ecolab and Nalco refer in this summary. In addition, the identification of some of the differences in the rights of these stockholders as material is not intended to indicate that other differences that are equally important do not exist. Ecolab and Nalco urge you to carefully read this entire joint proxy statement/prospectus, the relevant provisions of the DGCL and the other documents to which Ecolab and Nalco refer in this joint proxy statement/prospectus for a more complete understanding of the differences between the rights of an Ecolab stockholder and the rights of a Nalco stockholder. Ecolab and Nalco have filed with the SEC their respective documents referenced in this summary of stockholder rights and will send copies of these documents to you, without charge, upon your request.

For further information, please see the section titled "Where You Can Find More Information" beginning on page 195 of this joint proxy statement/prospectus.

	ECOLAB INC.	NALCO HOLDING COMPANY
Authorized Capital Stock	The authorized capital stock of Ecolab consists of 400,000,000 shares of common stock, par value $1.00 per share, and 15,000,000 shares of preferred stock, without par value. If the additional share authorization proposal is approved by Ecolab stockholders, Ecolab plans to amend its restated certificate of incorporation following completion of the merger to increase the number of authorized shares of Ecolab common stock from 400,000,000 shares to 800,000,000 shares.	The authorized capital stock of Nalco consists of 500,000,000 shares of common stock, par value $0.01 per share, and 100,000,000 shares of preferred stock, par value $0.01 per share. As of the date of this joint proxy statement/prospectus, Nalco does not have outstanding any shares of preferred stock. Nalco does not have a stockholder rights plan.

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	ECOLAB INC.	**NALCO HOLDING COMPANY**
	The Series A Junior Participating Preferred Stock, without par value, which relates to Ecolab's stockholder rights plan, is the only series of preferred stock currently designated by the board of directors of Ecolab. Ecolab is authorized to issue 400,000 shares of the Series A Junior Participating Preferred Stock. As of the date of this joint proxy statement/prospectus, Ecolab does not have outstanding any shares of preferred stock.	
Preferred Stock	The rights and preferences of holders of Ecolab's common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that Ecolab may designate and issue. If issued, holders of the Series A Junior Participating Preferred Stock would have the right to: Receive, when, as and if declared, quarterly dividends or other distributions equal in value to the greater of $10.00 or 1,000 times the aggregate per share amount of all cash dividends and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends declared or other distributions, other than a dividend payable in common stock, on the Ecolab common stock since the immediately preceding quarterly dividend payment date; Receive any unpaid dividends, which will accrue and be cumulative; Vote 1,000 votes per share, which may be voted together with the holders of Ecolab's common stock as one class, on all matters submitted to the stockholders of Ecolab;	Under Nalco's certificate of incorporation, the board of directors is expressly authorized, by resolution, to provide for series of preferred stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. As of the date of this joint proxy statement/prospectus, Nalco has not designated or issued any series of preferred stock.

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	ECOLAB INC.	NALCO HOLDING COMPANY
	During any time where dividends on the Series A Junior Participating Preferred Stock are in arrears for a period equal to six quarterly dividend periods, voting as a class, elect two members of the board of directors; Prevent Ecolab, during any time where dividends on the Series A Junior Participating Preferred Stock are in arrears, from declaring or paying dividends or redeeming, repurchasing or otherwise acquiring shares junior to or ranking on parity with the Series A Junior Participating Preferred Stock; and Receive 1,000 times the aggregate amount of stock, cash, securities or other property into which shares of Ecolab's common stock are exchanged pursuant to a merger or other business combination.	
Number of Directors	Ecolab's restated certificate of incorporation provides that the Ecolab board shall consist of a number of directors, with the number to be determined from time to time by the board of directors. Ecolab currently has 11 directors sitting upon a classified board of directors. The merger agreement provides that at the effective time of the merger, three of the current Nalco directors will be added to the Ecolab board of directors. The merger agreement further provides that Nalco will select three of its current directors for the positions on the Ecolab board of directors, with one director assigned to each of the three director classes under Ecolab's classified board of directors, subject to acceptance by Ecolab in accordance with its regular corporate governance procedures, which include a review of the qualifications and fit of the nominee, as well as potential conflicts of interest and similar considerations.	Nalco's bylaws provide that the Nalco board will consist of not less than three nor more than 15 directors, with the exact number to be determined pursuant to a resolution by a majority of the board of directors and in accordance with the Nalco stockholders agreement dated November 16, 2004, as amended from time to time among Nalco, Nalco LLC and certain of its members, which we refer to as the Nalco stockholders agreement. Nalco currently has eight directors sitting upon a classified board of directors.

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	ECOLAB INC.	NALCO HOLDING COMPANY
Election of Directors	Ecolab's directors are elected by the affirmative vote of holders representing a majority of the votes cast at a meeting in which a quorum is present; provided, however, that directors will be elected by a plurality of the votes cast at any meeting of stockholders for which the secretary of the corporation receives a notice that a stockholder has nominated a person for election to the board of directors in compliance with the stockholder advance notice requirements for stockholder nominees. Ecolab's board of directors is classified into three classes. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire will be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. At the 2011 annual meeting the directors whose terms expired were elected to hold office for a two-year term. At the 2012 and 2013 annual meetings the directors whose terms expire at each meeting will be elected to hold office for a one-year term. Pursuant to such procedures, effective as of the 2013 annual meeting of stockholders, the Ecolab board will no longer be classified.	Nalco's directors are elected by the affirmative vote of a plurality in voting power of the Nalco shares entitled to vote for the election of directors at a meeting in which a quorum is present. Nalco's board of directors is classified into three classes. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire will be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election.

	ECOLAB INC.	NALCO HOLDING COMPANY
Removal of Directors	Ecolab's restated certificate of incorporation and bylaws provide that any director may be removed at any time at a special meeting of Ecolab's stockholders called and held for such purpose by the affirmative vote of the holders of a majority of shares entitled to vote upon the election of directors, but, until the Ecolab board is no longer classified in 2013, only for cause. Once the board of directors is no longer classified, directors may be removed without cause or for cause.	Nalco's certificate of incorporation and bylaws provide that any director may be removed only for cause by the affirmative vote of at least 80% in voting power of all the shares of Nalco entitled to vote generally in the election of directors, voting as a single class.
Voting	Under Ecolab's bylaws, each holder of Ecolab common stock will be entitled to one vote for each share of stock standing in that holder's name on the books of Ecolab.	Under Nalco's certificate of incorporation, each holder of Nalco common stock will be entitled to one vote for each share of stock standing in that holder's name on the books of Nalco.
Quorum	Ecolab's bylaws provide that the holders of a majority of the shares of Ecolab stock issued and outstanding and entitled to vote at all meetings of the stockholders, present in person or represented by proxy, will constitute a quorum.	Nalco's bylaws provide that the holders of record of a majority of the shares of Nalco stock issued and outstanding, present in person or represented by proxy, will constitute a quorum.
Vacancies on the Board of Directors	Under Ecolab's restated certificate of incorporation, vacancies on the Ecolab board, including vacancies as a result of director removal or an enlargement of the Ecolab board, may be filled only by a majority of the directors then in office, although less than a quorum at any regular or special meeting of the Ecolab board.	Under Nalco's certificate of incorporation, vacancies on the Nalco board, including vacancies as a result of director removal or an enlargement of the Nalco board, may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, at any regular or special meeting of the Nalco board, except to the extent otherwise provided by the Nalco stockholders agreement.

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	ECOLAB INC.	NALCO HOLDING COMPANY
Stockholder Action by Written Consent	Under the DGCL and Ecolab's bylaws, any action which would otherwise be required or permitted to be taken at any annual or special meeting of the stockholders may instead be taken without a meeting by the written consent of the stockholders who would be entitled to vote on that action at a meeting having not less than the minimum number of vote necessary to authorize such action at a meeting.	Under Nalco's certificate of incorporation, any action by the stockholders must be taken at a meeting of the stockholders and no action may be taken by written consent.
Amendment to Certificate of Incorporation	Under Section 242 of the DGCL, an amendment to Ecolab's restated certificate of incorporation generally requires approval of a majority of the Ecolab board of directors and the vote of the holders of shares of Ecolab stock having a majority of the votes. However, under Ecolab's restated certificate of incorporation, the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of Ecolab stock is required to amend the provisions in the Ecolab restated certificate of incorporation related to the stockholders rights plan triggered in the event of a change of control, business combination or transaction with any interested stockholder holding 10% or more of Ecolab's outstanding stock, provided that the 80% vote will not be required for any amendment unanimously recommended by the Ecolab board if all such directors would be eligible to service as "continuing directors" (as defined in Ecolab's restated certificate of incorporation).	Under Section 242 of the DGCL, an amendment to Nalco's certificate of incorporation generally requires approval of a majority of the Nalco board of directors and the vote of the holders of a majority of shares of Nalco common stock entitled to vote thereon. However, under Nalco's certificate of incorporation, the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of Nalco stock entitled to vote in the election of directors is required to amend the provisions in the Nalco certificate of incorporation related to the amendment of Nalco's bylaws, Nalco's board of directors and voting rights of preferred stock, stockholder meetings, the limited liability of directors and amendment of the certificate of incorporation generally.

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	ECOLAB INC.	NALCO HOLDING COMPANY
Amendment of Bylaws	Under Section 109 of the DGCL, the power to adopt, amend or repeal bylaws is in the stockholders entitled to vote. Section 109 also provides that a corporation may, in its certificate of incorporation, give that power to the directors as well. Under Ecolab's restated certificate of incorporation, Ecolab's board of directors is authorized to alter, amend or rescind the bylaws of Ecolab without the assent or vote of the stockholders in any manner not inconsistent with the laws of the State of Delaware.	Under Section 109 of the DGCL, the power to adopt, amend or repeal bylaws is in the stockholders entitled to vote. Section 109 also provides that a corporation may, in its certificate of incorporation, give that power to the directors as well. Under Nalco's certificate of incorporation, Nalco's board of directors is authorized to make, amend, alter and repeal the bylaws of Nalco without the assent or vote of the stockholders in any manner not inconsistent with the laws of the State of Delaware. Under Nalco's certificate of incorporation and bylaws, the affirmative vote of the holders of at least 80% in voting power of all outstanding shares of Nalco stock entitled to vote in the election of directors is required for the stockholders to amend the provisions in the Nalco bylaws related to special meetings of stockholders, stockholder notices, the composition election and tenure of the board of directors, resignation and removal of directors, vacancies and newly created directorships, and amendment of the Nalco bylaws.
Special Stockholder Meetings	Under Ecolab's bylaws, a special meeting of the Ecolab stockholders may be called by a majority of the Ecolab board, the chairman of the Ecolab board or at the written request of the holders of not less than 25% of all issued and outstanding shares of Ecolab entitled to vote at the meeting.	Under Nalco's bylaws, a special meeting of the Nalco stockholders may be called by the chairman of the Nalco board or the chief executive officer or secretary at the direction of the board of directors pursuant to a resolution approved by the board of directors.
Notice of Stockholder Meetings	Under Ecolab's bylaws, written notice of each meeting of stockholders will be given not less than 10 nor more than 60 days before the date of the meeting.	Under Nalco's bylaws, written notice of the time, date and place of each stockholder meeting, and in the case of a special meeting, the purpose for which the meeting is called, will be given not less than 10 nor more than 60 days before the date of the meeting.

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	ECOLAB INC.	NALCO HOLDING COMPANY
Advance Stockholder Notice Requirements	For proposals and nominations to be timely, a stockholder's notice of such proposal or nomination must be delivered to the Ecolab secretary at Ecolab's principal executive offices not less than 120 days nor more than 150 days prior to the first anniversary date of the preceding year's annual stockholder meeting. However, if the annual meeting is called for a date that is not within 30 days before or after such anniversary date, for notice by the stockholder to be timely, it must be received not later than the close of business on the 10th day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. To be in proper written form, the stockholder's notice must include, among other things, the following information with respect to the stockholder giving notice, any proposed nominee for director and any "stockholder associated person" (as defined in Ecolab's bylaws): in the case of a nomination, information that would be required to be disclosed in filings made in connection with a proxy solicitation for the election of directors pursuant to Section 14 of the Exchange Act; to the extent known, (i) the names and other personal information of any other stockholder supporting the nominee for election or the stockholder business and (ii) a description of all arrangements or understandings between or among such parties pursuant to which the nomination is to be made or in connection with the proposal of stockholder business (including any material interest therein);	For proposals and nominations to be timely, a stockholder's notice of such proposal or nomination must be delivered to the Nalco secretary at Nalco's principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary date of the preceding year's annual stockholder meeting. However, if the annual meeting is called for a date that is more than 30 days before or more than 70 days after such anniversary date, for notice by the stockholder to be timely, it must be delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which the public announcement of the date of such meeting is first made. To be in proper written form, the stockholder's notice must include, among other things, the following information: in the case of a nomination, information that would be required to be disclosed in filings made in connection with a proxy solicitation for the election of directors pursuant to Regulation 14A under the Exchange Act, regarding the person whom the stockholder proposes to nominate for election; in the case of a stockholder proposal or other business, a description of the business the stockholder proposes to bring before the meeting, the text of the proposal or business, the reasons for conducting the business at the relevant meeting and any material interest in such business the notifying stockholder, or the beneficial owner, if any, has.

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	ECOLAB INC.	NALCO HOLDING COMPANY
	personal information, including name, age, addresses, occupation and share ownership; hedging activities and other similar arrangements with respect to Ecolab's common stock; a representation regarding the stockholder's intention to appear at the meeting to nominate the person in such notice or to bring the business in the notice before the meeting.	certain information about the stockholder giving notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, including, among other things, name, address, share ownership, representations regarding the stockholder's intention to deliver a proxy, entitlement to vote and intention to be present at the stockholder meeting.
Preemptive Rights	Ecolab's restated certificate of incorporation expressly states that no holder of common stock will have any preemptive rights to subscribe for any securities of Ecolab.	Nalco's certificate of incorporation does not grant any preemptive rights.
Dividends	Under the DGCL, holders of common stock will be entitled to receive dividends or other distributions when and as may be declared by Ecolab's board of directors out of assets or funds that are legally available for such purpose. Holders of preferred stock will be entitled to receive quarterly dividends or other distributions equal in value to the greater of $10.00 or 1,000 times the aggregate per share amount of all cash dividends and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in common stock, declared on the Ecolab common stock since the immediately preceding quarterly dividend payment date.	Under Nalco's certificate of incorporation, subject to the preferential rights of the Nalco preferred stock (if any), holders of common stock will be entitled to receive dividends payable in cash, property or shares of capital stock when and as may be declared by Nalco's board of directors out of the assets that are legally available for such purpose.

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	ECOLAB INC.	NALCO HOLDING COMPANY
Limitation of Liability of Directors	Under Ecolab's restated certificate of incorporation, no Ecolab director will have personal liability to Ecolab or its stockholders for monetary damages for breach of fiduciary duty; provided, however, that the liability of a director will not be limited for any breach of the director's duty of loyalty to Ecolab or its stockholders, for acts or omissions not in good faith or involving intentional misconduct or knowing violation of law, under Section 174 of the DGCL or for any transaction from which the director derived an improper personal benefit.	Under Nalco's certificate of incorporation, no Nalco director will have personal liability to Nalco or its stockholders for monetary damages for breach of fiduciary duty; provided, however, that the liability of a director will not be limited for any breach of the director's duty of loyalty to Nalco or its stockholders, for acts or omissions not in good faith or involving intentional misconduct or knowing violation of law, under Section 174 of the DGCL or for any transaction from which the director derived an improper personal benefit.
Indemnification of Officers and Directors	Ecolab's bylaws provide that Ecolab will indemnify and hold harmless to the fullest extent permitted by the DGCL any director or officer who was or is made a party to or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that such person is or was a director or officer of Ecolab, or, if at a time when he or she was a director or officer of Ecolab, is or was serving at the request of, or to represent the interests of, Ecolab or any of its affiliates or subsidiaries as a director, officer, partner, member or trustee.	Nalco's certificate of incorporation provides that Nalco will indemnify and hold harmless to the fullest extent permitted by the DGCL any director or officer who was or is made a party to or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that such person is or was a director or officer of Nalco, or, if at a time when he or she was a director or officer of Nalco, is or was serving at the request of, or to represent the interests of, Nalco as a director, officer, partner, member, trustee fiduciary, employee or agent of an affiliated entity if, as provided by Nalco's bylaws, such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of Nalco, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful; provided, however that Nalco will not be obligated to indemnify a director or officer against expenses

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	ECOLAB INC.	NALCO HOLDING COMPANY
		incurred in connection with an action, suit, proceeding or investigation to which such person is threatened to be made a party but does not become a party unless such expenses were incurred with the approval of the board of directors, a board committee, the chairman, vice chairman or chief executive officer of Nalco and Nalco will not be obligated to indemnify against any amount paid in settlement unless Nalco has consented to such settlement. Additionally, Nalco enters into indemnification agreements with its directors and officers.
Certain Business Combination Restrictions	Section 203 of the DGCL restricts a Delaware corporation from engaging in certain transactions with a stockholder once that stockholder has acquired a significant holding in the corporation. A corporation may elect not to be governed by Section 203 of the DGCL, but Ecolab has not made such an election. Accordingly, Ecolab is governed by Section 203. Under Ecolab's restated certificate of incorporation, any consolidation, merger, combination or other transaction in which the Ecolab common stock are exchanged for other stock or securities, cash and/or other property, the shares of the Series A Junior Participating Preferred Stock will be at the same time similarly exchanged for an amount per share equal to 1,000 times the aggregate amount of stock, securities, cash and/or property in which each share of common stock is exchanged.	Section 203 of the DGCL restricts a Delaware corporation from engaging in certain transactions with a stockholder once that stockholder has acquired a significant holding in the corporation. A corporation may elect not to be governed by Section 203 of the DGCL, but Nalco has not made such an election. Accordingly, Nalco is governed by Section 203.

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APPRAISAL RIGHTS

Pursuant to Section 262 of the General Corporation Law of the State of Delaware, which we refer to as Section 262, Nalco stockholders who do not vote in favor of the merger and who comply with the applicable requirements of Section 262 may have the right to seek appraisal of the fair value of such shares as determined by the Delaware Court of Chancery if the merger is completed. The appraised value will not include any value arising from the accomplishment or expectation of the merger, but will include interest on such appraised value from the effective date of the merger until the date such appraised value is paid, calculated at 5% over the Federal Reserve discount rate (including any surcharge) during such period, unless the Delaware Court of Chancery determines otherwise for good cause shown. It is possible that the fair value as determined by the Court may be more or less than, or the same as, the merger consideration.

Under Delaware law, appraisal rights are only available if, among other things, stockholders are required to accept cash for their shares (other than cash in lieu of fractional shares). Therefore, with respect to any shares of Nalco common stock that have not been surrendered for payment for which you would be required under the merger agreement to receive cash merger consideration (other than cash in lieu of fractional shares of Ecolab common stock), you may have the right, if you do not vote in favor of the merger agreement, in lieu of receiving the cash merger consideration for those shares, to obtain payment in cash for the fair value of those shares as determined by the Delaware Court of Chancery. Merger Subsidiary reserves the right to take the position that appraisal may only be sought with respect to shares described in the two preceding sentences of this paragraph, and may not be exercised with respect to any shares as to which stock was received.

SINCE THE FINAL ALLOCATION OF CASH AND STOCK MERGER CONSIDERATION WILL NOT BE DETERMINED UNTIL AFTER THE EFFECTIVE TIME OF THE MERGER WHETHER OR NOT A NALCO STOCKHOLDER WILL BE REQUIRED TO ACCEPT CASH FOR THEIR SHARES AND THUS BE ENTITLED TO APPRAISAL RIGHTS IN THE MERGER WILL NOT BE KNOWN UNTIL AFTER THE NALCO STOCKHOLDER VOTE IS TAKEN ON THE MERGER AGREEMENT AT THE NALCO SPECIAL MEETING. HOWEVER, ANY NALCO STOCKHOLDER WISHING TO PRESERVE THEIR RIGHTS TO APPRAISAL MUST MAKE A DEMAND FOR APPRAISAL PRIOR TO THE TIME THE NALCO STOCKHOLDER VOTE IS TAKEN ON THE MERGER AGREEMENT AT THE NALCO SPECIAL MEETING AS DESCRIBED BELOW.

The following is intended as a brief summary of the material provisions of Section 262 required to be followed by dissenting Nalco stockholders wishing to demand and perfect their appraisal rights. This summary, however, is not a complete statement of all applicable requirements and is subject to and qualified in its entirety by reference to Section 262, the full text of which appears in Annex D to this joint proxy statement/prospectus. Failure to comply strictly with the procedures set forth in Section 262 will result in the loss of appraisal rights.

Under Section 262, Nalco is required to notify stockholders not less than 20 days before the Nalco special meeting to vote on the merger that appraisal rights will be available. A copy of Section 262 must be included with that notice.

THIS JOINT PROXY STATEMENT/PROSPECTUS CONSTITUTES NALCO'S NOTICE TO ITS STOCKHOLDERS OF THE AVAILABILITY OF APPRAISAL RIGHTS IN CONNECTION WITH THE MERGER UNDER SECTION 262 OF THE GENERAL CORPORATION LAW OF THE STATE OF DELAWARE. SECTION 262 IS ATTACHED HERETO AS ANNEX D.

If you wish to consider exercising your appraisal rights, you should carefully review the text of Section 262 set forth in Annex D to this joint proxy statement/prospectus and consult your legal advisor. If you fail to timely and properly comply with the requirements of Section 262, your appraisal rights may be lost.

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If you elect to demand appraisal of your shares of Nalco common stock, you must satisfy each of the following conditions:

- You must deliver to Nalco a written demand for appraisal of your shares before the vote is taken on the merger agreement at the Nalco special meeting. This written demand for appraisal must be in addition to and separate from any proxy or vote abstaining from or voting against the merger. Voting against or failing to vote for the merger does not by itself constitute a demand for appraisal under Section 262.

- You must not vote in favor of the merger. An executed proxy that is submitted but does not contain voting instructions will, unless revoked, be voted in favor of the adoption of the merger agreement. A vote in favor of the merger, by proxy or in person, will constitute a waiver of your appraisal rights in respect of the shares so voted and will nullify any previously filed written demands for appraisal. Therefore, a stockholder who submits a proxy and who wishes to exercise appraisal rights must submit a proxy containing instructions to vote against the adoption of the merger agreement or abstain from voting on the adoption of the merger agreement.

- You must not submit a letter of transmittal or surrender your stock certificates to the exchange agent. Submitting a letter of transmittal or surrendering your stock certificates may constitute a waiver of your appraisal rights and may nullify any previously filed demands for appraisal.

- You must be the record holder of such shares of Nalco common stock on the date written demand for appraisal is made and you must continuously hold your shares of Nalco common stock from the date you make your demand for appraisal rights through the effective date of the merger. A stockholder who is the record holder of shares of Nalco common stock on the date the written demand for appraisal is made, but who thereafter transfers such shares prior to the effective date of the merger, will lose any rights to appraisal in respect of such shares.

If you fail to comply with any of these conditions and the merger is completed, you will lose your appraisal rights with respect to your shares of Nalco common stock. A demand for appraisal will be sufficient if it reasonably informs of the identity of the stockholder and that such stockholder intends thereby to demand appraisal of such stockholder's shares of Nalco common stock. Only a holder of record of shares of Nalco common stock, or a person duly authorized and explicitly purporting to act on that stockholder's behalf, is entitled to assert appraisal rights for the shares of common stock registered in that stockholder's name. A demand for appraisal must be executed by or on behalf of the stockholder of record, fully and correctly, as such stockholder's name appears on their stock certificates, and must state that such person intends thereby to demand appraisal of their shares of Nalco common stock in connection with the proposed merger. **Beneficial owners who do not also hold the shares of record may not directly make appraisal demands to Nalco. The beneficial owner must, in such cases, have the registered stockholder submit the required demand in respect of those shares.**

If the shares of Nalco common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand must be made in that capacity, and if the shares of Nalco common stock are owned of record by more than one person, as in a joint tenancy and tenancy in common, the demand must be executed by or on behalf of all joint owners. An authorized agent, including an agent for two or more joint owners, may execute a demand for appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is acting as agent for such owner or owners. A record holder such as a broker who holds shares as nominee for several beneficial owners may exercise appraisal rights with respect to the shares of Nalco common stock held for one or more beneficial owners while not exercising such rights with respect to the shares held for other beneficial owners; in such case, the written demand should set forth the number of shares as to which appraisal is sought. Where the number of shares of Nalco common stock is not expressly stated, the demand will be presumed to cover all shares held in the name of the record owner.

Stockholders who hold their shares

of Nalco common stock in brokerage accounts or other nominee forms and who wish to exercise appraisal rights are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by such a nominee.

All demands for appraisal should be made in writing and addressed to:

Nalco Holding Company
1601 West Diehl Road
Naperville, Illinois 60563-1198
Attention: Corporate Secretary

and must be executed by, or on behalf of, the record holder of the shares of Nalco common stock. The written demand must reasonably inform Nalco of the identity of the Nalco stockholder and state that the stockholder intends to demand appraisal of the shares of Nalco common stock held by the stockholder. If your shares of Nalco common stock are held through a bank, broker or other nominee and you wish to demand appraisal rights, you must act promptly to instruct the applicable bank, broker or other nominee to follow the steps required by Section 262.

Within 10 days after the effective date of the merger, the entity surviving the merger must give written notice of the effective date of the merger to each Nalco stockholder who has properly asserted appraisal rights under Section 262 and who did not vote in favor of the merger.

Within 120 days after the effective date of the merger, but not thereafter, either the surviving entity or any stockholder who has complied with the requirements of Section 262 may commence an appraisal proceeding by filing a petition with the Delaware Court of Chancery demanding a determination of the value of the shares held by all stockholders entitled to appraisal rights. The entity surviving the merger has no obligation to file such a petition, and there is no present intention for it to do so. A person who is the beneficial owner of shares held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition for appraisal with the Delaware Court of Chancery. If a petition is not filed within such 120-day period, all appraisal rights relating to shares of Nalco common stock will terminate. Accordingly, if you wish to exercise your appraisal rights, you should regard it as your obligation to take all steps necessary to perfect your appraisal rights in the manner prescribed in Section 262.

At any time within 60 days after the effective date of the merger, any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw the demand for appraisal made by the stockholder by delivering to the surviving entity a written withdrawal of the demand for appraisal. Nalco stockholders who withdraw their demand or otherwise fail to perfect or lose their appraisal rights will be entitled to receive in respect of their shares the merger consideration that was payable in respect of shares for which no election to receive cash or stock was made, without any interest thereon, as specified by the merger agreement. Any attempt to withdraw an appraisal demand more than 60 days after the effective date of the merger will require the written approval of the surviving entity. No appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Delaware Court of Chancery deems just; provided, however, that any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party may withdraw a demand for appraisal and accept the merger consideration offered pursuant to the merger agreement within 60 days after the effective date of the merger. If the surviving entity does not approve a request to withdraw a demand for appraisal when that approval is required, or, except with respect to any stockholder who withdraws such stockholder's right to appraisal in accordance with the proviso in the immediately preceding sentence, if the Delaware Court of Chancery does not approve the dismissal of an appraisal proceeding, the stockholder will be entitled to receive only the appraised value determined in any such appraisal proceeding, which value could be less than, equal to or more than the consideration being offered pursuant to the merger agreement.

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Within 120 days after the effective date of the merger, any stockholder who has complied with Section 262 will be entitled, upon written request, to receive from the surviving entity a statement setting forth the aggregate number of shares of Nalco common stock not voted in favor of the merger and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. The statement must be mailed within 10 days after a written request therefor has been received by the surviving entity or within 10 days after the expiration of the period for delivery of demands for appraisal, whichever is later. A person who is the beneficial owner of shares held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, request such a statement from the surviving entity.

If a dissenting stockholder duly files a petition for appraisal with the Delaware Court of Chancery and the petition is served on the surviving entity, then the surviving entity must file with the Delaware Register in Chancery within 20 days after being served such petition a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached. After the Delaware Register in Chancery gives notice of the time and place fixed for hearing of such petition as required by the Delaware Court of Chancery, the Delaware Court of Chancery is empowered to conduct a hearing upon the petition to determine those stockholders who have complied with the requirements of Section 262 and who are entitled to appraisal rights.

The Delaware Court of Chancery may require stockholders who have demanded appraisal for their shares and who hold stock represented by certificates to submit their stock certificates to the Delaware Register in Chancery for notation thereon of the pendency of the appraisal proceedings. If any stockholder fails to comply with such direction, the Delaware Court of Chancery may dismiss the proceedings as to such stockholder. After determination of the stockholders entitled to appraisal rights, an appraisal proceeding shall be conducted in accordance with the rules of the Delaware Court of Chancery, including any rules specifically governing appraisal proceedings, and the Delaware Court of Chancery will determine the fair value of the shares of Nalco common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest, if any, to be paid upon the amount determined to be the fair value. Unless the Delaware Court of Chancery in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. Once the fair value is determined by the Delaware Court of Chancery, the surviving entity will pay all dissenting stockholders the appraised value of their shares, together with interest accrued thereon during the pendency of the proceeding, immediately, in the case of holders of uncertificated shares, or upon surrender by such holders of any certificates representing such shares.

In determining fair value, the Delaware Court of Chancery is required to take into account all relevant factors. In *Weinberger v. UOP, Inc.*, the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that "proof of value by any techniques or methods that are generally considered acceptable in the financial community and otherwise admissible in court" should be considered, and that "fair price obviously requires consideration of all relevant factors involving the value of a company." The Delaware Supreme Court stated that, in making this determination of fair value, the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts that were known or could be ascertained as of the date of the merger that throw any light on future prospects of the target corporation. Section 262 provides that fair value is to be "exclusive of any element of value arising from the accomplishment or expectation of the merger." In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that such exclusion is a "narrow exclusion [that] does not encompass known elements of value," but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Delaware Supreme Court also stated that "elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered."

Stockholders considering seeking appraisal should be aware that the fair value of their shares as so determined could be more than, the same as or less than the consideration they would receive pursuant to the merger if they did not seek appraisal of their shares and that an investment banking opinion as to fairness from a financial point of view is not necessarily an opinion as to fair value under Section 262. Although Nalco believes that the merger consideration is fair, no representation is made as to the outcome of the appraisal of fair value as determined by the Delaware Court of Chancery, and stockholders should recognize that such an appraisal could result in a determination of a value higher or lower than, or the same as, the merger consideration. Neither Ecolab nor Nalco anticipate offering more than the applicable merger consideration to any stockholder of Nalco exercising appraisal rights, and reserve the right to assert, in any appraisal proceeding, that for purposes of Section 262, the "fair value" of a share of Nalco common stock is less than the applicable merger consideration. The Delaware courts have stated that the methods which are generally considered acceptable in the financial community and otherwise admissible in court may be considered in the appraisal proceedings. In addition, the Delaware courts have decided that the statutory appraisal remedy, depending on factual circumstances, may or may not be a dissenting stockholder's exclusive remedy.

If a petition for appraisal is not timely filed, then the right to an appraisal will cease. Costs of the appraisal proceeding (which do not include attorneys' fees or the fees and expenses of experts) may be determined by the Delaware Court of Chancery and charged to the parties as the Court deems equitable under the circumstances. Upon application of any dissenting stockholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts utilized in the appraisal proceeding, to be charged pro rata against the value of all shares entitled to appraisal. In the absence of such a determination or assessment, each party bears its own expenses.

If any stockholder who demands appraisal of shares of Nalco common stock under Section 262 fails to perfect, successfully withdraws or loses such holder's right to appraisal, the stockholder's shares of Nalco common stock will be deemed to have been converted at the effective date of the merger into the right to receive the merger consideration pursuant to the merger agreement. A stockholder will fail to perfect, or effectively lose, the holder's right to appraisal if, among other things, no petition for appraisal is filed within 120 days after the effective date of the merger. In addition, as indicated above, a stockholder may withdraw a demand for appraisal in accordance with Section 262 and accept the merger consideration offered pursuant to the merger agreement. Any attempt to withdraw an appraisal demand more than 60 days after the effective time of the merger will require written approval of the surviving entity.

Any stockholder who has demanded appraisal rights will not, after the effective date of the merger, be entitled to vote the stockholder's shares for any purpose or to receive payments of dividends or any other distribution with respect to such shares (other than with respect to payment as of a record date prior to the effective time of the merger).

If you desire to exercise your appraisal rights, you must not vote for the adoption of the merger agreement and you must strictly comply with the procedures set forth in Section 262.

The process of demanding and exercising appraisal rights requires strict compliance with technical prerequisites under Section 262. **In view of the complexity of Section 262, Nalco stockholders who may wish to dissent from the merger and pursue appraisal rights should consult their legal advisors.** Failure to take any required step in connection with exercising appraisal rights may result in the termination or waiver of such rights. To the extent there are any inconsistencies between the foregoing summary and Section 262, Section 262 will govern. Section 262 is attached hereto as Annex D.

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PROPOSAL TO AUTHORIZE ADDITIONAL SHARES OF ECOLAB COMMON STOCK

Summary of the Proposal

The Ecolab board of directors has unanimously determined that it is advisable and in the best interests of Ecolab and its stockholders for Ecolab's restated certificate of incorporation to be amended promptly following completion of the merger to increase the number of authorized shares of Ecolab common stock from 400,000,000 to 800,000,000 shares. Upon approval of this proposal by Ecolab's stockholders, Ecolab would be authorized to amend the first paragraph of Article III of its restated certificate of incorporation as set forth in Annex E to this joint proxy statement/prospectus. Except for the foregoing amendment, the other terms and provisions of Ecolab's restated certificate of incorporation would remain unchanged.

As of October 11, 2011, the record date for the Ecolab special meeting, 400,000,000 shares of Ecolab common stock were authorized, of which approximately 232.1 million shares were issued and outstanding and approximately 29.4 million shares were reserved for issuance pursuant to Ecolab equity compensation plans and individual equity award agreements. Upon consummation of the merger, Ecolab expects to issue approximately 68.3 million shares of Ecolab common stock to the holders of Nalco common stock pursuant to the terms of the merger agreement, and will be required to reserve approximately 2.4 million additional shares of Ecolab common stock in connection with Nalco equity compensation plans and individual award agreements assumed by Ecolab in connection with the merger. Accordingly, although Ecolab has available a sufficient number of authorized shares to consummate the merger, Ecolab after the merger will have only approximately 67.7 million shares of common stock, including treasury shares, available for future issuance.

If this proposal is approved by Ecolab's stockholders, following consummation of the merger 400,000,000 additional shares of Ecolab common stock will be available for future issuance or sale upon authorization by the Ecolab board of directors without further stockholder approval. Stockholder approval of particular future transactions may be required, however, under the rules or policies of the NYSE, upon which Ecolab's common stock is currently listed for trading, or any other exchange or market upon which shares of Ecolab common stock may be traded or quoted in the future.

Purpose and Effect of the Proposal

Upon approval of this proposal by Ecolab's stockholders, following consummation of the merger 400,000,000 additional shares of Ecolab common stock would be authorized but unissued and unreserved. The Ecolab board of directors believes that it is in the best interests of Ecolab and its stockholders to have additional shares of common stock available following the merger for various general corporate purposes, including financing transactions, acquisitions, stock splits, stock dividends and equity compensation plans or agreements. The Ecolab board of directors believes that the additional authorized common stock would give Ecolab greater flexibility by allowing the company to issue shares of Ecolab common stock without the expense and delay of convening a stockholders meeting to authorize additional shares if and when the need arises.

Ecolab currently has no plans for the issuance of additional shares of its common stock, other than future issuances pursuant to its equity compensation plans and agreements in the ordinary course of business. The Ecolab board of directors has determined, however, that securing stockholder approval for additional authorized shares of Ecolab common stock is appropriate in order to provide the company with the flexibility to consider possible actions that might require the future issuance of additional shares of common stock.

If the Ecolab board of directors deems it to be in the best interest of Ecolab and its stockholders to issue additional shares of common stock in the future, the Ecolab board of directors does not expect to seek further authorization by vote of Ecolab's stockholders, unless stockholder approval is otherwise

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required by law or by the rules or policies of the NYSE or any other exchange or market upon which shares of Ecolab's common stock may be traded or quoted in the future.

The issuance of the additional shares of Ecolab common stock may have a dilutive effect on Ecolab's earnings per share and, for stockholders that do not purchase additional shares to maintain their pro rata interest in Ecolab, on their percentage of voting power. In addition, the issuance of additional shares of Ecolab common stock authorized pursuant to this proposal could have the effect of deterring possible acquisition proposals with respect to Ecolab. For example, the issuance of the additional shares of Ecolab common stock could discourage a potential acquirer of Ecolab by increasing the number of shares of common stock necessary to gain control of Ecolab, permitting Ecolab, through the public or private issuance of shares of its common stock, to dilute the stock ownership of the potential acquirer, or permitting Ecolab to privately place shares of its common stock with purchasers who would side with the Ecolab board of directors in opposing a takeover bid. This proposed amendment to Ecolab's restated certificate of incorporation is not being recommended in response to any specific effort of which Ecolab's board of directors or management is aware to accumulate shares or obtain control of Ecolab or for a specific purpose other than general corporate purposes.

Effect of Proposal on Proposals Relating to the Merger

Completion of the merger is not conditioned or dependant on approval of this proposal by Ecolab's stockholders. If Ecolab's stockholders fail to approve this proposal but the other conditions to the merger provided in the merger agreement are satisfied or waived, Ecolab intends to consummate the merger in accordance with the merger agreement.

If Ecolab's stockholders approve this proposal, Ecolab does not intend to file an amendment to its restated certificate of incorporation giving effect to the increase in its authorized shares of common stock contemplated by this proposal until after consummation of the merger. Accordingly, if the share issuance proposal or the merger proposal are not approved by the stockholders of Ecolab and Nalco, or the merger is not completed for any other reason, Ecolab does not intend to implement this proposal, even if this proposal is approved by its stockholders at the Ecolab stockholders meeting.

If this proposal is approved by Ecolab's stockholders and the merger is consummated, then Ecolab will have authority to file a certificate of amendment to its restated certificate of incorporation with the Secretary of State of the State of Delaware, which is expected to occur as soon as practicable following the consummation of merger. Ecolab's stockholders will not have appraisal rights with respect to the proposed amendment to Ecolab's restated certificate of incorporation and will not have preemptive rights in connection with any future issuance of shares of Ecolab common stock.

Required Vote

Approval of this proposal requires the affirmative vote of holders of a majority of the issued and outstanding shares of Ecolab common stock entitled to vote on the proposal. Failures to vote and votes to abstain will have the effect of a vote "AGAINST" the proposal.

Recommendation of the Ecolab Board of Directors

The board of directors recommends a vote "FOR" approval of the amendment of Ecolab's restated certificate of incorporation to increase the number of authorized shares of Ecolab common stock.

NALCO NON-BINDING, ADVISORY PROPOSAL TO APPROVE CERTAIN COMPENSATION

Advisory Vote on Golden Parachutes

In accordance with Section 14A of the Exchange Act, Nalco is providing its stockholders with the opportunity to cast a non-binding advisory vote on the compensation that may be payable to its named executive officers in connection with the merger. As required by those rules, Nalco is asking its stockholders to vote on the adoption of the following resolution:

"RESOLVED, that the compensation that may be paid or become payable to Nalco's named executive officers in connection with the merger, as disclosed in the table titled "Potential Change of Control Payments to Named Executive Officers" on page 120, including the associated narrative discussion, and the agreements or understandings pursuant to which such compensation may be paid or become payable, are hereby APPROVED."

THE NALCO BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THIS PROPOSAL.

The vote on executive compensation payable in connection with the merger is a vote separate and apart from the vote to approve the merger proposal. Accordingly, you may vote to approve the merger proposal and vote not to approve the executive compensation and vice versa. Because the vote is advisory in nature only, it will not be binding on Nalco or on the combined company. Accordingly, because Nalco is contractually obligated to pay the compensation, such compensation will be payable, subject only to the conditions applicable thereto, if the merger proposal is approved and regardless of the outcome of the advisory vote.

Stockholders who hold shares representing a majority of the issued and outstanding shares of Nalco common stock entitled to vote at the special meeting must be present in person or represented by proxy to constitute a quorum for the transaction of business at the Nalco special meeting. Abstentions and broker non-votes will be included in the calculation of the number of shares of Nalco commons stock represented at the special meeting for purposes of determining whether a quorum has been achieved.

The affirmative vote of holders of a majority of the issued and outstanding shares of Nalco common stock present in person or represented by proxy at the Nalco special meeting and entitled to vote on the proposal is required to approve the advisory resolution on executive compensation payable in connection with the merger.

If you fail to instruct your broker, bank or other nominee to vote or fail to vote, it will have no effect on the advisory resolution on executive compensation payable in connection with the merger, assuming a quorum is present. If you mark your proxy or voting instructions to abstain, it will have the effect of a vote "AGAINST" the advisory resolution on executive compensation payable in connection with the merger.

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LEGAL MATTERS

The validity of the shares of Ecolab common stock to be issued pursuant to the merger will be passed upon by James J. Seifert, General Counsel and Secretary of Ecolab. The material U.S. federal income tax consequences relating to the merger will be passed upon for Ecolab by Baker & McKenzie LLP and for Nalco by Cravath, Swaine & Moore LLP.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

With respect to the unaudited financial information of Ecolab Inc. for the three-month periods ended March 31, 2011 and 2010 and the three- and six-month periods ended June 30, 2011 and 2010, incorporated by reference in this joint proxy statement/prospectus, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate reports dated May 5, 2011 and August 4, 2011 incorporated by reference herein state that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their reports 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 for their reports on the unaudited financial information because those reports are not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act.

EXPERTS

Ecolab

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this joint proxy statement/prospectus by reference to the Ecolab Inc. Annual Report on Form 10-K for the year ended December 31, 2010 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Nalco

The consolidated financial statements of Nalco Holding Company and its subsidiaries as of December 31, 2010, and for the year ended December 31, 2010, and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of December 31, 2010 incorporated in this joint proxy statement/prospectus by reference to Nalco's Annual Report on Form 10-K for the year ended December 31, 2010, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements and schedules of Nalco Holding Company and its subsidiaries as of December 31, 2009 and for each of the two years in the period ended December 31, 2009 appearing in Nalco Holding Company's Annual Report on Form 10-K for the year ended December 31, 2010 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon included therein, and incorporated herein by reference. Such financial statements and schedules are incorporated herein in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

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STOCKHOLDER PROPOSALS

Ecolab

Ecolab will hold a regular annual meeting in 2012 regardless of whether the merger is completed.

For inclusion in the proxy statement and form of proxy relating to the 2012 annual meeting, stockholder proposals submitted pursuant to Rule 14a-8 of the Exchange Act must be received by Ecolab's Corporate Secretary no later than November 21, 2011.

Stockholder proposals not included in a proxy statement for an annual meeting as well as proposed stockholder nominations for the election of directors at an annual meeting must each comply with advance notice procedures set forth in Ecolab's bylaws in order to be properly brought before that annual meeting of stockholders. In general, written notice of a stockholder proposal or a director nomination must be received by the Corporate Secretary not less than 120 days nor more than 150 days prior to the anniversary date of the preceding annual meeting of stockholders. With regard to next year's Annual Meeting of Stockholders, expected to be held on May 3, 2012, the written notice must be received between December 7, 2011 and January 6, 2012 inclusive. The written notice must comply with the provisions of Ecolab's bylaws.

Nalco

It is not expected that Nalco will hold an annual meeting of stockholders for 2012 unless the merger is not completed.

In order to be considered for inclusion in the proxy statement and form of proxy for the 2012 annual meeting of stockholders, should one be held, stockholder proposals must be submitted in writing and received by Nalco's Corporate Secretary at Nalco's principal executive offices in Naperville, Illinois on or before November 19, 2011 in accordance with the requirements of 14a-8 of the Exchange Act.

If the merger is not completed and Nalco holds an annual meeting in 2012, any stockholder who desires to bring business before the 2012 annual meeting of stockholders in a form other than a stockholder proposal in accordance with the preceding paragraph must submit the recommendation in writing to the Corporate Secretary, c/o Nalco Holding Company, 1601 West Diehl Road, Naperville, Illinois 60563-1198 with proper notice, as provided in Nalco's bylaws not less than 90 and no more than 120 days prior to the first anniversary of the previous year's annual meeting. For the 2012 annual meeting, Nalco's Corporate Secretary must receive this notice on or after December 31, 2011, and on or before January 30, 2012, unless the annual meeting in 2012 is more than 30 days before, or more than 70 days after, such anniversary date, then notice by the stockholder to be timely must be delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. You may contact Nalco's Corporate Secretary at the address mentioned above for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

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OTHER MATTERS

Other Matters Presented at the Special Meetings

As of the date of this joint proxy statement/prospectus, neither the Ecolab board of directors nor the Nalco board of directors knows of any matters that will be presented for consideration at either the Ecolab special meeting or the Nalco special meeting other than as described in this joint proxy statement/prospectus. If any other matters come before either the Ecolab special meeting or the Nalco special meeting or any adjournment or postponement thereof and shall be voted upon, the proposed proxy will be deemed to confer authority to the individuals named as authorized therein to vote the shares represented by the proxy as to any matters that fall within the purposes set forth in the notice of special meeting. It is intended that the persons named in the enclosed proxy and acting thereunder will vote in accordance with their best judgment on such matters.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets for the beneficial ownership as of August 26, 2011 by each person known to Ecolab, solely by reason of Ecolab's examination of Schedule 13D and Schedule 13G filings made with the SEC, to be the beneficial owner of more than 5% of the outstanding shares of Ecolab common stock.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Ecolab common stock	William H. Gates III One Microsoft Way Redmond, Washington 98052	30,035,806(1)	12.9%(2)

(1) This information is based on Amendment No. 2 to the Schedule 13D filed jointly with the SEC on August 26, 2011 by Cascade Investment, L.L.C., which we refer to as Cascade, William H. Gates III, whom we refer to as Mr. Gates, the Bill and Melinda Gates Foundation Trust, which we refer to as the Trust, and Melinda French Gates, whom we refer to as Mrs. Gates, and a Form 4 relating to Mr. Gates filed with the SEC on September 2, 2011. Mr. Gates reports that he has sole power to vote or direct the vote, and to dispose or to direct the disposition, of 25,669,281 shares of Ecolab common stock beneficially owned by Cascade, as the sole member of such entity. Additionally, the Schedule 13D reports that Mr. Gates and Mrs. Gates share the power to vote or direct the vote, and to dispose or to direct the disposition, of 4,366,425 shares of Ecolab common stock beneficially owned by the Trust, as co-trustees of such entity.

(2) The percent of class provided here is based on 232,097,949 shares of Ecolab common stock outstanding as of September 30, 2011.

The beneficial ownership of Ecolab common stock by each of the executive directors named in Ecolab's summary compensation table included in the proxy statement for its 2010 annual stockholders meeting and by all current directors and officers of Ecolab as a group is provided in Ecolab's Proxy Statement on Schedule 14A filed with the SEC on March 18, 2011 and is incorporated herein by reference. For a more detailed description of the information incorporated by reference in this joint proxy statement/prospectus and how you may obtain it, see "Where You Can Find More Information" beginning on page 195.

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WHERE YOU CAN FIND MORE INFORMATION

Ecolab Inc.

Ecolab files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document Ecolab files at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C., 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Ecolab's SEC filings are also available to the public at the SEC's website at *www.sec.gov* or at Ecolab's website at *www.ecolab.com*.

The SEC allows Ecolab to incorporate by reference in this joint proxy statement/prospectus documents it files with the SEC. This means that Ecolab can disclose important information to you by referring you to those documents. The information filed by Ecolab and incorporated by reference is considered to be a part of this joint proxy statement/prospectus, and later information that Ecolab files with the SEC will update and supersede that information. Statements contained in this joint proxy statement/prospectus, or in any document incorporated in this joint proxy statement/prospectus by reference, regarding the contents of any contract or other document are not necessarily complete and each such statement is qualified in its entirety by reference to such contract or other document filed as an exhibit with the SEC. Ecolab incorporates by reference the documents listed below and any documents filed by Ecolab pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than information furnished pursuant to Item 2.02 or Item 7.01 of a Current Report on Form 8-K), after the date of this joint proxy statement/prospectus and before the date of the Ecolab special meeting:

Ecolab Filings:	**Period/Filing Date:**
Annual Report on Form 10-K	For the year ended December 31, 2010
Proxy Statement on Schedule 14A	Filed on March 18, 2011
Quarterly Reports on Form 10-Q	For the quarters ended March 31, 2011 and June 30, 2011
Current Reports on Form 8-K	Filed on February 17, 2011, May 6, 2011, July 20, 2011, July 27, 2011, August 24, 2011, August 30, 2011, September 6, 2011, September 8, 2011, October 25, 2011 and October 28, 2011.

Ecolab also incorporates by reference the description of its common stock contained in its registration statement of Form 8-A, filed with the SEC on November 17, 1986, and any amendment or report filed with the SEC for the purpose of updating the description.

Nalco Holding Company

Nalco files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document Nalco files at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C., 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Nalco's SEC filings are also available to the public at the SEC's website at *www.sec.gov* or at Nalco's website at *www.nalco.com*.

The SEC allows Nalco to incorporate by reference in this joint proxy statement/prospectus documents it files with the SEC. This means that Nalco can disclose important information to you by referring you to those documents. The information filed by Nalco and incorporated by reference is considered to be a part of this joint proxy statement/prospectus, and later information that Nalco files with the SEC will update and supersede that information. Statements contained in this joint proxy statement/prospectus, or in any document incorporated in this joint proxy statement/prospectus by reference, regarding the contents of any contract or other document are not necessarily complete and each such statement is qualified in its entirety by reference to such contract or other document filed as an exhibit with the SEC. Nalco incorporates by reference the documents listed below and any documents filed by Nalco pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than information furnished pursuant to Item 2.02 or Item 7.01 of a Current Report on Form 8-K), after the date of this joint proxy statement/prospectus and before the date of the Nalco special meeting:

Nalco Filings	Period/Filing Date:
Annual Report on Form 10-K	For the year ended December 31, 2010
Proxy Statement on Schedule 14A	Filed on March 14, 2011
Quarterly Reports on Form 10-Q	For the quarters ended March 31, 2011 and June 30, 2011
Current Reports on Form 8-K	Filed on January 6, 2011, January 6, 2011, January 26, 2011, February 11, 2011, February 17, 2011, April 29, 2011, July 20, 2011, July 29, 2011 and August 30, 2011

Nalco also incorporates by reference the description of its common stock contained in its registration statement of Form 8-A, filed with the SEC on November 2, 2004, and any amendment or report filed with the SEC for the purpose of updating the description.

In the event of conflicting information in this joint proxy statement/prospectus in comparison to any document incorporated by reference in this joint proxy statement/prospectus, or among documents incorporated by reference, the information in the latest filed document controls.

You should rely only on the information contained or incorporated by reference in this joint proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference in, this joint proxy statement/prospectus. This joint proxy statement/prospectus is dated October 28, 2011. You should not assume that the information contained in this joint proxy statement/prospectus is accurate as of any date other than that date. You should not assume that the information incorporated by reference in this joint proxy statement/prospectus is accurate as of any date other than the date of such incorporated document. Neither our mailing of this joint proxy statement/prospectus to Ecolab stockholders or Nalco stockholders nor the issuance by Ecolab of shares of common stock pursuant to the merger will create any implication to the contrary.

Annex A

AGREEMENT AND PLAN OF MERGER

AMONG

ECOLAB INC.,

SUSTAINABILITY PARTNERS CORPORATION

AND

NALCO HOLDING COMPANY

DATED AS OF JULY 19, 2011

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER dated as of July 19, 2011 (this "*Agreement*") is made and entered into among Ecolab Inc., a Delaware corporation ("*Ecolab*"), Sustainability Partners Corporation, a Delaware corporation and a direct, wholly-owned Subsidiary of Ecolab ("*Merger Sub*"), and Nalco Holding Company, a Delaware corporation ("*Nalco*"). Ecolab, Merger Sub and Nalco are referred to in this Agreement individually as a "*Party*" and collectively as the "*Parties*."

RECITALS

WHEREAS, the Boards of Directors of Ecolab, Merger Sub and Nalco have each determined that the transactions contemplated by this Agreement are consistent with, and will further, their respective business strategies and goals, and have deemed it advisable and in the best interests of their respective companies and stockholders that Ecolab and Nalco enter into a business combination;

WHEREAS, in furtherance thereof, the Boards of Directors of Ecolab, Merger Sub and Nalco have approved and declared advisable this Agreement and the merger of Nalco with and into Merger Sub (the "*Merger*") in accordance with the applicable provisions of the General Corporation Law of the State of Delaware (the "*DGCL*") and upon the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, it is intended that for U.S. federal income tax purposes the Merger will qualify as a reorganization under Section 368(a) of the Code, this Agreement will constitute a plan of reorganization, and Ecolab, Nalco and Merger Sub each will be a party to such reorganization within the meaning of Section 368(b) of the Code.

NOW, THEREFORE, in consideration of the foregoing and their respective representations, warranties, covenants and agreements set forth in this Agreement, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I
DEFINED TERMS

Section 1.1 Certain Defined Terms. As used in this Agreement, the following terms have the meanings specified in this *Section 1.1*.

"*Affiliate*" means, with respect to any Person, another Person that directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such first Person, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by Contract, as trustee or executor or otherwise.

"*Available Cash Amount*" means an amount of cash equal to 30% of the product of (a) $38.80 and (b) the number of issued and outstanding shares of Nalco Common Stock immediately prior to the Effective Time (other than Excluded Shares or Dissenting Shares).

"*Base Ecolab Stock Price*" means $55.39.

"*Beneficial Owner*" means, with respect to a Security, any Person who, directly or indirectly, through any Contract, relationship or otherwise, has or shares (a) the power to vote, or to direct the voting of, such Security, (b) the power to dispose of, or to direct the disposition of, such Security or (c) the ability to profit or share in any profit derived from a transaction in such Security. The term "*Beneficial Ownership*" will be construed accordingly.

"*Board of Directors*" means the board of directors of a specified Person, or any committee thereof.

"*Burdensome Condition*" means making proposals, executing, carrying out or terminating Contracts (including consent decrees) or submitting to Laws (a) providing for the license, sale or other disposition or holding separate (through the establishment of trust or otherwise) of assets or categories of assets of Ecolab, Nalco (or the Surviving Corporation after the Effective Time) or their respective

Subsidiaries, or the disposition or holding separate of the capital stock of one or more Ecolab Subsidiaries or Nalco Subsidiaries, in any case which, in the aggregate, accounted for annual net sales for the most recently completed fiscal year exceeding $200,000,000, or (b) imposing or seeking to impose any material limitation on the ability of Ecolab, Nalco (or the Surviving Corporation after the Effective Time) or any of their respective Subsidiaries to conduct their respective businesses (including with respect to market practices and structure) or own such assets or to acquire, hold or exercise full rights of ownership of the business of Ecolab, Nalco (or the Surviving Corporation after the Effective Time) or their respective Subsidiaries, in any case which, in the aggregate, affects or relates to business units of Ecolab, Nalco (or the Surviving Corporation after the Effective Time) or their respective Subsidiaries that accounted for annual net sales for the most recently completed fiscal year exceeding $200,000,000.

"*Business Day*" means any day, except Saturday or Sunday, on which commercial banks are not required or authorized to close in the City of New York.

"*Change*" means a change, circumstance, condition, event, effect, development or state of facts.

"*Closing Ecolab Stock Price*" means the average VWAP price per share, rounded to four decimals, of Ecolab Common Stock, for the period of 10 consecutive trading days ending on the last full trading day prior to the Effective Time.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"*Competition Law*" means any Law, including the HSR Act, intended to prohibit, restrict or regulate actions having an anticompetitive effect or purpose, including competition, restraint of trade, anti-monopolization, merger control or antitrust Laws.

"*Constituent Documents*" means with respect to any entity, its certificate or articles of incorporation, bylaws and any similar charter or other organizational documents of such entity.

"*Contract*" means any contract, agreement, lease, sublease, license, sublicense, commitment, understanding, franchise, warranty, guaranty, mortgage, note, bond, option, warrant or other legally binding arrangement, in each case, whether written or oral and whether one or a series of related Contracts.

"*Ecolab Acquisition Proposal*" means any proposal or offer from any Person or group for a direct or indirect (a) merger, binding share exchange, recapitalization, reorganization, liquidation, dissolution, business combination or consolidation, or any similar transaction, involving Ecolab, pursuant to which such Person or group (or the shareholders of any Person) would acquire, directly or indirectly, 15 percent or more of the aggregate voting power of Ecolab or of the surviving entity in a merger involving Ecolab or the resulting direct or indirect parent of Ecolab or such surviving entity, (b) sale, lease, license, exchange, mortgage, pledge, transfer or other acquisition or assumption of 15 percent or more of the consolidated net revenues, net income or assets (based on the fair market value thereof) of Ecolab and the Ecolab Subsidiaries, taken as a whole, in one or a series of related transactions, or (c) purchase, tender offer, exchange offer or other acquisition (including by way of merger, consolidation, share exchange or otherwise) that if consummated would result in the Beneficial Ownership by any Person or group of Securities representing 15 percent or more of the then-outstanding Ecolab Common Stock (or of the shares of the surviving entity in a merger or of the direct or indirect parent of the surviving entity in a merger, in each case involving Ecolab); *provided* that the term "*Ecolab Acquisition Proposal*" will not include the Merger or the other transactions contemplated by this Agreement.

"*Ecolab Benefit Plan*" means any employment, bonus, deferred compensation, incentive compensation, stock purchase, stock option, thirteenth month, termination indemnity, redundancy, change in control, performance, retention, severance or termination pay, holiday pay, sick pay, workers' compensation, vacation pay, fringe benefit, educational assistance, housing assistance, relocation or expatriate, moving expense reimbursement, hospitalization or other medical, life, disability, welfare benefit or other insurance, supplemental unemployment benefits, profit-sharing, pension, superannuation or retirement plan, program or Contract, and each other employee benefit plan, program, or Contract (including employment Contracts), whether written or oral, currently maintained or contributed to or required to be contributed to by Ecolab, any Ecolab Subsidiary or any ERISA Affiliate, for the benefit of any current or former director, officer or employee of Ecolab or any Ecolab Subsidiary, other than (i) any Multiemployer Plan or (ii) any such plan, program or Contract that is required by applicable Law.

"*Ecolab Common Stock*" means the Common Stock, par value $1.00 per share, of Ecolab (together with the Ecolab Rights attached thereto or associated therewith).

"*Ecolab Financial Statements*" means the consolidated financial statements of Ecolab and the Ecolab Subsidiaries included in the Ecolab SEC Documents together, in the case of year-end statements, with reports thereon by PricewaterhouseCoopers LLP, the independent auditors of Ecolab, including in each case a consolidated balance sheet, a consolidated statement of income, a consolidated statement of stockholders' equity and a consolidated statement of cash flows, and accompanying notes.

"*Ecolab Intellectual Property License Agreements*" means Contracts granting or obtaining any right to use or practice any rights under any Intellectual Property to which Ecolab or any Ecolab Subsidiary is a party or otherwise bound.

"*Ecolab Leased Real Property*" means all real property interests of Ecolab or any of the Ecolab Subsidiaries acquired pursuant to any Lease.

"*Ecolab Material Adverse Effect*" means a Material Adverse Effect with respect to Ecolab.

"*Ecolab Owned Intellectual Property*" means all U.S. and foreign Patents (including those granted to or applied for or owned by Ecolab or any Ecolab Subsidiary), registered Trademarks (including Internet domain name registrations) and material unregistered Trademarks, registered Copyrights and material unregistered Copyrights, and material Software which are owned by Ecolab or the Ecolab Subsidiaries.

"*Ecolab Owned Real Property*" means real property, together with all improvements and fixtures located thereon or attached or appurtenant thereto, owned by Ecolab or any Ecolab Subsidiary, including all easements, licenses, rights and appurtenances relating to the foregoing.

"*Ecolab Preferred Stock*" means the Preferred Common Stock, without par value, of Ecolab.

"*Ecolab Rights*" means the rights distributed to the holders of Ecolab Common Stock pursuant to the Ecolab Rights Agreement.

"*Ecolab Rights Agreement*" means the Rights Agreement dated as of February 24, 2006, as amended, between Ecolab and Computershare Investor Services, LLC, as rights agent.

"*Ecolab Stock-Based Award*" means any Equity Right consisting of, based on or relating to shares of Ecolab Common Stock granted under an Ecolab Stock Plan, other than Ecolab Stock Options.

"*Ecolab Stock Option*" means any Equity Right that is an option to purchase Ecolab Common Stock granted under any Ecolab Stock Plan.

"*Ecolab U.S. Benefit Plan*" means any Ecolab Benefit Plan that is not a Foreign Ecolab Benefit Plan.

"*Environmental Law*" means any Law relating to the environment, natural resources, pollutants, contaminants or, to the extent relating to exposure to hazardous or toxic substances, public health and safety, including any Law pertaining to (a) treatment, storage, disposal, generation and transportation

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of toxic or hazardous substances or solid or hazardous waste, (b) air, water and noise pollution, (c) groundwater or soil contamination, (d) the release or threatened release into the environment of toxic or hazardous substances or solid or hazardous waste, including emissions, discharges, injections, spills, escapes or dumping into the environment of pollutants, contaminants or chemicals, (e) manufacture, processing, use, distribution, treatment, storage, disposal, transportation or handling of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or oil or petroleum products or solid or hazardous waste, (f) underground and other storage tanks or vessels, abandoned, disposed or discarded barrels, containers and other closed receptacles, (g) public health and safety or (h) the protection of wild life, marine sanctuaries and wetlands, including all endangered and threatened species.

"*Environmental Permit*" means any permit, license, authorization or consent required pursuant to applicable Environmental Laws.

"*Equity Right*" means, with respect to any Person, any security or obligation convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, or any options, calls, restricted stock, deferred stock awards, stock units, "phantom" awards, dividend equivalents, or commitments relating to, or any stock appreciation right or other instrument the value of which is determined in whole or in part by reference to the market price or value of, shares of capital stock or earnings of such Person.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"*ERISA Affiliate*" means, with respect to any entity, any trade or business, whether or not incorporated, that together with such entity and its Subsidiaries would be deemed a "single employer" within the meaning of Section 4001 of ERISA.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"*Exchange Ratio*" means 0.7005.

"*Expenses*" means all out-of-pocket expenses (including all fees and expenses of legal counsel, accountants, investment bankers, experts and consultants to a Party or its Affiliates) incurred by or on behalf of a Party in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated by this Agreement, including the preparation, printing, filing and mailing of the Joint Proxy Statement/Prospectus and the Form S-4, and any amendments or supplements thereto, the solicitation of the Nalco Stockholder Approval and the Ecolab Stockholder Approval and all other matters related to the transactions contemplated by this Agreement.

"*FCPA*" means the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations promulgated thereunder.

"*Governmental Authority*" means any (a) nation, region, state, county, city, town, village, district or other jurisdiction, (b) federal, state, local, municipal, foreign or other government, (c) department, agency or instrumentality of a foreign or other government, including any state-owned or state controlled instrumentality of a foreign or other government, (d) governmental or quasi-governmental entity of any nature (including any governmental agency, branch, department or other entity and any court or other tribunal), (e) international or multinational organization formed by states, governments or other international organizations, (f) organization that is designated by executive order pursuant to Section 1 of the United States International Organizations Immunities Act (22 U.S.C. 288 of 1945), as amended, and the rules and regulations promulgated or (g) other body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police or regulatory authority or taxing authority or power of any nature.

"*Hazardous Substance*" means any substance, material, contaminant, pollutant or waste that is regulated under any Environmental Law, including any admixture or solution thereof, and including petroleum and all derivatives thereof, asbestos or asbestos-containing materials in any form or condition and polychlorinated biphenyls.

"*HSR Act*" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"*Indebtedness*" means, with respect to any Person, without duplication (a) all obligations of such Person and its Subsidiaries for borrowed money, or with respect to deposits or advances of any kind, (b) all obligations of such Person and its Subsidiaries evidenced by bonds, debentures, notes, mortgages or similar instruments or securities, (c) all obligations of such Person upon which interest charges are customarily paid (other than trade payables incurred in the ordinary course of business consistent with past practices), (d) all obligations of such Person and its Subsidiaries under conditional sale or other title retention Contracts relating to any property purchased by such Person or any of its Subsidiaries, (e) all obligations of such Person and its Subsidiaries issued or assumed as the deferred purchase price of property or services (excluding obligations of such Person and its Subsidiaries to creditors for inventory, services and supplies incurred in the ordinary course of business consistent with past practices), (f) all lease obligations of such Person and its Subsidiaries capitalized on the books and records of such Person or any of its Subsidiaries, (g) all obligations of others secured by a Lien on property or assets owned or acquired by such Person or any of its Subsidiaries, whether or not the obligations secured thereby have been assumed, (h) all letters of credit or performance bonds issued for the account of such Person or any of its Subsidiaries (excluding (i) letters of credit issued for the benefit of suppliers to support accounts payable to suppliers incurred in the ordinary course of business consistent with past practices, (ii) standby letters of credit relating to workers' compensation insurance and surety bonds, (iii) surety bonds and customs bonds and (iv) clearing house guarantees) and (i) all guarantees and Contracts having the economic effect of a guarantee of such Person or any of its Subsidiaries of any Indebtedness of any other Person, other than clearing house guarantees. Notwithstanding the foregoing, "*Indebtedness*" will not include intercompany indebtedness, obligations or liabilities between either (a) Nalco or one of the wholly-owned Nalco Subsidiaries, on the one hand, and another wholly-owned Nalco Subsidiary, on the other hand, or (b) Ecolab or one of the wholly-owned Ecolab Subsidiaries, on the one hand, and another wholly-owned Ecolab Subsidiary, on the other hand.

"*Intellectual Property*" means all of the following anywhere in the world and all legal rights, title or interest in, under or in respect of the following arising under Law, whether or not filed, perfected, registered or recorded and whether now or later existing, filed, issued or acquired, including all renewals (a) all patents and applications for patents (including all invention disclosures) and all related reissues, reexaminations, divisions, renewals, extensions, provisionals, continuations and continuations in part (collectively, "*Patents*"), (b) all copyrights, copyright registrations and copyright applications, copyrightable works and all other corresponding rights (collectively, "*Copyrights*"), (c) all trade dress and trade names, logos, Internet addresses and domain names, trademarks and service marks and related registrations and applications, including any intent to use applications, supplemental registrations and any renewals or extensions, all other indicia of commercial source or origin and all goodwill associated with any of the foregoing (collectively, "*Trademarks*"), (d) all computer software (including source and object code), firmware, development tools, proprietary languages, algorithms, files, records, technical drawings and related documentation, data and manuals (collectively, "*Software*"), (e) all mask works, mask work registrations and mask work applications and all other corresponding rights, (f) all inventions (whether patentable or unpatentable and whether or not reduced to practice), know how, technology, technical data, (g) trade secrets, confidential business information, manufacturing and production processes and techniques, research and development information, financial, marketing and business data, pricing and cost information, business and marketing plans, advertising and promotional materials, customer, distributor, reseller and supplier lists and information, correspondence, records, and other documentation, and other proprietary information of every kind (collectively, "*Trade Secrets*"), (h) all databases and data collections, (i) all other proprietary rights (including moral rights) and (j) all copies and tangible embodiments of any of the foregoing (in whatever form or medium).

"*IRS*" means the U.S. Internal Revenue Service.

"*Known*" or "*knowledge*" means, with respect to any Party, the actual knowledge, after reasonable inquiry, of such Party's executive officers.

"*Law*" means any federal, state, local, municipal, foreign, international, multinational or other rule, regulation, statute, Order, ordinance, constitution, treaty, directive or code promulgated by any Governmental Authority, including any binding case law.

"*Lease*" means any lease, sublease, license, occupancy agreement or similar Contract relating to real property.

"*Liens*" means any mortgage, claim, pledge, hypothecation, assignment, deposit agreement, encumbrance, lien (statutory or other), servitude, easement, right of way, community or other material property interest, option, preference, priority, right of first offer or refusal or other charge or security interest of any kind or nature whatsoever (including any conditional sale or other title retention Contract).

"*Litigation*" means an action, suit, claim or litigation.

"*Material Adverse Effect*" means with respect to any Person, a Change that, individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of such Person and its Subsidiaries, taken as a whole, or that would reasonably be expected to prevent or materially impair or materially delay the ability of such Person to consummate the Merger; *provided* that none of the following will be deemed, either alone or in combination, to constitute, and none of the following will be taken into account in determining whether there has been, a Material Adverse Effect: (i) any Change generally affecting economic, regulatory or political conditions, (ii) any Change generally affecting the financial, credit, securities or other capital markets in the United States or any foreign jurisdiction, (iii) any Change generally affecting the industries in which such Person and its Subsidiaries operate, (iv) any acts of war, sabotage or terrorism, or any escalation or worsening of any such acts of war, sabotage or terrorism, (v) any change in applicable Law or GAAP (or authoritative interpretation thereof), (vi) the execution, delivery, announcement or pendency of this Agreement, any Party's compliance with the terms of this Agreement or the anticipated consummation of the Merger, including the impact thereof on the relationships, contractual or otherwise, of such Person or any of its Subsidiaries with employees, labor unions, customers, suppliers or business partners, (vii) any change in the market price, credit rating or trading volume of the securities of such Person (other than as a result of a Change otherwise constituting a Material Adverse Effect as provided herein), (viii) any failure by such Person to meet any internal or published projections, forecasts, estimates or projections in respect of revenues, cash flow, earnings or other financial or operating metrics for any period (other than as a result of a Change otherwise constituting a Material Adverse Effect as provided herein) or (ix) any hurricane, tornado, flood, earthquake, tsunami, volcano eruption or other natural disaster, except, with respect to clauses (i), (ii), (iii), (iv), (v) and (ix) above, to the extent that any such Change has a materially greater adverse effect or impact on such Person and its Subsidiaries, taken as a whole, as compared to other companies operating in the same industries and markets in which such Person and its Subsidiaries operate.

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"*Multiemployer Plan*" means any plan or Contract that is a multiemployer plan within the meaning of Sections 3(37), 3(40) or 4001(a)(3) of ERISA.

"*Nalco Acquisition Proposal*" means any proposal or offer from any Person or group for a direct or indirect (a) merger, binding share exchange, recapitalization, reorganization, liquidation, dissolution, business combination or consolidation, or any similar transaction, involving Nalco, pursuant to which such Person or group (or the shareholders of any Person) would acquire, directly or indirectly, 15 percent or more of the aggregate voting power of Nalco or of the surviving entity in a merger involving Nalco or the resulting direct or indirect parent of Nalco or such surviving entity, (b) sale, lease, license, exchange, mortgage, pledge, transfer or other acquisition or assumption of 15 percent or more of the consolidated net revenues, net income or assets (based on the fair market value thereof) of Nalco and the Nalco Subsidiaries, taken as a whole, in one or a series of related transactions, or (c) purchase, tender offer, exchange offer or other acquisition (including by way of merger, consolidation, share exchange or otherwise) that if consummated would result in the Beneficial Ownership by any Person or group of Securities representing 15 percent or more of the then-outstanding Nalco Common Stock (or of the shares of the surviving entity in a merger or of the direct or indirect parent of the surviving entity in a merger, in each case involving Nalco); *provided* that the term "*Nalco Acquisition Proposal*" will not include the Merger or the other transactions contemplated by this Agreement.

"*Nalco Benefit Plan*" means any employment, bonus, deferred compensation, incentive compensation, stock purchase, stock option, thirteenth month, termination indemnity, redundancy, change in control, performance, retention, severance or termination pay, holiday pay, sick pay, workers' compensation, vacation pay, fringe benefit, educational assistance, housing assistance, relocation or expatriate, moving expense reimbursement, hospitalization or other medical, life, disability, welfare benefit or other insurance, supplemental unemployment benefits, profit-sharing, pension, superannuation or retirement plan, program or Contract, and each other employee benefit plan, program, or Contract (including employment Contracts), whether written or oral, currently maintained or contributed to or required to be contributed to by Nalco, any Nalco Subsidiary or any ERISA Affiliate, for the benefit of any current or former director, officer or employee of Nalco or any Nalco Subsidiary, other than (i) any Multiemployer Plan or (ii) any such plan, program or Contract that is required by applicable Law.

"*Nalco Common Stock*" means the Common Stock, par value $0.01 per share, of Nalco.

"*Nalco Financial Statements*" means the consolidated financial statements of Nalco and the Nalco Subsidiaries included in the Nalco SEC Documents together, in the case of year-end statements, with reports thereon by Ernst & Young LLP or PricewaterhouseCoopers LLP, as the case may be, the independent auditors of Nalco for the periods included therein, including in each case a consolidated balance sheet, a consolidated statement of income, a consolidated statement of stockholders' equity and a consolidated statement of cash flows, and accompanying notes.

"*Nalco Intellectual Property License Agreements*" means Contracts granting or obtaining any right to use or practice any rights under any Intellectual Property to which Nalco or any Nalco Subsidiary is a party or otherwise bound.

"*Nalco Leased Real Property*" means all real property interests of Nalco or any of the Nalco Subsidiaries acquired pursuant to any Lease.

"*Nalco Material Adverse Effect*" means a Material Adverse Effect with respect to Nalco.

"*Nalco Owned Intellectual Property*" means all U.S. and foreign Patents (including those granted to or applied for or owned by Nalco or any Nalco Subsidiary), registered Trademarks (including Internet domain name registrations) and material unregistered Trademarks, registered Copyrights and material unregistered Copyrights, and material Software which are owned by Nalco or the Nalco Subsidiaries.

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"*Nalco Owned Real Property*" means real property, together with all improvements and fixtures located thereon or attached or appurtenant thereto, owned by Nalco or any Nalco Subsidiary, including all easements, licenses, rights and appurtenances relating to the foregoing.

"*Nalco Preferred Stock*" means the Preferred Stock, par value $0.01 per share, of Nalco.

"*Nalco RSU*" means any Nalco Stock-Based Award that is (a) a restricted stock unit payable in shares of Nalco Common Stock or whose value is determined with reference to the value of shares of Nalco Common Stock and (b) held by a non-employee member of the Board of Directors of Nalco.

"*Nalco U.S. Benefit Plan*" means any Nalco Benefit Plan that is not a Foreign Nalco Benefit Plan.

"*NYSE*" means the New York Stock Exchange, Inc.

"*Order*" means any charge, order, writ, injunction, judgment, decree, ruling, determination, directive, award or settlement, whether civil, criminal or administrative and whether formal or informal.

"*Permitted Liens*" means (a) any Lien for Taxes not yet delinquent or which are being contested in good faith by appropriate proceedings and, in each case, for which adequate reserves have been established in the Ecolab Financial Statements or Nalco Financial Statements, as applicable, (b) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other similar Liens incurred in the ordinary course of business consistent with past practices, (c) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation and (d) easements, rights-of-way, restrictions and other similar encumbrances, which, in the aggregate, are not substantial in amount and which do not in any case materially interfere with the use or materially detract from the value of the property subject thereto.

"*Person*" means an individual, corporation, limited liability company, general or limited partnership, association, trust, unincorporated organization, Governmental Authority, other entity or group (as defined in the Exchange Act).

"*Proceeding*" means an action, suit, claim, litigation, proceeding, arbitration, investigation, audit, charge, complaint, review or controversy, whether judicial or administrative.

"*Release*" means any releasing, disposing, discharging, injecting, spilling, leaking, leaching, pumping, dumping, emitting, escaping, emptying, seeping, dispersal and migration, including the moving of any materials through, into or upon, any land, soil, surface water, groundwater or air, or otherwise entering into the environment.

"*Sarbanes-Oxley Act*" means the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations promulgated thereunder.

"Section 16 Officer" means any individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to Nalco, other than by reason of being a non-employee member of the Board of Directors of Nalco.

"*Securities*" means, with respect to any Person, any class or series of common stock, preferred stock, membership interest and any other equity securities or capital stock of such Person, however described and whether voting or non-voting.

"*Securities Act*" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"*Stock Award Exchange Ratio*" means (a) the closing price of shares of Nalco Common Stock on the NYSE (as reported by Bloomberg L.P. or, if not reported therein, in another authoritative source mutually selected by Ecolab and Nalco) for the last trading day prior to the Closing, divided by (b) the closing price of shares of Ecolab Common Stock on the NYSE (as reported by Bloomberg L.P. or, if not reported therein, in another authoritative source mutually selected by Ecolab and Nalco) for the last trading day prior to the Closing.

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"*Subsidiary*" means, when used with respect to any Person, any other Person, whether incorporated or unincorporated, of which (a) more than 50 percent of the Securities or (b) Securities having by their terms ordinary voting power to elect more than 50 percent of the members of the Board of Directors or others performing similar functions with respect to such corporation or other organization, is directly owned or controlled by such Person or by any one or more of its Subsidiaries.

"*Superior Ecolab Proposal*" means any *bona fide* binding written Ecolab Acquisition Proposal made by any Person (other than Nalco) that has not been withdrawn and did not result from a breach of the provisions of *Section 7.6* and that, if consummated, would result in such Person (or in the case of a direct merger between such Person and Ecolab, the stockholders of such Person) acquiring, directly or indirectly, more than 50% of Ecolab Common Stock (or of the shares of the surviving entity in a merger or of the direct or indirect parent of the surviving entity in a merger) or all or substantially all of the assets (which for this purpose may include shares of any Ecolab Subsidiary) of Ecolab and the Ecolab Subsidiaries, taken as a whole, and that the Board of Directors of Ecolab determines in good faith, after consultation with its outside legal counsel and a financial advisor of nationally recognized reputation, is (a) more favorable from a financial point of view to the stockholders of Ecolab than the transactions contemplated by this Agreement, taking into account any proposals by Nalco to amend the terms of this Agreement, and (b) reasonably capable of being completed, taking into account all legal, financial, regulatory and other aspects of such Ecolab Acquisition Proposal, including the identity of the Person making such Ecolab Acquisition Proposal.

"*Superior Nalco Proposal*" means any *bona fide* binding written Nalco Acquisition Proposal made by any Person (other than Ecolab or Merger Sub) that has not been withdrawn and did not result from a breach of the provisions of *Section 7.5* and that, if consummated, would result in such Person (or in the case of a direct merger between such Person and Nalco, the stockholders of such Person) acquiring, directly or indirectly, more than 50% of Nalco Common Stock (or of the shares of the surviving entity in a merger or of the direct or indirect parent of the surviving entity in a merger) or all or substantially all of the assets (which for this purpose may include shares of any Nalco Subsidiary) of Nalco and the Nalco Subsidiaries, taken as a whole, and that the Board of Directors of Nalco determines in good faith, after consultation with its outside legal counsel and a financial advisor of nationally recognized reputation, is (a) more favorable from a financial point of view to the stockholders of Nalco than the transactions contemplated by this Agreement, taking into account any proposals by Ecolab to amend the terms of this Agreement, and (b) reasonably capable of being completed, taking into account all legal, financial, regulatory and other aspects of such Nalco Acquisition Proposal, including the identity of the Person making such Nalco Acquisition Proposal.

"*Tax*" means (a) any federal, state, local, foreign or other tax, charge, fee, duty (including customs duty), levy or assessment, including any income, gross receipts, net proceeds, alternative or add-on minimum, corporation, ad valorem, turnover, real property, personal property (tangible or intangible), sales, use, franchise, excise, value added, goods and services, consumption, stamp, leasing, lease, user, transfer, fuel, excess profits, profits, occupational, premium, interest equalization, windfall profits, severance, license, registration, payroll, environmental, capital stock, capital duty, disability, estimated, gains, wealth, welfare, employee's income withholding, other withholding, unemployment or social security or other tax of whatever kind (including any fee, assessment or other charges in the nature of or in lieu of any tax) that is imposed by any Governmental Authority, (b) any interest, fines, penalties or additions resulting from, attributable to, or incurred in connection with any items described in this paragraph or any related contest or dispute, (c) any liability for payment of any items described in this paragraph that are attributable to another Person as a result of any tax sharing, tax indemnity or tax allocation Contract or any other express or implied Contract to indemnify any other Person or by Law, by Contract or otherwise, whether or not disputed and (d) any liability for payment of amounts listed in (a), (b) or (c) when as a result of transferee liability, of being a member of an affiliated,

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consolidated, combined, or unitary group for any period, transferor liability, successor liability, or otherwise through operation of Law.

"*Tax Return*" means any report, return, filing, declaration, claim for refund, or information return or statement in connection with the determination, assessment, collection or imposition of any Taxes or otherwise related to Taxes, including any schedule or attachment, and including any amendment thereof.

"*Taxing Authority*" means, with respect to any Tax, the Governmental Authority that imposes such Tax or is otherwise responsible for Tax Returns and the agency, if any, charged with the collection of such Tax for such Governmental Authority.

"*U.S.*" means the United States of America.

"*VWAP*" per share of Ecolab Common Stock on any trading day means the per share volume-weighted average price as displayed under the heading Bloomberg VWAP on Bloomberg (or, if Bloomberg ceases to publish such price, any successor service reasonably chosen by Ecolab) page ECL_execution_VWAP (or the equivalent successor if such page is not available), in respect of the period from the open of trading on the relevant trading day until the close of trading on such trading day (or if such volume-weighted average price is unavailable, the market price of one share of Ecolab Common Stock on such trading day determined, using a volume-weighted average method, by a nationally recognized investment banking firm (unaffiliated with Ecolab or Nalco) retained for this purpose by Ecolab).

Section 1.2 Additional Defined Terms. For purposes of this Agreement, the following terms have the meanings specified in the indicated Section of this Agreement.

Defined Term	**Section**
Agreement	Preamble
Available Nalco Stock Plan Shares	Section 2.10(e)
Cash Consideration	Section 2.7(a)(i)
Cash Election Shares	Section 2.7(a)(i)
Certificate	Section 2.7(f)
Certificate of Merger	Section 2.3
Closing	Section 2.2
Closing Date	Section 2.2
Confidentiality Agreement	Section 7.3(d)
Continuing Employee	Section 7.7(b)
Converted Stock-Based Award	Section 2.10(b)
Converted Stock Option	Section 2.10(a)
D & O Insurance	Section 7.9(a)
DGCL	Recitals
Dissenting Shares	Section 2.7(c)
GAAP	Section 4.7(b)
Ecolab	Preamble
Ecolab Change in Recommendation	Section 7.2(b)
Ecolab Contracts	Section 5.17(b)
Ecolab Disclosure Letter	Article V
Ecolab Financial Advisor	Section 5.22
Ecolab Permits	Section 5.11(a)
Ecolab Recommendation	Section 7.2(b)
Ecolab's Counsel	Section 7.19
Ecolab SEC Documents	Section 5.6(a)

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Defined Term	Section
Ecolab Share Issuance	Section 5.4(b)
Ecolab Stockholder Approval	Section 5.4(d)
Ecolab Stockholders Meeting	Section 7.2(b)
Ecolab Stock Plans	Section 5.3(b)
Ecolab Subsidiaries	Section 5.2(a)
Ecolab Subsidiary	Section 5.2(a)
Ecolab Termination Fee	Section 9.3(b)
Effective Time	Section 2.3
Elected Cash Consideration	Section 2.8(a)
Election Deadline	Section 2.9(b)
Election Form	Section 2.9(a)
Election Form Record Date	Section 2.9(a)
Election Period	Section 2.9(b)
End Date	Section 9.1(b)(i)
Exchange Agent	Section 3.1(a)
Exchange Fund	Section 3.1(b)
Excluded Shares	Section 2.7(b)
Foreign Ecolab Benefit Plan	Section 5.14(g)
Foreign Nalco Benefit Plan	Section 4.15(g)
Form S-4	Section 4.9
FTC	Section 7.4(b)
Indemnified Persons	Section 7.9(a)
Joint Proxy Statement/Prospectus	Section 7.1(a)
Mailing Date	Section 2.9(a)
Maximum Annual Premium	Section 7.9(a)
Merger	Recitals
Merger Consideration	Section 2.7(a)
Merger Sub	Preamble
Nalco	Preamble
Nalco Change in Recommendation	Section 7.2(a)
Nalco Contracts	Section 4.18(b)
Nalco Disclosure Letter	Article IV
Nalco Financial Advisor	Section 4.22
Nalco Permits	Section 4.12(a)
Nalco Recommendation	Section 7.2(a)
Nalco's Counsel	Section 7.19
Nalco SEC Documents	Section 4.7(a)
Nalco Stock-Based Award	Section 2.10(b)
Nalco Stockholder Approval	Section 4.4(c)
Nalco Stockholders Meeting	Section 7.2(a)
Nalco Stock Option	Section 2.10(a)
Nalco Stock Plan	Section 2.10(a)
Nalco Subsidiaries	Section 4.2(a)
Nalco Subsidiary	Section 4.2(a)
Nalco Termination Fee	Section 9.3(a)
No Election Share	Section 2.7(a)(iii)
No Election Value	Section 2.8(b)(ii)
Parties	Preamble
Party	Preamble

Defined Term	Section
Representatives	Section 7.3(a)
Restraints	Section 8.1(d)
SEC	Article IV
Shortfall Number	Section 2.8(b)
Specified Nalco Contract	Section 6.1(q)
Stock Consideration	Section 2.7(a)(ii)
Stock Election Shares	Section 2.7(a)(iii)
Surviving Corporation	Section 2.1
Surviving Corporation Plans	Section 7.7(b)

Section 1.3 Interpretation. The language in this Agreement is to be construed in all cases according to its fair meaning. Ecolab and Nalco acknowledge and agree that each Party and its counsel have reviewed and revised this Agreement and that any rule of construction to the effect that any ambiguities are to be resolved against the drafting Party or the Party in favor of which a clause has been drafted or in favor of the Party who has committed itself in a clause, is not to be employed in the interpretation of this Agreement. Whenever used herein, the words "include," "includes" and "including" mean "include, without limitation," "includes, without limitation" and "including, without limitation," respectively. The masculine, feminine or neuter gender and the singular or plural number are each deemed to include the other whenever the context so indicates. The use of "or" is not intended to be exclusive unless expressly indicated otherwise. The word "days" means calendar days unless otherwise specified. Time periods within or following which any payment is to be made or act is to be done will, unless expressly indicated otherwise, be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement refer to this Agreement as a whole (including any Exhibits, Schedules and the Parties' disclosure letters) and not to any particular provision of this Agreement, and all Article, Section, Exhibit and Schedule references are to this Agreement unless otherwise specified. Where this Agreement states that a Party "will" or "must" perform in some manner or otherwise act or omit to act, it means that the Party is legally obligated to do so in accordance with this Agreement. Any reference to a statute, rule or regulation is deemed also to refer to any amendments or successor legislation as in effect at the relevant time. Any reference to a Contract or other document as of a given date means the Contract or other document as amended, supplemented and modified from time to time through such date. When a sentence includes the words "would reasonably be expected to have" or "would not reasonably be expected to have" in reference to the occurrence or non-occurrence of a "Material Adverse Effect," the words "would reasonably be expected to have" will be read out of the definition of "Material Adverse Effect" for purposes of such sentence to avoid duplication.

ARTICLE II
THE MERGER AND CERTAIN RELATED MATTERS

Section 2.1 The Merger. Upon the terms and subject to the conditions set forth in this Agreement and in accordance with the DGCL, at the Effective Time, Nalco will be merged with and into Merger Sub and the separate existence of Nalco will cease. Merger Sub will continue as the surviving corporation in the Merger (as such, the "*Surviving Corporation*") as a wholly-owned Subsidiary of Ecolab and will continue to be governed by the laws of the State of Delaware. At the Effective Time, the effects of the Merger will be as provided in this Agreement, the Certificate of Merger and the applicable provisions of the DGCL. Without limiting the generality of the foregoing, at the Effective Time, all of the property, rights, privileges, powers and franchises of Nalco and Merger Sub will vest in the Surviving Corporation, and all debts, liabilities and duties of Nalco and Merger Sub will become the debts, liabilities and duties of the Surviving Corporation.

Section 2.2 Closing. The closing of the Merger (the "*Closing*") will take place at the offices of Baker & McKenzie, LLP, 130 East Randolph Drive, Chicago, Illinois 60601, at 9:00 a.m., Chicago time, on the date when the Effective Time is to occur (the "*Closing Date*").

Section 2.3 Effective Time. Subject to the provisions of this Agreement, on the Closing Date, Ecolab and Nalco will file a certificate of merger as contemplated by the DGCL (the "*Certificate of Merger*") with the Secretary of State of the State of Delaware, in such form as required by, and executed in accordance with, the DGCL. The Merger will become effective at such time as the Certificate of Merger is duly filed with such Secretary of State on the Closing Date, or at such other time as Ecolab and Nalco may agree and specify in the Certificate of Merger. Subject to the provisions of this Agreement, unless otherwise agreed by Ecolab and Nalco, Ecolab and Nalco will cause the Effective Time to occur not later than the second Business Day after all of the conditions set forth in *Article VIII* have been fulfilled or waived (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions). As used in this Agreement, the "*Effective Time*" means the time at which the Merger becomes effective.

Section 2.4 Surviving Corporation Constituent Documents. The certificate of incorporation and bylaws of Merger Sub, as in effect immediately prior to the Effective Time, will be the certificate of incorporation and bylaws of the Surviving Corporation, until thereafter changed or amended as provided therein or by applicable Law.

Section 2.5 Surviving Corporation Directors and Officers.

(a) The directors of Merger Sub in office immediately prior to the Effective Time will be the initial directors of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly elected and qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and bylaws of the Surviving Corporation or otherwise as provided by applicable Law.

(b) The officers of Nalco in office immediately prior to the Effective Time will be the initial officers of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly appointed and qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and bylaws of the Surviving Corporation or otherwise as provided by applicable Law.

Section 2.6 Ecolab Board of Directors. At the Effective Time, the number of directors comprising the whole Board of Directors of Ecolab will be increased by three and three directors of Nalco as of immediately prior to the Effective Time will be appointed to serve as directors of Ecolab. The new Ecolab directors will be selected by Nalco (with one director assigned to each of the three director classes) prior to the Effective Time, subject to acceptance by Ecolab in accordance with its regular corporate governance procedures. Such directors will hold office from the Effective Time until their respective successors are duly elected and qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and bylaws of Ecolab or as otherwise as provided by applicable Law.

Section 2.7 Effect on Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of Ecolab, Merger Sub, Nalco or the holders of any of the following securities:

(a) Each share of Nalco Common Stock issued and outstanding immediately prior to the Effective Time (other than Excluded Shares and Dissenting Shares) will be converted into and will

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thereafter represent the right to receive the following consideration, as adjusted pursuant to *Section 2.8* (in the aggregate for all shares of Nalco Common Stock, the "*Merger Consideration*"):

(i) Each share of Nalco Common Stock with respect to which an election to receive cash has been made and not revoked or lost (each such share, together with any shares for which such an election is deemed to have been made under clause (iii) below, the "*Cash Election Shares*") will be converted into the right to receive $38.80 in cash, without interest (the "*Cash Consideration*").

(ii) Each share of Nalco Common Stock with respect to which an election to receive stock has been made and not revoked or lost (each such share, together with any shares for which such an election is deemed to have been made under clause (iii) below, the "*Stock Election Shares*") will be converted into the right to receive that portion of a share of Ecolab Common Stock equal to the Exchange Ratio; *provided* that if after applying this calculation to all Stock Election Shares held by a particular holder, that holder would become entitled to receive a fraction of a share of Ecolab Common Stock, in lieu of receiving such fractional share, the holder will have the right to receive a cash payment equal to the product of (A) such fraction and (B) the Closing Ecolab Stock Price (the "*Stock Consideration*").

(iii) With respect to each share of Nalco Common Stock for which no election to receive cash or stock has been made (A) in the event the Base Ecolab Stock Price is greater than the Closing Ecolab Stock Price, the holder thereof will be deemed to have made an election to receive cash and such shares will constitute "*Cash Election Shares*," (B) in the event the Base Ecolab Stock Price is less than the Closing Ecolab Stock Price, the holder thereof will be deemed to have made an election to receive stock and such shares will constitute "*Stock Election Shares*" and (C) in the event that the Base Ecolab Stock Price is equal to the Closing Ecolab Stock Price, such shares will be converted into the right to receive the Cash Consideration or Stock Consideration or a combination of both, as provided in *Section 2.8* (each share described in clause (C), a "*No Election Share*").

(b) Each share of Nalco Common Stock owned by Ecolab or the Nalco or their respective direct or indirect wholly owned subsidiaries ("*Excluded Shares*"), in each case immediately prior to the Effective Time, will be canceled without any conversion thereof, and no Merger Consideration will be paid with respect thereto.

(c) Notwithstanding any provision of this Agreement to the contrary, if and to the extent required by the DGCL, shares of Nalco Common Stock which are issued and outstanding immediately prior to the Effective Time and which are held by holders of such shares of Nalco Common Stock who have properly exercised appraisal rights with respect thereto (the "*Dissenting Shares*") in accordance with Section 262 of the DGCL, will not be converted into the right to receive the Merger Consideration, and holders of such Dissenting Shares will be entitled to receive in lieu of the Merger Consideration payment of the appraised value of such Dissenting Shares determined in accordance with the provisions of Section 262 of the DGCL unless and until such holders fail to perfect or effectively withdraw or otherwise lose their rights to appraisal and payment under the DGCL. If, after the Effective Time, any such holder fails to perfect or effectively withdraws or loses such right, such Dissenting Shares will thereupon be treated as if they had been converted into and to have become exchangeable for, at the Effective Time, the right to receive the Merger Consideration payable in respect of shares for which no election to receive cash or stock has been made, without any interest thereon. Notwithstanding anything to the contrary contained in this *Section 2.7(c)*, if this Agreement is terminated prior to the Effective Time, then the right of any stockholder to be paid the fair value of such stockholder's Dissenting Shares pursuant to Section 262 of the DGCL will cease. Nalco will give Ecolab (i) prompt notice of any written demands received by the Nalco for appraisal of Dissenting Shares, withdrawals of such demands and any other instruments served pursuant to the DGCL which are received by the Nalco relating to such holder's rights of appraisal, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the DGCL. Nalco will not, except with the prior written consent of Ecolab, make any payment with respect to any demand for appraisal or offer to settle or settle any such demands, and Ecolab will not commit to make any such payment or enter into any such settlement prior to the Effective Time without the prior written consent of Nalco.

(d) Each share of Merger Sub Common Stock issued and outstanding immediately prior to the Effective Time will remain issued and outstanding from and after the Effective Time as the common stock of the Surviving Corporation.

(e) If after the date hereof and prior to the Effective Time, (i) Nalco pays a dividend in, splits, combines into a smaller number of shares, or issues by reclassification any shares of Nalco Common Stock (or undertakes any similar act) or (ii) Ecolab pays a dividend in, splits, combines into a smaller number of shares, or issues by reclassification any shares of Ecolab Common Stock (or undertakes any similar act), then the Merger Consideration, the Stock Consideration, the Cash Consideration, the Exchange Ratio and any other similarly dependent items, as the case may be, will be appropriately adjusted to provide to the holders of the Nalco Common Stock the same economic effect as contemplated by this Agreement prior to such action, and as so adjusted will, from and after the date of such event, be the Merger Consideration, the Stock Consideration, the Cash Consideration, the Exchange Ratio or other dependent item, as applicable, subject to further adjustment in accordance with this provision.

(f) From and after the Effective Time, the Nalco Common Stock converted into the Merger Consideration pursuant to this *Section 2.7* will no longer remain outstanding and will automatically be cancelled and retired and will cease to exist, and each holder of a certificate previously representing any such Nalco Common Stock or shares of Nalco Common Stock that are in non-certificated book-entry form (either case being referred to in this Agreement, to the extent applicable, as a "*Certificate*") will thereafter cease to have any rights with respect to such Nalco Common Stock except the right to receive (i) the Merger Consideration, (ii) any dividends and other distributions in accordance with *Section 3.1(g)* and (iii) any dividends or other distributions as provided in *Section 3.1(e)*.

(g) This Agreement is intended to meet the requirements of Proposed Treasury Regulation Section 1.368-1(e)(2) in accordance and compliance with IRS Notice 2010-25, 2010-14 I.R.B. 527.

Section 2.8 Proration. Notwithstanding any provision of this Agreement to the contrary:

(a) If the product of the aggregate number of Cash Election Shares and the Cash Consideration (such product being the "*Elected Cash Consideration*") exceeds the Available Cash Amount, then:

(i) all Stock Election Shares and all No Election Shares will be converted into the right to receive the Stock Consideration; and

(ii) a portion of the Cash Election Shares of each holder of Nalco Common Stock (if any) will be converted into the right to receive the Cash Consideration, with such portion being equal to the product obtained by multiplying (A) the number of such holder's Cash Election Shares by (B) a fraction, the numerator of which will be the Available Cash Amount and the denominator of which will be the Elected Cash Consideration, with the remaining portion of such holder's Cash Election Shares being converted into the right to receive the Stock Consideration.

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(b) If the Elected Cash Consideration is less than the Available Cash Amount (such difference being the "*Shortfall Number*"), then:

(i) all Cash Election Shares will be converted into the right to receive the Cash Consideration; and

(ii) all Stock Election Shares and No Election Shares will be treated in the following manner: (A) if the Shortfall Number is less than or equal to the product of the aggregate number of No Election Shares and $38.80 (the "*No Election Value*"), then (1) all Stock Election Shares will be converted into the right to receive the Stock Consideration and (2) the No Election Shares of each holder of Nalco Common Stock (if any) will be converted into the right to receive the Cash Consideration in respect of that number of No Election Shares equal to the product obtained by multiplying (x) the number of No Election Shares of such holder by (y) a fraction, the numerator of which is the Shortfall Number and the denominator of which is the No Election Value, with the remaining portion of such holder's No Election Shares (if any) being converted into the right to receive the Stock Consideration or (B) if the Shortfall Number exceeds the No Election Value, then (1) all No Election Shares will be converted into the right to receive the Cash Consideration and (2) a portion of the Stock Election Shares of each holder of Nalco Common Stock (if any) will be converted into the right to receive the Cash Consideration, with such portion being equal to the product obtained by multiplying (x) the number of Stock Election Shares of such holder by (y) a fraction, the numerator of which is the amount by which the Shortfall Number exceeds the No Election Value, and the denominator of which is the product obtained by multiplying the aggregate number of Stock Election Shares by $38.80, with the remaining portion of such holder's Stock Election Shares being converted into the right to receive the Stock Consideration.

(c) If the Elected Cash Consideration equals the Available Cash Amount, then:

(i) all Cash Election Shares will be converted into the right to receive the Cash Consideration; and

(ii) all Stock Election Shares and No Election Shares will be converted into the right to receive the Stock Consideration.

Section 2.9 Elections.

(a) Within two Business Days after the Closing Date (the "*Mailing Date*"), an election form in such form as Ecolab will have specified prior to the Closing Date and which is reasonably acceptable to Nalco (the "*Election Form*") will be mailed to each holder of record of shares of Nalco Common Stock as of the Closing Date (the "*Election Form Record Date*").

(b) Each Election Form will permit the holder (or the beneficial owner through customary documentation and instructions) to specify (i) the number of shares of such holder's Nalco Common Stock with respect to which such holder elects to receive the Stock Consideration, (ii) the number of shares of such holder's Nalco Common Stock with respect to which such holder elects to receive the Cash Consideration or (iii) that such holder makes no election with respect to such holder's Nalco Common Stock. In addition, if such holder holds multiple blocks of Nalco Common Stock, the Election Form will permit such holder to designate (i) the shares with respect to which each election is made, (ii) if the same election is made with respect to shares in more than one block, the order of priority of shares to which the election is to be effective in the event of proration, or (iii) if no election is made, the order of priority of shares to be exchanged for cash. Any Nalco Common Stock with respect to which the Exchange Agent does not receive a properly completed Election Form during the period (the "*Election Period*") from the Mailing Date to 5:00 p.m., New York time, on the 20th Business Day after the Mailing Date or such other date as Ecolab and Nalco will, prior to the Closing, mutually agree (the "*Election Deadline*") will be deemed not to have made any election with respect to such holder's Nalco Common Stock. Ecolab will publicly announce the anticipated Election Deadline as soon as practicable.

(c) Any election made pursuant to this *Section 2.9* will have been properly made only if the Exchange Agent will have actually received a properly completed Election Form during the Election Period. Any Election Form may be revoked or changed by the person submitting it, by written notice received by the Exchange Agent during the Election Period. In the event an Election Form is revoked during the Election Period, the shares of Nalco Common Stock represented by such Election Form will be deemed to be shares in respect of which no election has been made, except to the extent a subsequent election is properly made during the Election Period. Subject to the terms of this Agreement and of the Election Form, the Exchange Agent will have reasonable discretion to determine whether any election, revocation or change has been properly or timely made and to disregard immaterial defects in the Election Forms, and any good faith decisions of the Exchange Agent regarding such matters will be binding and conclusive. None of Ecolab or Nalco or the Exchange Agent will be under any obligation to notify any Person of any defect in an Election Form.

Section 2.10 Treatment of Nalco Equity-Based Awards.

(a) Each Equity Right that is an option to purchase shares of Nalco Common Stock (a "*Nalco Stock Option*") granted under the Amended and Restated 2004 Stock Incentive Plan or any other equity or equity-based compensation plan of Nalco (each, a "*Nalco Stock Plan*") or pursuant to any individual equity compensation award agreement, whether vested or unvested, that is outstanding and unexercised immediately prior to the Effective Time will cease, at the Effective Time, to represent a right to acquire shares of Nalco Common Stock and will be converted at the Effective Time, without any action on the part of the holder of such Nalco Stock Option, into an option to purchase Ecolab Common Stock (a "*Converted Stock Option*"), on the same terms and conditions as were applicable under such Nalco Stock Option (but subject to and taking into account any required acceleration of vesting of such Nalco Stock Option pursuant to any applicable Contract in effect as of the date of this Agreement). The number of shares of Ecolab Common Stock subject to each such Converted Stock Option will be equal to the number of shares of Nalco Common Stock subject to the applicable Nalco Stock Option multiplied by the Stock Award Exchange Ratio, rounded down to the nearest whole share of Ecolab Common Stock, and such Converted Stock Option will have an exercise price per share (rounded up to the nearest cent) equal to the per share exercise price specified in the applicable Nalco Stock Option divided by the Stock Award Exchange Ratio; *provided* that in the case of any Nalco Stock Option to which Section 421 of the Code applies as of the Effective Time (after taking into account the effect of any accelerated vesting thereof, if applicable) by reason of its qualification under Section 422 or Section 423 of the Code, the exercise price, the number of shares of Ecolab Common Stock subject to such option and the terms and conditions of exercise of such option will be determined in a manner consistent with the requirements of Section 424(a) of the Code. Notwithstanding the foregoing, (i) in the case of any Nalco Stock Option to which Section 409A of the Code applies as of the Effective Time, the exercise price, the number of shares of Ecolab Common Stock subject to such Nalco Stock Option and the terms and conditions of exercise of such Nalco Stock Option will be determined in a manner consistent with the requirements of Section 409A of the Code and (ii) in the case of any other Nalco Stock Option, the conversion of such Nalco Stock Option will comply in all material respects with the requirements of Treasury Regulation Section 1.409A-1(b)(5)(v)(D).

(b) At the Effective Time, each Equity Right consisting of, based on or relating to shares of Nalco Common Stock granted under a Nalco Stock Plan or pursuant to any individual equity compensation award agreement, other than Nalco Stock Options (each, a "*Nalco Stock-Based Award*"), whether contingent or accrued, which is outstanding immediately prior to the Effective Time will cease, at the Effective Time, to represent an Equity Right with respect to shares of Nalco Common Stock and will be converted without any action on the part of the holder of such Equity Right, at the Effective Time, into an Equity Right consisting of, based on or relating to shares of Ecolab Common Stock (each, a "*Converted Stock-Based Award*"), on the same terms and conditions as were applicable under the Nalco Stock-Based Awards (but subject to and taking into account any required acceleration of vesting of such Nalco Stock-Based Award pursuant to any applicable Contract in effect as of the date of this Agreement); *provided* that any Nalco Stock-Based Award that is also a Nalco RSU will, immediately prior to the Effective Time, (i) become fully vested without any action on the part of any holder thereof and (ii) be settled in shares of Nalco Common Stock which will be converted into the right to receive, at the election of each holder thereof, the Merger Consideration in accordance with this *Article II*. Notwithstanding anything to the contrary in this Agreement, any Merger Consideration payable to non-U.S. holders of Nalco RSUs pursuant to this Agreement shall be paid reasonably promptly following the earliest time necessary to comply with applicable Law, and may be paid in such manner and kind as determined by Ecolab to be necessary to comply with applicable Law. The number of shares of Ecolab Common Stock subject to each such Converted Stock-Based Award will be equal to the number of shares of Nalco Common Stock subject to the applicable Nalco Stock-Based Award multiplied by the Stock Award Exchange Ratio, rounded to the nearest whole share of Ecolab Common Stock. Any dividend equivalents credited to the account of the holder of each Nalco Stock-Based Award as of the Effective Time will remain credited to such holder's account (with respect to dividend equivalents denominated in shares of Nalco Common Stock) immediately following the Effective Time, subject to adjustment in accordance with the foregoing. Notwithstanding the foregoing, the conversion of Nalco Stock-Based Awards and the vesting and settlement of Nalco RSUs will (i) in the case of any Nalco Stock-Based Award or Nalco RSU that constitute nonqualified deferred compensation within the meaning of Code Section 409A immediately prior to the Effective Time, comply in all material respects with the applicable requirements of Code Section 409A and (ii) in the case of any other Nalco Stock-Based Award or Nalco RSU, comply in all material respects with the requirements of any applicable exemption from Code Section 409A in order to remain so exempt.

(c) With respect to any Nalco Stock Options or Nalco Stock-Based Awards that are subject to vesting or other provisions that are wholly or partially dependent on the achievement of performance goals or objectives, subject to any contractual obligations of Nalco and the Nalco Subsidiaries in effect as of the date of this Agreement, Ecolab and Nalco will agree prior to the Effective Time on any adjustments or other actions reasonably required to maintain such Nalco Stock Options or Nalco Stock-Based Awards following the Effective Time as Converted Stock Options or Converted Stock-Based Awards subject to substantially equivalent terms and conditions (including substantially equivalent performance goals and objectives). The Board of Directors of Nalco, or an appropriate committee thereof, will prior to the Effective Time take any actions required to give effect to the agreement of the Parties with respect to such Nalco Stock Options and Nalco Stock-Based Awards. Notwithstanding the foregoing, any adjustment or other action taken with respect to Nalco Stock Options or Nalco Stock-Based Awards that are subject to vesting or other provisions that are wholly or partially dependent on the achievement of performance goals or objectives will (i) in the case of any such Nalco Stock Option or Nalco Stock-Based Award that constitute nonqualified deferred compensation within the meaning of Code Section 409A immediately prior to the Effective Time, comply in all material respects with the applicable requirements of Code Section 409A and (ii) in the case of any other Nalco Stock Options or Nalco Stock-Based Awards, comply in all material respects with the requirements of any applicable exemption from Code Section 409A in order to remain so exempt.

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(d) At the Effective Time, Ecolab will assume all the obligations of Nalco under the Nalco Stock Plans, each outstanding Converted Stock Option and Converted Stock-Based Award and any agreements evidencing the grants thereof. As soon as practicable after the Effective Time, Ecolab will deliver to the holders of Converted Stock Options and Converted Stock-Based Awards any required notices setting forth such holders' rights pursuant to the relevant Nalco Stock Plans and award documents and stating that such Converted Stock Options and Converted Stock-Based Awards have been assumed by Ecolab and will continue in effect on the same terms and conditions, subject to the adjustments required by this *Section 2.10* after giving effect to the Merger and the terms of the relevant Nalco Stock Plans or individual agreements pursuant to which such awards were granted.

(e) Following the Effective Time, Ecolab may in its discretion maintain the Nalco Stock Plans in accordance with NYSE rules, except that (i) all Equity Rights issued by Ecolab pursuant to the Nalco Stock Plans following the Effective Time will be Equity Rights in respect of Ecolab Common Stock, (ii) all references to Nalco (other than any references relating to a "change in control," "change of control" or term of similar import of Nalco) in each Nalco Stock Plan and in each Contract evidencing any award thereunder will be deemed to refer to Ecolab, unless Ecolab determines otherwise, and (iii) the number of shares of Ecolab Common Stock available for future issuance pursuant to each Nalco Stock Plan following the Effective Time (the "*Available Nalco Stock Plan Shares*") will be equal to the number of shares of Nalco Common Stock so available immediately prior to the Effective Time multiplied by the Stock Award Exchange Ratio, rounded to the nearest whole share of Ecolab Common Stock.

(f) Prior to the Effective Time, Nalco will take all necessary action for the adjustment of Nalco Stock Options and Nalco Stock-Based Awards under this *Section 2.10*. Prior to the Effective Time, Ecolab will reserve for future issuance a number of shares of Ecolab Common Stock at least equal to the number of shares of Ecolab Common Stock that will be subject to Converted Stock Options and Converted Stock-Based Awards as a result of the actions contemplated by this *Section 2.10*, plus the number of Available Nalco Stock Plan Shares in the event that Ecolab maintains the Nalco Stock Plans as contemplated by *Section 2.10(e)*. As soon as practicable following the Effective Time, Ecolab will file a registration statement on Form S-8 (or other applicable form) with respect to the shares of Ecolab Common Stock subject to such Converted Stock Options and Converted Stock-Based Awards and will maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Converted Stock Options and Converted Stock-Based Awards remain outstanding.

ARTICLE III
EXCHANGE OF SHARES

Section 3.1 Surrender and Payment.

(a) Prior to the Effective Time, Ecolab will appoint an exchange agent reasonably acceptable to Nalco (the "*Exchange Agent*") for the purpose of exchanging Certificates for Merger Consideration. As soon as reasonably practicable after the Effective Time, but in no event more than two Business Days following the Effective Time, Ecolab will send, or will cause the Exchange Agent to send, to each holder of record of shares of Nalco Common Stock as of the Effective Time, whose shares of Nalco Common Stock were converted into the right to receive the Merger Consideration, a letter of transmittal (which will specify that the delivery will be effected, and risk of loss and title will pass, only upon proper delivery of the Certificates (or effective affidavits of loss in lieu thereof) to the Exchange Agent) in such form as Nalco and Ecolab may reasonably agree, including instructions for use in effecting the surrender of Certificates (or effective affidavits of loss in lieu thereof) to the Exchange Agent in exchange for the Merger Consideration.

(b) At or prior to the Effective Time, Ecolab will cause to be deposited with the Exchange Agent, in trust for the benefit of the holders of shares of Nalco Common Stock, shares of Ecolab Common Stock and an amount of cash in U.S. dollars sufficient to be issued and paid pursuant to *Section 2.7* and *Section 2.8*, payable upon due surrender of the Certificates (or effective affidavits of loss in lieu thereof) pursuant to the provisions of this *Article III*. Following the Effective Time, Ecolab will make available to the Exchange Agent, when and as needed, cash in U.S. dollars sufficient to pay any dividends and other distributions pursuant to *Section 3.1(g)*. All cash and book-entry shares representing shares of Ecolab Common Stock deposited with the Exchange Agent are referred to in this Agreement as the "*Exchange Fund*." The Exchange Agent will, pursuant to irrevocable instructions, deliver the appropriate Merger Consideration out of the Exchange Fund. The Exchange Fund will not be used for any other purpose. The Exchange Agent will invest any cash included in the Exchange Fund as directed by Ecolab; *provided* that no such investment or losses thereon will affect the Merger Consideration payable to holders of shares of Nalco Common Stock entitled to receive such consideration or cash in lieu of fractional interests and Ecolab will promptly cause to be provided additional funds to the Exchange Agent for the benefit of holders of shares of Nalco Common Stock entitled to receive such consideration in the amount of any such losses. Any interest and other income resulting from such investments will be the property of, and paid to, Ecolab.

(c) Each holder of shares of Nalco Common Stock that have been converted into the right to receive the Merger Consideration, upon surrender to the Exchange Agent of a Certificate (or effective affidavits of loss in lieu thereof), together with a properly completed letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, will be entitled to receive in exchange therefor (i) the number of shares of Ecolab Common Stock representing, in the aggregate, the whole number of shares of Ecolab Common Stock, if any, that such holder has the right to receive and/or (ii) a check in the amount, if any, that such holder has the right to receive in cash, including cash payable in lieu of fractional shares and dividends and other distributions payable pursuant to *Section 3.1(g)*, pursuant to *Section 2.7*, *Section 2.8*, *Article II* and this *Article III*. Following the Election Deadline, the Merger Consideration will be paid as promptly as practicable (by mail or, to the extent commercially practicable, made available for collection by hand if so elected by the surrendering holder of a Certificate) after receipt by the Exchange Agent of the Certificate and letter of transmittal in accordance with the foregoing. No interest will be paid or accrued on any Merger Consideration, cash in lieu of fractional shares or on any unpaid dividends and distributions payable to holders of Certificates.

(d) If any cash payment is to be made to a Person other than the Person in whose name the applicable surrendered Certificate is registered, it will be a condition of such payment that the Person requesting such payment will pay any transfer or other similar Taxes required by reason of the making of such cash payment to a Person other than the registered holder of the surrendered Certificate or will establish to the satisfaction of the Exchange Agent that such Tax has been paid or is not payable. If any portion of the Merger Consideration is to be registered in the name of a Person other than the Person in whose name the applicable surrendered Certificate is registered, it will be a condition to the registration thereof that the surrendered Certificate will be properly endorsed or otherwise be in proper form for transfer and that the Person requesting such delivery of the Merger Consideration will pay to the Exchange Agent any transfer or other similar Taxes required as a result of such registration in the name of a Person other than the registered holder of such Certificate or establish to the satisfaction of the Exchange Agent that such Tax has been paid or is not payable.

(e) After the Effective Time, there will be no further registration of transfers of shares of Nalco Common Stock. From and after the Effective Time, the holders of Certificates representing shares of Nalco Common Stock outstanding immediately prior to the Effective Time will cease to have any rights with respect to such shares of Nalco Common Stock except as otherwise provided in this Agreement or by applicable Law. If, after the Effective Time, Certificates are presented to the Exchange Agent or Ecolab, they will be cancelled and exchanged for the consideration provided for, and in accordance with the procedures set forth in *Article II* and this *Article III*. Notwithstanding anything to the contrary contained in this Agreement, the Surviving Corporation is obligated to pay any dividends or make any other distributions with a record date prior to the Effective Time which may have been declared or made by Nalco on shares of Nalco Common Stock in accordance with the terms of this Agreement prior to the date hereof and which remain unpaid at the Effective Time.

(f) Any portion of the Exchange Fund that remains unclaimed by the holders of shares of Nalco Common Stock one year after the Effective Time will be returned to Ecolab, upon demand, and any such holder who has not exchanged his or her shares of Nalco Common Stock for the Merger Consideration in accordance with this *Article II* prior to that time will thereafter look only to Ecolab for delivery of the Merger Consideration in respect of such holder's shares of Nalco Common Stock. Notwithstanding the foregoing, none of Ecolab, Merger Sub, the Surviving Corporation or the Nalco will be liable to any holder of shares of Nalco Common Stock for any Merger Consideration delivered to a public official pursuant to applicable abandoned property Laws. Any Merger Consideration remaining unclaimed by holders of shares of Nalco Common Stock immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Authority will, to the extent permitted by applicable Laws, become the property of Ecolab free and clear of any claims or interest of any Person previously entitled thereto.

(g) No dividends or other distributions with respect to shares of Ecolab Common Stock issued in the Merger will be paid to the holder of any unsurrendered Certificates until such Certificates are surrendered as provided in this *Section 3.1*. Following such surrender, subject to the effect of escheat, Tax or other applicable Laws, there will be paid, without interest, to the record holder of the shares of Ecolab Common Stock, if any, issued in exchange therefor (i) at the time of such surrender, all dividends and other distributions payable in respect of any such shares of Ecolab Common Stock with a record date after the Effective Time and a payment date on or prior to the date of such surrender and not previously paid and (ii) at the appropriate payment date, the dividends or other distributions payable with respect to such shares of Ecolab Common Stock with a record date after the Effective Time but with a payment date subsequent to such surrender. For purposes of dividends or other distributions with respect to shares of Ecolab Common Stock, all shares of Ecolab Common Stock to be issued pursuant to the Merger will be entitled to dividends pursuant to the immediately preceding sentence as if issued and outstanding as of the Effective Time.

Section 3.2 Lost, Stolen or Destroyed Certificates. If any Certificate has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by Ecolab, the posting by such Person of a bond, in such reasonable and customary amount as Ecolab may direct, as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue, in exchange for such lost, stolen or destroyed Certificate, the Merger Consideration to be paid in respect of the shares of Nalco Common Stock represented by such Certificate as contemplated by *Article II* and this *Article III*.

Section 3.3 Withholding Rights. Ecolab, the Surviving Corporation and the Exchange Agent will be entitled to deduct and withhold from the consideration otherwise payable to a holder of shares of Nalco Common Stock pursuant to the Merger such amounts as Ecolab, the Surviving Corporation or the Exchange Agent is required to deduct and withhold with respect to the making of such payment under the Code or any provision of state, local or foreign Tax Law. To the extent that amounts are so deducted or withheld and paid over to the applicable Governmental Authority or Taxing Authority, such deducted or withheld amounts will be treated for all purposes of this Agreement as having been paid to the holder of shares of Nalco Common Stock in respect of which such deduction and withholding was made.

Section 3.4 Further Assurances. After the Effective Time, the directors and officers of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of Nalco, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of Nalco, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF NALCO

Except as otherwise disclosed or identified in the Nalco SEC Documents filed and publicly available on the internet website of the Securities and Exchange Commission (the "*SEC*") at least two Business Days prior to the date of this Agreement (excluding any risk factor disclosure and disclosure of risks included in any "forward-looking statements" disclaimer or other statements included in such Nalco SEC Documents that are predictive or forward-looking in nature) or in the letter (the "*Nalco Disclosure Letter*") delivered to Ecolab by Nalco prior to the execution of this Agreement (it being understood that any information contained therein will qualify and apply to the representations and warranties in this *Article IV* to which the information is specifically stated as referring to and will qualify and apply to other representations and warranties in this *Article IV* to the extent, and only to the extent, that it is reasonably apparent from the face of such disclosure that such disclosure also qualifies or is applicable to such other sections), Nalco represents and warrants to Ecolab and Merger Sub as follows:

Section 4.1 Organization. Nalco is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of Delaware. Nalco has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted, except where failure to have such power or authority, individually or on the aggregate, has not had and would not reasonably be expected to have a Nalco Material Adverse Effect. Nalco has delivered to Ecolab correct and complete copies of its Constituent Documents, as amended and in effect on the date of this Agreement.

Section 4.2 Subsidiaries.

(a) Each Subsidiary of Nalco (individually, a "*Nalco Subsidiary*" and collectively, the "*Nalco Subsidiaries*") is a corporation duly incorporated or a limited liability company, partnership or other entity duly organized and is validly existing and, as applicable, in good standing under the Laws of the jurisdiction of its incorporation or organization and has all requisite corporate or other power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted, except where failure to be so incorporated or organized, existing or in good standing or to have such power or authority, individually or on the aggregate, has not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(b) Nalco is, directly or indirectly, the record holder and Beneficial Owner of all of the outstanding Securities of each Nalco Subsidiary, free and clear of any Liens and free of any other limitation or restriction, including any limitation or restriction on the right to vote, sell, transfer or otherwise dispose of the Securities. All of the Securities so owned by Nalco have been duly authorized and validly issued and are fully paid and nonassessable, and no such shares have been issued in violation of any preemptive or similar rights. Except for the Securities of the Nalco

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Subsidiaries, Nalco does not own, directly or indirectly, any Securities or other ownership interests in any Person or any Indebtedness of any Person.

Section 4.3 Capitalization.

(a) As of the date of this Agreement, the authorized capital stock of Nalco consists of 500,000,000 shares of Nalco Common Stock and 100,000,000 shares of Nalco Preferred Stock.

(b) At the close of business on July 15, 2011, 138,775,614 shares of Nalco Common Stock were issued and outstanding, 6,610,006 shares of Nalco Common Stock were reserved for issuance pursuant to the Nalco Stock Plans or pursuant to individual equity compensation award agreements, and no shares of Nalco Preferred Stock were issued and outstanding. Except as set forth above, as of July 15, 2011, no other Securities of Nalco were issued, reserved for issuance or outstanding. All issued and outstanding shares of Nalco Common Stock have been, and all shares of Nalco Common Stock that may be issued pursuant to the exercise of outstanding Nalco Stock Options will be, when issued in accordance with the terms thereof, duly authorized, validly issued, fully paid and nonassessable and are subject to no preemptive or similar rights.

(c) *Section 4.3(c)* of the Nalco Disclosure Letter sets forth the number of shares of Nalco Common Stock authorized for issuance under each Nalco Stock Plan and, as of July 15, 2011, the aggregate number of shares of Nalco Common Stock subject to outstanding awards, whether or not vested, under each Nalco Stock Plan. Nalco has delivered to Ecolab the form of grant agreement related to each such award. No material changes have been made to such form in connection with any award.

(d) There are no preemptive or similar rights on the part of any holder of any class of Securities of Nalco or any Nalco Subsidiary. Neither Nalco nor any Nalco Subsidiary has outstanding any bonds, debentures, notes or other obligations the holders of which have the right to vote (or which are convertible into or exercisable for Securities having the right to vote) with the holders of any class of Securities of Nalco or any Nalco Subsidiary on any matter submitted to such holders of Securities. As of the date of this Agreement and except as described above, there are no options, warrants, calls, rights, convertible or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts or undertakings of any kind to which Nalco or any Nalco Subsidiary is a party or by which any of them is bound (i) obligating Nalco or any Nalco Subsidiary to issue, deliver, sell or transfer or repurchase, redeem or otherwise acquire, or cause to be issued, delivered, sold or transferred or repurchased, redeemed or otherwise acquired, any Securities of Nalco or any Nalco Subsidiary, or any Security convertible or exercisable for or exchangeable into any Securities of Nalco or any Nalco Subsidiary, (ii) obligating Nalco or any Nalco Subsidiary to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, Contract, arrangement or undertaking or (iii) that give any Person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of Securities of Nalco or any Nalco Subsidiary. There are no outstanding contractual obligations of Nalco or any Nalco Subsidiary to repurchase, redeem or otherwise acquire any Securities of Nalco or any Nalco Subsidiary. There are no proxies, voting trusts or other Contracts or understandings to which Nalco or any Nalco Subsidiary is a party or is bound with respect to the voting of the Securities of Nalco or any Nalco Subsidiary or the registration of the Securities of Nalco or the Nalco Subsidiaries under any U.S. or foreign securities Law.

Section 4.4 Authorization; Board Approval; Voting Requirements.

(a) Nalco has all requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and, subject to obtaining the Nalco Stockholder Approval, to consummate the Merger and the other transactions contemplated by this Agreement.

The execution, delivery and performance of this Agreement and the consummation of the Merger and the other transactions contemplated by this Agreement have been duly and validly authorized by all necessary corporate action, and no other corporate proceedings on the part of Nalco are necessary for it to authorize this Agreement or to consummate the transactions contemplated by this Agreement, except for the Nalco Stockholder Approval and the filing of the appropriate merger documents as required by the DGCL. This Agreement has been duly and validly executed and delivered by Nalco and, assuming due authorization, execution and delivery by Ecolab and Merger Sub, is a legal, valid and binding obligation of Nalco, enforceable against Nalco in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization or similar Laws affecting creditors' rights generally and by general principles of equity.

(b) The Board of Directors of Nalco, at a meeting duly called and held, has duly and unanimously adopted resolutions (i) approving this Agreement, (ii) declaring this Agreement advisable and (iii) recommending that Nalco's stockholders adopt this Agreement. As of the date of this Agreement, such resolutions have not been amended or withdrawn.

(c) The affirmative vote of holders of a majority of the outstanding shares of Nalco Common Stock at the Nalco Stockholders Meeting, or any adjournment or postponement thereof, to adopt this Agreement (the "*Nalco Stockholder Approval*") is the only vote of the holders of any class or series of Securities of Nalco necessary to adopt this Agreement.

Section 4.5 Takeover Statute; No Restrictions on the Merger.

(a) No state "fair price," "moratorium," "control share acquisition" or similar anti-takeover statute is applicable to the Merger or the other transactions contemplated by this Agreement.

(b) Assuming the accuracy of the representation in *Section 5.24*, Nalco has taken all necessary action to render the restrictions on business combinations contained in Section 203 of the DGCL inapplicable to this Agreement, the Merger and the other transactions contemplated by this Agreement.

(c) Nalco has or caused to be taken all necessary action in order to make this Agreement and the transactions contemplated by this Agreement comply with, and this Agreement and the transactions contemplated by this Agreement do comply with, the requirements in the Constituent Documents of Nalco and the Nalco Subsidiaries concerning "business combination," "fair price," "voting requirement" or other related provisions.

Section 4.6 Consents and Approvals; No Violations.

(a) The execution and delivery of this Agreement by Nalco does not and the consummation by Nalco of the transactions contemplated by this Agreement will not (i) conflict with any provisions of the Constituent Documents of Nalco or any material Nalco Subsidiary, (ii) violate any Law or Order (assuming compliance with the matters set forth in *Section 4.6(b)* and that the Nalco Stockholder Approval is obtained), (iii) result, after the giving of notice, with lapse of time, or otherwise, in any violation, default or loss of a benefit under, or permit the acceleration or termination of any obligation under or require any consent under, any Contract, (iv) result in the creation or imposition of any Lien upon any properties or assets of Nalco or any Nalco Subsidiary or (v) cause the suspension or revocation of any Nalco Permit, except, in the case of clauses (ii), (iii), (iv) and (v), any matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(b) No clearance, consent, approval, order, waiver, license or authorization of or from, or declaration, registration or filing with, or notice to, or permit issued by, any Governmental Authority is required to be made or obtained by Nalco or any Nalco Subsidiary in connection with the execution or delivery of this Agreement by Nalco or the consummation by Nalco of the transactions contemplated by this Agreement, except for (i) compliance by Nalco with the HSR Act and any required filings or notifications under any other applicable Competition Laws, (ii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware in accordance with the DGCL, (iii) the filing with the SEC of the Joint Proxy Statement/Prospectus in accordance with Regulation 14A promulgated under the Exchange Act, the Form S-4 and such reports under and such other compliance with the Exchange Act and the Securities Act as may be required in connection with this Agreement and the transactions contemplated by this Agreement, (iv) compliance with the securities or "blue sky" laws of various states in connection with the issuance of the Merger Consideration, (v) compliance with the NYSE rules and regulations to permit the consummation of the Merger and the listing of the Merger Consideration, (vi) consent, approvals or filings under any state property transfer law (including the New Jersey Industrial Site Recovery Act, N.J. Stat. Ann. §13:1K-6 et seq. and the Connecticut Transfer Act, C.G.S. §22a-134 et seq.) and (vii) such other matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

Section 4.7 SEC Reports; Nalco Financial Statements.

(a) Nalco has timely filed or furnished all reports, schedules, forms, statements and other documents required to be filed or furnished by it with or to the SEC since January 1, 2008 (together with all exhibits, financial statements and schedules thereto and all information incorporated therein by reference, the "*Nalco SEC Documents*"). As of its respective date, or, if amended, as of the date of the last such amendment, each of the Nalco SEC Documents complied when filed or furnished (or, if applicable, when amended) in all material respects with the requirements of the Exchange Act and the Securities Act applicable to such Nalco SEC Documents and did not, and any Nalco SEC Documents filed with the SEC subsequent to the date of this Agreement will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the Nalco Subsidiaries is required to make any filings with the SEC.

(b) The Nalco Financial Statements, which have been derived from the accounting books and records of Nalco and the Nalco Subsidiaries, complied at the time they were filed as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and have been prepared in accordance with U.S. generally accepted accounting principles ("*GAAP*") (except, in the case of the unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis throughout the periods presented, except as otherwise noted therein. The consolidated balance sheets (including the related notes) included in the Nalco Financial Statements present fairly in all material respects the financial position of Nalco and the Nalco Subsidiaries as at the respective dates thereof, and the consolidated statements of income, consolidated statements of stockholders' equity and consolidated statements of cash flows (in each case including the related notes) included in such Nalco Financial Statements present fairly in all material respects the results of operations, stockholders' equity and cash flows of Nalco and the Nalco Subsidiaries for the respective periods indicated.

(c) As of the date of this Agreement, Nalco has provided Ecolab with correct and complete unredacted copies of all documents filed as exhibits to the Nalco SEC Documents subject to a request to the staff of the SEC for confidential treatment. Nalco has not submitted any request for confidential treatment of documents filed as exhibits to the Nalco SEC Documents that as of the date of this Agreement is currently pending or that has otherwise not been acted upon by staff of the SEC. Nalco has timely responded to all comment letters of the staff of the SEC relating to the Nalco SEC Documents, and the SEC has not asserted that any of such responses are inadequate, insufficient or otherwise non-responsive. None of the Nalco SEC Documents is, to the knowledge of Nalco, the subject of ongoing SEC review.

(d) The audit committee of the Board of Directors of Nalco has established "whistleblower" procedures that meet the requirements of Exchange Act Rule 10A-3, and has made available to Ecolab correct and complete copies of such procedures. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, neither Nalco nor any Nalco Subsidiary has received any "complaints" (within the meaning of Exchange Act Rule 10A-3) in respect of any accounting, internal accounting controls or auditing matters and, to Nalco's knowledge, no complaint seeking relief under Section 806 of the Sarbanes-Oxley Act has been filed with the U.S. Secretary of Labor and no employee has threatened to file any such complaint.

Section 4.8 Absence of Undisclosed Liabilities. Nalco and the Nalco Subsidiaries do not have any liabilities or obligations, whether or not accrued, known or unknown, contingent or otherwise and whether or not required to be disclosed or reflected on or reserved against in the consolidated balance sheet of Nalco and the Nalco Subsidiaries, except for liabilities or obligations that, individually or in the aggregate, have not had or would not reasonably be expected to have a Nalco Material Adverse Effect.

Section 4.9 Form S-4; Joint Proxy Statement/Prospectus. None of the information supplied or to be supplied by Nalco or any Nalco Subsidiary for inclusion or incorporation by reference in (a) the registration statement on Form S-4 (the "*Form S-4*") to be filed by Ecolab with the SEC in connection with the Ecolab Share Issuance will, at the time the Form S-4 is filed with the SEC or at any time it is supplemented or amended or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading or (b) the Joint Proxy Statement/Prospectus will not, on the date mailed to the stockholders of Nalco and Ecolab and at the time of the Nalco Stockholders Meeting and the time of the Ecolab Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

Section 4.10 Absence of Certain Changes. Since January 1, 2011, Nalco and the Nalco Subsidiaries have conducted their respective businesses in all material respects in the ordinary course of business and in a manner consistent with past practice. Since January 1, 2011, there have not been any Changes that, individually or in the aggregate, have had or would reasonably be expected to have a Nalco Material Adverse Effect.

Section 4.11 Litigation. There is no Proceeding (whether at Law or in equity) pending, affecting or, to the knowledge of Nalco, threatened against Nalco or any Nalco Subsidiary or any of their respective directors, officers, properties or assets that, individually or in the aggregate, has had or would reasonably be expected to have a Nalco Material Adverse Effect. There is no Order outstanding against or, to the knowledge of Nalco, investigation by any Governmental Authority involving Nalco or any Nalco Subsidiary or any of their respective properties or assets that, individually or in the aggregate, has had or would reasonable be expected to have a Nalco Material Adverse Effect.

Section 4.12 Compliance with Laws.

(a) Each of Nalco and the Nalco Subsidiaries hold all material permits, licenses, variances, exemptions, Orders and approvals of all Governmental Authorities necessary for the lawful conduct of their respective businesses or ownership of their respective assets and properties (the "*Nalco Permits*"), except where failure to hold Nalco Permits, individually or in the aggregate, has not had and would not reasonably be expected to have a Nalco Material Adverse Effect. Each of Nalco and the Nalco Subsidiaries is in compliance with the terms of the Nalco Permits, except where non-compliance, individually or in the aggregate, has not had and would not reasonably be expected to have a Nalco Material Adverse Effect. Neither Nalco nor the Nalco Subsidiaries has received at any time since January 1, 2008 any notice or other communication from any Governmental Authority or any other Person regarding any actual or threatened revocation, withdrawal, suspension, cancellation, termination or material modification of any Nalco Permit, except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(b) Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, Nalco and each of the Nalco Subsidiaries are and, since January 1, 2008, have been, in compliance with all applicable Laws. Since January 1, 2008, neither Nalco nor any of the Nalco Subsidiaries has received any written notice or, to Nalco's knowledge, other communication from any Governmental Authority regarding any actual or possible noncompliance with any Law, except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(c) Each of the principal executive officer of Nalco and the principal financial officer of Nalco (or each former principal executive officer of Nalco and each former principal financial officer of Nalco, as applicable) has made all applicable certifications required by Rule 13a-14 or 15d-14 under the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act with respect to the Nalco SEC Documents, and the statements contained in such certifications are true and accurate. For purposes of this Agreement, "principal executive officer" and "principal financial officer" will have the meanings given to such terms in the Sarbanes-Oxley Act.

(d) Nalco maintains a system of "internal control over financial reporting" (as defined in Rule 13a-15(f) of the Exchange Act) sufficient to provide reasonable assurance (i) that receipts and expenditures are made in accordance with management's authorization, (ii) that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and (iii) regarding prevention or timely detection of the unauthorized acquisition, use or disposition of Nalco's properties or assets.

(e) Nalco's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are reasonably designed to ensure that information required to be disclosed by Nalco in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC, and that all such information is accumulated and communicated to Nalco's principal executive officer and principal financial officer as appropriate to allow timely decisions regarding required disclosure and to make the certifications of the principal executive officer and principal financial officer of Nalco required under the Exchange Act with respect to such reports.

(f) Since January 1, 2008, none of Nalco's outside auditors or the audit committee of the Board of Directors of Nalco has received any oral or written notification of (i) any "significant deficiencies" or "material weaknesses" in the design or operation of internal control over financial reporting which could reasonably be expected to adversely affect Nalco's ability to record, process, summarize and report financial information or (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in Nalco's internal control over financial reporting. For purposes of this Agreement, the terms "significant deficiency" and "material weakness" will have the meanings assigned to them in the Statements of Auditing Standards No. 115, as in effect on the date of this Agreement. Nalco's outside auditors have confirmed to Nalco in writing that they are independent registered certified public accountants as required by the Exchange Act and the rules of the Public Company Accounting Oversight Board.

(g) Since January 1, 2008, (i) neither Nalco nor any Nalco Subsidiary has received any material complaint, allegation, assertion or claim, whether written or oral, regarding accounting, internal accounting controls or auditing practices, procedures, methodologies or methods of Nalco or any Nalco Subsidiary or any material concerns from employees of Nalco or any Nalco Subsidiary regarding questionable accounting or auditing matters with respect to Nalco or any Nalco Subsidiary relating to periods after January 1, 2008 and (ii) no attorney representing Nalco or any Nalco Subsidiary, whether or not employed by Nalco or any Nalco Subsidiary, has reported evidence of a violation of securities Laws, breach of fiduciary duty or similar violation by Nalco or any of its directors, officers, employees or agents to the Board of Directors of Nalco or any committee thereof or to the general counsel or chief executive officer of Nalco pursuant to the rules of the SEC adopted under Section 307 of the Sarbanes-Oxley Act.

(h) This *Section 4.12* does not relate to Tax matters, employee benefits matters, Intellectual Property matters, Environmental laws and regulations, or FCPA and international trade sanction matters, which are the subjects of *Sections 4.13*, *4.15*, *4.17*, *4.19* and *4.21*, respectively.

Section 4.13 Taxes.

(a) Nalco and each Nalco Subsidiary have (i) duly and timely filed (or there have been duly and timely filed on its behalf) with the appropriate Governmental Authorities or Taxing Authorities all Tax Returns required to be filed by it in respect of any material Taxes, which Tax Returns were correct and complete in all material respects, (ii) duly and timely paid in full (or Nalco has paid on the Nalco Subsidiaries' behalf) all Taxes shown as due on such Tax Returns, (iii) duly and timely paid in full or withheld, or established adequate reserves in accordance with GAAP for, all material Taxes that are due and payable by it, whether or not such Taxes were asserted by the relevant Governmental Authority or Taxing Authority, (iv) established reserves in accordance with GAAP that are adequate for the payment of all material Taxes not yet due and payable by Nalco and each Nalco Subsidiary through the date of this Agreement and (v) complied in all material respects with all Laws applicable to the withholding and payment over of Taxes and has timely withheld and paid over to, or, where amounts have not been so withheld, established an adequate reserve under GAAP for the payment to, the respective proper Governmental Authorities or Taxing Authorities all material amounts required to be so withheld and paid over.

(b) Nalco and each Nalco Subsidiary will duly and timely file with the appropriate Government Authorities or Taxing Authorities all Tax Returns required to be filed by it in respect of any material Taxes in any jurisdiction for which Nalco is required by a Governmental Authority to file such Tax Returns, and such Tax Returns will be correct and complete in all material respects.

(c) There (i) is no deficiency, Proceeding or request for information now pending, outstanding or, to the knowledge of Nalco as of the date of this Agreement, threatened against or with respect to Nalco or any Nalco Subsidiary in respect of any material Taxes or material Tax Returns and (ii) are no requests for rulings or determinations in respect of any material Taxes or material Tax Returns pending between Nalco or any Nalco Subsidiary and any Governmental Authority or Taxing Authority.

(d) There are no material Tax sharing agreements, Tax indemnity agreements or other similar Contracts with respect to or involving Nalco or any Nalco Subsidiary (including any advance pricing agreement, closing agreement or other Contract relating to Taxes with any Governmental Authority).

(e) None of Nalco or any Nalco Subsidiary has any material liability for Taxes as a result of having been a member of any affiliated group within the meaning of Section 1504(a) of the Code, or any similar affiliated or consolidated group for tax purposes under state, local or foreign Law (other than a group the common parent of which is Nalco or any Nalco Subsidiary), or has any material liability for the Taxes of any Person (other than Nalco or the Nalco Subsidiaries) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign Law), or as a transferee or successor, by Contract or otherwise.

(f) There are no material adjustments under Section 481 of the Code (or any similar provision of state, local or foreign Law) for income tax purposes applicable to or required to be made by Nalco or any Nalco Subsidiary after the date hereof as a result of changes in methods of accounting or other events occurring on or before the date hereof.

(g) None of Nalco or any Nalco Subsidiary will be required to include any material item of income in, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (i) change in method of accounting for a taxable period ending on or prior to the Closing Date, (ii) "closing agreement" as described in Section 7121 of the Code (or any similar provision of state, local or foreign Law) executed on or prior to the Closing Date, (iii) intercompany transactions occurring before the Closing Date or excess loss account described in Treasury Regulations under Section 1502 of the Code (or any similar provision of state, local or foreign Law) existing on the Closing Date, (iv) installment sale or open transaction disposition made on or prior to the Closing Date, (v) prepaid amount received on or prior to the Closing Date outside of the ordinary course of business or (vi) otherwise as a result of a transaction or accounting method that accelerated an item of deduction outside of the ordinary course of business into periods ending on or before the Closing Date or a transaction or accounting method that deferred an item of income outside of the ordinary course of business into periods beginning after the Closing Date.

(h) No material claim, other than claims defeated or withdrawn, has been made within the past five years by an authority in a jurisdiction where Nalco or any Nalco Subsidiary has not filed Tax Returns that it is or may be subject to taxation by that jurisdiction.

(i) Nalco and each Nalco Subsidiary have made (or there has been made on their behalf) all required current estimated Tax payments sufficient to avoid any material underpayment penalties.

(j) Nalco and, to the extent required to file U.S. federal income Tax Returns, each Nalco Subsidiary has adequately disclosed on its U.S. federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of Federal income tax within the meaning of Section 6662 of the Code.

(k) None of the Indebtedness of Nalco or any Nalco Subsidiary constitutes (i) "corporate acquisition indebtedness" (as defined in Section 279(b) of the Code) with respect to which any interest deductions may be disallowed under Section 279 of the Code or (ii) an "applicable high yield discount obligation" under Section 163(i) of the Code.

(l) All material Taxes that Nalco or any Nalco Subsidiary is required by Law to withhold or collect, including sales, use and value-added Taxes and amounts required to be withheld or collected in connection with any amount paid or owing to any employee, independent contractor, creditor, stockholder, or other Person, have been duly withheld or collected. To the extent required by applicable Law, all such amounts have been paid over to the proper Governmental Authority.

(m) There are no material Liens or other encumbrances for Taxes upon any material property or assets of Nalco or any Nalco Subsidiary, except for Permitted Liens.

(n) Neither Nalco nor any Nalco Subsidiary has participated in a "listed transaction" within the meaning of Treasury Regulations Section 1.6011-4(b)(2).

(o) Neither Nalco nor any Nalco Subsidiary has currently in effect any waiver of any statute of limitations in respect of Taxes or any agreement to any extension of time with regard to a

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material Tax assessment or deficiency (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course consistent with past practices), and no such waivers are pending.

(p) None of Nalco or any Nalco Subsidiary has been a "controlled corporation" or a "distributing corporation" in any distribution (other than any distribution of an indirect Subsidiary of Nalco from one direct or indirect Subsidiary to another such Subsidiary or to Nalco that was not part of the same plan or series of transactions as the Merger, within the meaning of Section 355(e) of the Code) occurring during the two-year period ending on the date of this Agreement that was purported or intended to be governed by Section 355 or Section 361 of the Code (or any similar provision of state, local or foreign Law).

(q) Nalco is not, and has not been at any time within the last five years, a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code.

(r) There is no power of attorney given by or binding upon Nalco or any Nalco Subsidiary with respect to Taxes for any period for which the statute of limitations (including any waivers or extensions) has not yet expired.

(s) None of Nalco or any Nalco Subsidiary has taken or failed to take any action, as of the date of this Agreement, or has knowledge of any facts or circumstances that would prevent the Merger from constituting a tax-free reorganization described in Section 368(a) and related provisions of the Code.

(t) As of the date of this Agreement, there are not any material pending or, to the knowledge of Nalco, threatened audit, examination, investigation or other Proceeding with respect to any Tax Return of Nalco or any Nalco Subsidiary.

Section 4.14 Real Property.

(a) With respect to the Nalco Owned Real Property and Nalco Leased Real Property all material buildings, structures, fixtures and improvements are in all respects adequate and sufficient and in satisfactory condition, to support the operations of Nalco and the Nalco Subsidiaries as presently conducted, except in respects that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(b) With respect to each parcel of Nalco Owned Real Property (i) Nalco or the applicable Nalco Subsidiary has good and marketable fee simple (or equivalent) title to such Nalco Owned Real Property, free and clear of all Liens other than Permitted Liens, (ii) there are no outstanding written agreements or other Contracts to purchase, exchange, place a Lien against, lease or otherwise transfer such Nalco Owned Real Property and (iii) there are no pending or, to the knowledge of Nalco, threatened condemnation or other Proceedings relating to the Nalco Owned Real Property, except, in each case, in respects that, individually or in the aggregate, have not had and would not reasonably be expect to have a Nalco Material Adverse Effect.

(c) With respect to each Lease relating to a parcel of Nalco Leased Real Property (i) Nalco or the applicable Nalco Subsidiary that is party thereto has good and valid leasehold interests in such Lease (subject to the terms of the applicable Lease governing its interests therein), in each case free and clear of all Liens, other than Permitted Liens, (ii) each such Lease is the legal, valid, binding and enforceable obligation of Nalco or the applicable Nalco Subsidiary that is lessee thereunder and (iii) Nalco or the applicable Nalco Subsidiary has complied with the terms of such Lease, except, in each case, in respects that, individually or in the aggregate, have not had and would not reasonably be expect to have a Nalco Material Adverse Effect.

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Section 4.15 Employee Benefit Plans and Related Matters; ERISA.

(a) With respect to each of the material Nalco Benefit Plans, Nalco has made available to Ecolab (to the extent requested by Ecolab prior to the date of this Agreement) correct and complete copies of each of the following documents: (i) such Nalco Benefit Plan (including all material amendments thereto), (ii) the annual report and actuarial report, if required under ERISA or the Code, for the most recent plan year ending prior to the date hereof, (iii) the most recent summary plan description, together with each summary of material modifications, if required under ERISA, (iv) if the Nalco Benefit Plan is funded through a trust or any third party funding vehicle, the trust or other funding Contract (including all amendments thereto) and the latest financial statements with respect to the reporting period ended most recently preceding the date thereof, (v) the most recent determination letter received from the IRS with respect to each Nalco Benefit Plan that is intended to be qualified under Section 401(a) of the Code and (vi) all material notices with respect to any Nalco Benefit Plan that were given by any Governmental Authority to Nalco, any Nalco Subsidiary or any ERISA Affiliate or any Nalco Benefit Plan in the last three plan years ending prior to the date of this Agreement or in the period ending on the date of this Agreement.

(b) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, (i) no liability under Title IV of ERISA has been incurred by Nalco or any ERISA Affiliate that has not been satisfied in full when due, and no condition exists that presents a risk to Nalco or any ERISA Affiliate of incurring a liability under Title IV of ERISA, in each case, with respect to any Nalco U.S. Benefit Plan, (ii) no Nalco U.S. Benefit Plan subject to the minimum funding requirements of Section 302 of ERISA or any trust established thereunder has failed to meet such minimum funding standards (as described in Section 302 of ERISA), whether or not waived, as of the last day of the most recent fiscal year of such Nalco Benefit Plan ended prior to the date of this Agreement, (iii) with respect to each of the Nalco U.S. Benefit Plans that is subject to Title IV of ERISA, the present value of projected benefit obligations under such Nalco U.S. Benefit Plan, as determined by the Nalco U.S. Benefit Plan's actuary based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such actuary, did not, as of its latest valuation date, exceed the then-current value of the assets of such Nalco Benefit Plan allocable to such projected benefit obligations and (iv) any cessation of benefit accruals under a Nalco Benefit Plan was effected in accordance with any applicable requirements of ERISA and the Code, including (to the extent applicable) Section 204(h) of ERISA. Neither Nalco nor any ERISA Affiliate maintains or contributes to any Multiemployer Plan and, except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, neither Nalco nor any ERISA Affiliate has incurred or has any reason to believe it has incurred or will incur any withdrawal liability under Title IV of ERISA.

(c) Each Nalco U.S. Benefit Plan intended to be "qualified" within the meaning of Section 401(a) of the Code has received a favorable determination letter from the IRS as to its qualification and, to the knowledge of Nalco as of the date of this Agreement, no event has occurred that could reasonably be expected to result in disqualification of such Nalco U.S. Benefit Plan.

(d) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, each of the Nalco U.S. Benefit Plans has been operated and administered in all respects in accordance with its terms and all applicable Laws, including ERISA and the Code.

(e) *Section 4.15(e)* of the Nalco Disclosure Letter includes an accurate and complete list of all change in control, severance and similar agreements to which any Section 16 Officer of Nalco is a party as of the date hereof and information in reasonable detail regarding all Nalco Stock Options and Nalco Stock-Based Awards held by such Section 16 Officers as of the date hereof. The consummation of the transactions contemplated by this Agreement will not (i) entitle any current or former director, officer, employee or agent of Nalco or any Nalco Subsidiary to any material severance pay, unemployment compensation or any other payment, (ii) accelerate the time of payment or vesting, or materially increase the amount of compensation due to any such current or former director, officer, employee or agent or (iii) result in any material prohibited transaction described in Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available.

(f) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, no Nalco Benefit Plan provides benefits, including death or medical benefits (whether or not insured), with respect to current or former directors, officers, employees or agents of Nalco or any Nalco Subsidiary beyond their retirement or other termination of service, other than (i) coverage mandated solely by applicable Law, (ii) death benefits or retirement benefits under any "employee pension plan" (as defined in Section 3(2) of ERISA), (iii) deferred compensation benefits accrued as liabilities on the books of Nalco or a Nalco Subsidiary or (iv) benefits the full costs of which are borne by the current or former director, officer, employee or agent or his or her beneficiary.

(g) With respect to each material Nalco Benefit Plan established or maintained outside of the U.S. primarily for the benefit of employees of Nalco or any Nalco Subsidiary residing outside of the U.S. (a "*Foreign Nalco Benefit Plan*"), except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, (i) all employer and employee contributions to each Foreign Nalco Benefit Plan required by Law or by the terms of such Foreign Nalco Benefit Plan have been made, or, if applicable, accrued, in accordance with normal accounting practices, (ii) each Foreign Nalco Benefit Plan intended to be funded or book reserved is fully funded or book reserved, as appropriate, based on reasonable actuarial assumptions and (iii) each Foreign Nalco Benefit Plan required to be registered has been registered and has been maintained in good standing with applicable regulatory authorities.

(h) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, there are no pending or, to the knowledge of Nalco, threatened claims by or on behalf of any of the Nalco Benefit Plans, by any employee or beneficiary covered under any Nalco Benefit Plan or otherwise involving any Nalco Benefit Plan.

(i) Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, each Nalco Benefit Plan and each employment, management, severance, consulting, relocation, repatriation, expatriation or similar agreement between Nalco or any Nalco Subsidiary and any employee, consultant or independent contractor that provides deferred compensation subject to Section 409A of the Code is in compliance with applicable guidance under Section 409A of the Code in form and operation.

Section 4.16 Employees; Labor Matters.

(a) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, (i) as of the date of this Agreement, there is no organizational effort currently being made or, to the knowledge of Nalco, threatened by or on behalf of any labor union, works council, employee committee or representative or other labor organization to organize any employees of Nalco or any Nalco Subsidiary and (ii) as of the date of this Agreement, to the knowledge of Nalco, no petition has been filed, nor has any Proceeding been instituted by any employee of Nalco or any Nalco

Subsidiary or group of employees of Nalco or any Nalco Subsidiary with any labor relations board or commission seeking recognition of a collective bargaining or similar representative in the past three years. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, to the knowledge of Nalco, there is no labor union, works council, employee committee or representative or other labor organization representing employees of Nalco or any Nalco Subsidiary which, pursuant to applicable Law or any applicable agreement, must be notified, consulted or with which negotiations are required to be conducted in connection with the transactions contemplated by this Agreement.

(b) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, as of the date of this Agreement, there is no pending or, to the knowledge of Nalco, threatened (i) strike, lockout, work stoppage, slowdown, picketing or material labor dispute with respect to or involving any employees of Nalco or any Nalco Subsidiary and (ii) arbitration or grievance against Nalco or any Nalco Subsidiary involving current or former employees of Nalco or any Nalco Subsidiary.

Section 4.17 Intellectual Property.

(a) Except in respects that, individually or in the aggregate, have not had and would not be reasonably expected to have a Nalco Material Adverse Effect, Nalco and the Nalco Subsidiaries are the owners of (with valid right, title and interest in), free and clear of all Liens (except Permitted Liens), and have a valid right to use in their business as currently conducted, all items of Nalco Owned Intellectual Property. Nalco and the Nalco Subsidiaries have a valid right to use in their business as currently conducted all items of Intellectual Property that are the subject of any Nalco Intellectual Property License Agreement, subject to the terms of the applicable Nalco Intellectual Property License Agreement and except where the failure to have the right to use such Nalco Owned Intellectual Property, individually or in the aggregate, has not had and would not reasonably be expected to have a Nalco Material Adverse Effect. Neither Nalco nor any of the Nalco Subsidiaries has forfeited or otherwise relinquished any Nalco Owned Intellectual Property, except where such forfeiture or relinquishment, individually or in the aggregate, has not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(b) There are no pending or, to the knowledge of Nalco, threatened Proceedings before any court, agency, arbitral tribunal or registration authority in any jurisdiction alleging that the activities or conduct of the business of Nalco and the Nalco Subsidiaries infringe upon, misappropriate, violate or constitute the unauthorized use of the Intellectual Property rights of any third party or challenging Nalco's ownership, use, validity, enforceability or registrability of any Nalco Owned Intellectual Property, except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(c) To the knowledge of Nalco, the conduct of the business of Nalco and the Nalco Subsidiaries by Nalco as currently conducted does not infringe upon or misappropriate (either directly or indirectly, such as through contributory infringement or inducement to infringe) any Intellectual Property rights of any other Person, except where such infringement or misappropriation, individually or in the aggregate, has not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(d) To the knowledge of Nalco, no third party is misappropriating, infringing, diluting or violating any Nalco Owned Intellectual Property or Intellectual Property used by Nalco and no Proceedings or other adversarial claims have been brought or threatened against any third party by Nalco, except for such misappropriation, infringement, dilution or violation or Proceeding or claim that, individually or in the aggregate, has not had and would not reasonably be expected to have a Nalco Material Adverse Effect.

(e) Nalco and the Nalco Subsidiaries have taken reasonable measures to protect the confidentiality of their Trade Secrets, including requiring employees and other parties having access thereto to execute written nondisclosure agreements. To the knowledge of Nalco, none of the material Trade Secrets of Nalco and the Nalco Subsidiaries has been disclosed or authorized to be disclosed to any third party other than pursuant to a nondisclosure agreement, except where such disclosure or authorization, individually or in the aggregate, has not had and would not be reasonably expected to have a Nalco Material Adverse Effect. To the knowledge of Nalco, no third party to any nondisclosure agreement with Nalco or any Nalco Subsidiary is in material breach, violation or default, except where such breach, violation or default, individually or in the aggregate, has not had and would not be reasonably expected to have a Nalco Material Adverse Effect.

(f) Nalco and the Nalco Subsidiaries have been in compliance with all applicable federal, state, local and foreign Laws, as well as their own policies, relating to privacy, data protection, breach notification, export and the collection and use of personal information and user information gathered or accessed in the course of the operations of its business, except where such noncompliance, individually or in the aggregate, has not had and would not be reasonably expected to have a Nalco Material Adverse Effect.

Section 4.18 Contracts.

(a) As of the date of this Agreement, except as filed as an exhibit to a Nalco SEC Document, and except for Nalco Benefit Plans, neither Nalco nor any Nalco Subsidiary is a party to or bound by:

(i) any Contracts relating to Indebtedness (other than Contracts among direct or indirect wholly-owned Nalco Subsidiaries) in excess of $5,000,000;

(ii) any joint venture, partnership, limited liability company or other similar Contracts relating to the formation, creation, operation, management, sharing of profit or losses or control of any partnership, strategic alliance or joint venture, in each case, material to Nalco and the Nalco Subsidiaries, taken as a whole;

(iii) any Contracts, including any option Contracts, relating to the acquisition or disposition, with material obligations remaining to be performed or material liabilities continuing after the date of this Agreement, of any business or real property that is material to Nalco and the Nalco Subsidiaries, taken as a whole (whether by merger, sale of stock, sale of assets or otherwise);

(iv) any Contracts (including any exclusivity Contracts) that limit or restrict or purport to limit or restrict either the type of business in which Nalco or any Nalco Subsidiary (or, after the Effective Time, the Surviving Corporation or its Affiliates) may engage or the manner or locations in which any of them may so engage in any business, including any covenant not to compete (geographically or otherwise), "most favored nations" or similar rights, in each case that is material to Nalco and the Nalco Subsidiaries, taken as a whole; or

(v) any other Contracts that would be required to be filed as an exhibit to any Nalco SEC Document (as described in Items 601(b)(4) and 601(b)(10) of Regulation S-K under the Securities Act) that has not been filed as an exhibit to or incorporated by reference in the Nalco SEC Documents filed prior to the date of this Agreement.

(b) The Contracts listed or required to be listed in *Section 4.18(a)* of the Nalco Disclosure Letter are referred to herein as the "*Nalco Contracts*." Except for matters which, individually or in the aggregate, have not had and would not reasonably be expected to have a Nalco Material Adverse Effect, (i) each Nalco Contract is a valid and binding Contract of Nalco or a Nalco Subsidiary, as the case may be, and is in full force and effect, except, in each case, as enforcement

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may be limited by bankruptcy, insolvency, reorganization or similar Laws affecting creditors' rights generally and by general principles of equity and (ii) none of Nalco, any Nalco Subsidiary or, to the knowledge of Nalco as of the date of this Agreement, any other party thereto is (with or without notice or lapse of time, or both) in default or breach under the terms of any such Nalco Contract. Nalco has made available to Ecolab correct and complete copies of each such Nalco Contract (including all modifications and amendments thereto and waivers thereunder).

Section 4.19 Environmental Laws and Regulations. Except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Nalco Material Adverse Effect:

(a) Nalco and the Nalco Subsidiaries are in compliance with all applicable Environmental Laws and have obtained and are in compliance with all Environmental Permits currently required for their respective business and operations.

(b) (i) Neither Nalco nor any of the Nalco Subsidiaries has received any written notice of violation, notification of liability, demand, request for information, citation, summons or order alleging any liability of Nalco or any Nalco Subsidiaries pursuant to any Environmental Law, (ii) no complaint has been filed, and no penalty or fine has been assessed, against Nalco or any Nalco Subsidiaries in writing by any Governmental Authority under any applicable Environmental Law that remains unresolved, (iii) no remedial or corrective action by Nalco or any Nalco Subsidiaries is being required or requested to be taken (or, to the knowledge of Nalco as of the date of this Agreement, is being threatened) in writing by any Governmental Authority or any other Person, and (iv) no Proceeding is pending or, to the knowledge of Nalco, threatened by any Person against Nalco or any Nalco Subsidiary relating to or arising under any Environmental Law.

(c) No Release of Hazardous Substances has occurred at, on, above, under or from any properties currently or, to the knowledge of Nalco, formerly owned, leased, operated or used by Nalco or any Nalco Subsidiary that, in each case, has resulted in or would reasonably be expected to result in any cost, liability or obligation of Nalco or any Nalco Subsidiary under applicable Environmental Law for any cleanup or other remedial action.

(d) Except in compliance with applicable Environmental Law, neither Nalco nor any Nalco Subsidiary is currently operating any landfill, surface impoundment, disposal area or underground storage tank at any properties or assets currently owned, leased, operated or used by Nalco or any Nalco Subsidiary.

(e) There have been no Releases of Hazardous Substances that could reasonably be expected to result in any liability or obligation of Nalco or any Nalco Subsidiary under any Environmental Law for any cleanup or other remedial action relating to (i) the environmental conditions at, on or under any properties or assets currently or formerly owned, leased, operated or used by Nalco or any Nalco Subsidiary or (ii) the past or present use, management, handling, transport, treatment, generation, storage or disposal of Hazardous Substances by Nalco or any Nalco Subsidiary.

Section 4.20 Insurance Coverage. Nalco and the Nalco Subsidiaries maintain policies of insurance in such amounts and against such risks as Nalco believes to be customary in the industry in which Nalco and the Nalco Subsidiaries operate. Except as has not had and would not reasonably be expected to have, individually or in the aggregate, a Nalco Material Adverse Effect, all such insurance policies are in full force and neither Nalco nor any of the Nalco Subsidiaries is in breach or default under any such policy.

Section 4.21 Foreign Corrupt Practices and International Trade Sanctions.

(a) None of Nalco and the Nalco Subsidiaries, nor any of their respective, directors, officers, employees, agents or other representatives (nor any Person acting on behalf of any of the foregoing) has directly, or indirectly through a third-party intermediary, paid, offered, given,

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promised to pay or authorized the payment of any money or anything of value (including any gift, sample, travel, meal and lodging expense, entertainment, service, equipment, debt forgiveness, donation, grant or other thing of value, however characterized) to (i) any officer or employee of a Governmental Authority, (ii) any Person acting for or on behalf of any Governmental Authority, (iii) any political party or official thereof, (iv) any candidate for political office or (v) any other Person at the suggestion, request, direction or for the benefit of any of the above-described Persons, in each case, where the purpose of such offer, gift, payment or promise or authorization to make such payment was, is or would be prohibited under any applicable anti-bribery or anti-corruption Law of any relevant jurisdiction covering a similar subject matter as in effect on or prior to the Effective Time and applicable to Nalco, the Nalco Subsidiaries and their respective operations.

(b) None of Nalco and the Nalco Subsidiaries, nor any of their respective Affiliates, directors, officers, employees, agents or other representatives has taken any action which would cause them to be in violation in any material respect of the FCPA, or any other applicable Law of similar effect, including Laws implementing the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

(c) Neither Nalco nor any Nalco Subsidiaries nor, to the knowledge of Nalco, any representatives of Affiliates of Nalco or any Nalco Subsidiary has since January 1, 2008 violated or is in violation in any material respect of any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department.

(d) Since January 1, 2008, all imports, exports, re-exports, sales or transfers of products, services or Intellectual Property or related technical information of Nalco and the Nalco Subsidiaries have been effected in all material respects in accordance with all applicable anti-corruption, export control, trade sanctions, anti-terrorism and anti-boycott Laws. All products shipped by Nalco and the Nalco Subsidiaries have been accurately marked, labeled and transported in all material respects in accordance with such Laws.

(e) Since January 1, 2008, (i) none of Nalco or the Nalco Subsidiaries has conducted or initiated any internal investigation or made a voluntary disclosure to any Governmental Authority with respect to any alleged act or omission arising under arising under or relating to the Laws and sanctions referenced in clauses (b) and (c) above and (ii) no Governmental Authority has initiated or, to Nalco's knowledge as of the date of this Agreement, threatened to initiate, a material Proceeding against Nalco or the Nalco Subsidiaries, or, to Nalco's knowledge as of the date of this Agreement, any of their respective Affiliates, directors, officers, employees, agents or other representatives asserting that Nalco or the Nalco Subsidiaries, or any of their respective Affiliates, is not in compliance with any export or import Laws or the FCPA or any other applicable Law of similar effect.

Section 4.22 Opinion of Financial Advisor. Nalco has received the written opinion of Goldman, Sachs & Co. (the "*Nalco Financial Advisor*"), dated as of July 19, 2011 that, as of such date and subject to the limitations and assumptions set forth therein, the Stock Consideration and the Cash Consideration to be paid to the holders of Nalco Common Stock, taken in the aggregate, pursuant to this Agreement is fair, from a financial point of view, to such holders.

Section 4.23 Brokers. No Person other than the Nalco Financial Advisor is entitled to any brokerage, financial advisory, finder's or similar fee or commission payable by any Party in connection with the transactions contemplated by this Agreement based upon Contracts made by or on behalf of Nalco or any Nalco Subsidiary. Nalco has delivered to Ecolab a correct and complete copy of each Contract between Nalco or any Nalco Subsidiary and the Nalco Financial Advisor relating to the Merger and the other transactions contemplated by this Agreement.

Section 4.24 Ownership of Ecolab Common Stock. Neither Nalco nor any Nalco Subsidiary owns any shares of Ecolab Common Stock.

Section 4.25 No Other Representations or Warranties. Except for the representations and warranties contained in this *Article IV*, Ecolab acknowledges that none of Nalco, the Nalco Subsidiaries or any other Person on behalf of Nalco makes any other express or implied representation or warranty in connection with the transactions contemplated by this Agreement.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF ECOLAB AND MERGER SUB

Except as otherwise disclosed or identified in the Ecolab SEC Documents filed and publicly available on the internet website of the SEC at least two Business Days prior to the date of this Agreement (excluding any risk factor disclosure and disclosure of risks included in any "forward-looking statements" disclaimer or other statements included in such Ecolab SEC Documents that are predictive or forward-looking in nature) or in the letter (the "*Ecolab Disclosure Letter*") delivered to Nalco by Ecolab prior to the execution of this Agreement (it being understood that any information contained therein will qualify and apply to the representations and warranties in this *Article V* to which the information is specifically stated as referring to and will qualify and apply to other representations and warranties in this *Article V* to the extent, and only to the extent, that it is reasonably apparent from the face of such disclosure that such disclosure also qualifies or is applicable to such other sections), Ecolab and Merger Sub jointly and severally represent and warrant to Nalco as follows:

Section 5.1 Organization. Ecolab is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of Delaware. Ecolab has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted, except where failure to have such power or authority, individually or on the aggregate, has not had and would not reasonably be expected to have an Ecolab Material Adverse Effect. Ecolab has delivered to Nalco correct and complete copies of its Constituent Documents, as amended and in effect on the date of this Agreement.

Section 5.2 Subsidiaries.

(a) Each Subsidiary of Ecolab (individually, a "*Ecolab Subsidiary*" and collectively, the "*Ecolab Subsidiaries*") is a corporation duly incorporated or a limited liability company, partnership or other entity duly organized and is validly existing and, as applicable, in good standing under the Laws of the jurisdiction of its incorporation or organization and has all requisite corporate or other power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted, except where failure to be so incorporated or organized, existing or in good standing or to have such power or authority, individually or on the aggregate, has not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

(b) Ecolab is, directly or indirectly, the record holder and Beneficial Owner of all of the outstanding Securities of each Ecolab Subsidiary, free and clear of any Liens and free of any other limitation or restriction, including any limitation or restriction on the right to vote, sell, transfer or otherwise dispose of the Securities. All of the Securities so owned by Ecolab have been duly authorized and validly issued and are fully paid and nonassessable, and no such shares have been issued in violation of any preemptive or similar rights. Except for the Securities of the Ecolab Subsidiaries, Ecolab does not own, directly or indirectly, any Securities or other ownership interests in any Person or any Indebtedness of any Person.

(c) Merger Sub has been formed by Ecolab solely for purposes of the transactions contemplated by this Agreement. Merger Sub has not conducted any business or activities other than in connection with this Agreement.

Section 5.3 Capitalization.

(a) As of the date of this Agreement, the authorized capital stock of Ecolab consists of 400,000,000 shares of Ecolab Common Stock and 15,000,000 shares of Ecolab Preferred Stock.

(b) At the close of business on June 30, 2011, 231,872,670 shares of Ecolab Common Stock were issued and outstanding, 30,628,326 shares of Ecolab Common Stock were reserved for issuance pursuant to equity or equity-based compensation plans of Ecolab (the "*Ecolab Stock Plans*"), no shares of Ecolab Preferred Stock were issued and outstanding and 400,000 shares of Ecolab Preferred Stock were reserved for issuance pursuant to the Ecolab Rights Agreement. Except as set forth above, as of June 30, 2011, no other Securities of Ecolab were issued, reserved for issuance or outstanding. All issued and outstanding shares of Ecolab Common Stock have been, and all shares of Ecolab Common Stock that may be issued pursuant to the exercise of outstanding Ecolab Stock Options will be, when issued in accordance with the terms thereof, duly authorized, validly issued, fully paid and nonassessable and are subject to no preemptive or similar rights.

(c) *Section 5.3(c)* of the Ecolab Disclosure Letter sets forth the number of shares of Ecolab Common Stock authorized for issuance under each Ecolab Stock Plan and, as of June 30, 2011, the aggregate number of shares of Ecolab Common Stock subject to outstanding awards, whether or not vested, under each Ecolab Stock Plan. Ecolab has delivered to Nalco the form of grant agreement related to each such award. No material changes have been made to such form in connection with any award.

(d) There are no preemptive or similar rights on the part of any holder of any class of Securities of Ecolab or any Ecolab Subsidiary. Neither Ecolab nor any Ecolab Subsidiary has outstanding any bonds, debentures, notes or other obligations the holders of which have the right to vote (or which are convertible into or exercisable for Securities having the right to vote) with the holders of any class of Securities of Ecolab or any Ecolab Subsidiary on any matter submitted to such holders of Securities. As of the date of this Agreement and except as described above, there are no options, warrants, calls, rights, convertible or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock-based performance units, commitments, Contracts or undertakings of any kind to which Ecolab or any Ecolab Subsidiary is a party or by which any of them is bound (i) obligating Ecolab or any Ecolab Subsidiary to issue, deliver, sell or transfer or repurchase, redeem or otherwise acquire, or cause to be issued, delivered, sold or transferred or repurchased, redeemed or otherwise acquired, any Securities of Ecolab or any Ecolab Subsidiary, or any Security convertible or exercisable for or exchangeable into any Securities of Ecolab or any Ecolab Subsidiary, (ii) obligating Ecolab or any Ecolab Subsidiary to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, Contract, arrangement or undertaking or (iii) that give any Person the right to receive any economic benefit or right similar to or derived from the economic benefits and rights accruing to holders of Securities of Ecolab or any Ecolab Subsidiary. There are no outstanding contractual obligations of Ecolab or any Ecolab Subsidiary to repurchase, redeem or otherwise acquire any Securities of Ecolab or any Ecolab Subsidiary. There are no proxies, voting trusts or other Contracts or understandings to which Ecolab or any Ecolab Subsidiary is a party or is bound with respect to the voting of the Securities of Ecolab or any Ecolab Subsidiary or the registration of the Securities of Ecolab or the Ecolab Subsidiaries under any U.S. or foreign securities Law.

Section 5.4 Authorization; Board Approval; Voting Requirements.

(a) Each of Ecolab and Merger Sub has all requisite corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and, subject to obtaining the Ecolab Stockholder Approval, to consummate the Merger and the other transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement and the consummation of the Merger and the other transactions contemplated by this Agreement have been duly and validly authorized by all necessary corporate action, and no other corporate proceedings on the part of Ecolab or Merger Sub are necessary for it to authorize this Agreement or to consummate the transactions contemplated by this Agreement, except for the Ecolab Stockholder Approval and the filing of the appropriate merger documents as required by the DGCL. This Agreement has been duly and validly executed and delivered by each of Ecolab and Merger Sub and, assuming due authorization, execution and delivery by Nalco, is a legal, valid and binding obligation of each of Ecolab and Merger Sub, enforceable against each of Ecolab and Merger Sub in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization or similar Laws affecting creditors' rights generally and by general principles of equity.

(b) The Board of Directors of Ecolab, at a meeting duly called and held, has duly and unanimously adopted resolutions (i) approving this Agreement, (ii) declaring this Agreement advisable, (iii) approving the issuance of shares of Ecolab Common Stock as part of the Merger Consideration upon the consummation of the Merger in accordance with this Agreement (the "*Ecolab Share Issuance*") and (iv) recommending that Ecolab's stockholders approve the Ecolab Share Issuance. As of the date of this Agreement, such resolutions have not been amended or withdrawn.

(c) The Board of Directors of Merger Sub, acting by unanimous written consent in lieu of special meeting, has duly and unanimously adopted resolutions (i) approving this Agreement, (ii) declaring this Agreement advisable and (iii) recommending that Ecolab as Merger Sub's sole stockholder adopt this Agreement. Ecolab, as the sole stockholder of Merger Sub, acting by written consent in lieu of special meeting, will, promptly following the execution and delivery of this Agreement by the Parties, duly adopt this Agreement and approve the Merger and the other transactions contemplated by this Agreement. As of the date of this Agreement, such resolutions have not been amended or withdrawn.

(d) The affirmative vote of a majority of the votes cast by the holders of Ecolab Common Stock at the Ecolab Stockholders Meeting, or any adjournment or postponement thereof, to approve the Ecolab Share Issuance, subject to the requirement under the listing rules of the NYSE that the holders of a majority of the outstanding shares of Ecolab Common Stock cast for, against or abstaining votes at the Ecolab Stockholders Meeting or any adjournment or postponement thereof (the "*Ecolab Stockholder Approval*"), are the only votes of the holders of any class or series of Securities of Ecolab necessary to approve the Ecolab Share Issuance.

Section 5.5 Consents and Approvals; No Violations.

(a) The execution and delivery of this Agreement by Ecolab and Merger Sub does not and the consummation by Ecolab and Merger Sub of the transactions contemplated by this Agreement will not (i) conflict with any provisions of the Constituent Documents of Ecolab or any material Ecolab Subsidiary, (ii) violate any Law or Order (assuming compliance with the matters set forth in *Section 5.5(b)* and that the Ecolab Stockholder Approval is obtained), (iii) result, after the giving of notice, with lapse of time, or otherwise, in any violation, default or loss of a benefit under, or permit the acceleration or termination of any obligation under or require any consent under, any Contract, (iv) result in the creation or imposition of any Lien upon any properties or assets of Ecolab or any Ecolab Subsidiary or (v) cause the suspension or revocation of any Ecolab Permit, except, in the case of clauses (i), (ii), (iii), (iv) and (v), any matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

(b) No clearance, consent, approval, order, waiver, license or authorization of or from, or declaration, registration or filing with, or notice to, or permit issued by, any Governmental

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Authority is required to be made or obtained by Ecolab or any Ecolab Subsidiary in connection with the execution or delivery of this Agreement by Ecolab and Merger Sub or the consummation by Ecolab and Merger Sub of the transactions contemplated by this Agreement, except for (i) compliance by Ecolab with the HSR Act and any required filings or notifications under any other applicable Competition Laws, (ii) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware in accordance with the DGCL, (iii) the filing with the SEC of the Joint Proxy Statement/Prospectus in accordance with Regulation 14A promulgated under the Exchange Act, the Form S-4 and such reports under and such other compliance with the Exchange Act and the Securities Act as may be required in connection with this Agreement and the transactions contemplated by this Agreement, (iv) compliance with the securities or "blue sky" laws of various states in connection with the issuance of the Merger Consideration, (v) compliance with the NYSE rules and regulations to permit the consummation of the Merger and the listing of the Merger Consideration, (vi) consent, approvals or filings under any state property transfer law (including the New Jersey Industrial Site Recovery Act, N.J. Stat. Ann. §13:1K-6 et seq. and the Connecticut Transfer Act, C.G.S. §22a-134 et seq.) and (vii) such other matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

Section 5.6 SEC Reports; Ecolab Financial Statements.

(a) Ecolab has timely filed or furnished all reports, schedules, forms, statements and other documents required to be filed or furnished by it with or to the SEC since January 1, 2008 (together with all exhibits, financial statements and schedules thereto and all information incorporated therein by reference, the "*Ecolab SEC Documents*"). As of its respective date, or, if amended, as of the date of the last such amendment, each of the Ecolab SEC Documents complied when filed or furnished (or, if applicable, when amended) in all material respects with the requirements of the Exchange Act and the Securities Act applicable to such Ecolab SEC Documents and did not, and any Ecolab SEC Documents filed with the SEC subsequent to the date of this Agreement will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the Ecolab Subsidiaries is required to make any filings with the SEC.

(b) The Ecolab Financial Statements, which have been derived from the accounting books and records of Ecolab and the Ecolab Subsidiaries, complied at the time they were filed as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and have been prepared in accordance with GAAP (except, in the case of the unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis throughout the periods presented, except as otherwise noted therein. The consolidated balance sheets (including the related notes) included in the Ecolab Financial Statements present fairly in all material respects the financial position of Ecolab and the Ecolab Subsidiaries as at the respective dates thereof, and the consolidated statements of income, consolidated statements of stockholders' equity and consolidated statements of cash flows (in each case including the related notes) included in such Ecolab Financial Statements present fairly in all material respects the results of operations, stockholders' equity and cash flows of Ecolab and the Ecolab Subsidiaries for the respective periods indicated.

(c) As of the date of this Agreement, Ecolab has provided Nalco with correct and complete unredacted copies of all documents filed as exhibits to the Ecolab SEC Documents subject to a request to the staff of the SEC for confidential treatment. Ecolab has not submitted any request for confidential treatment of documents filed as exhibits to the Ecolab SEC Documents that as of the date of this Agreement is currently pending or that has otherwise not been acted upon by staff of the SEC. Ecolab has timely responded to all comment letters of the staff of the SEC relating to the Ecolab SEC Documents, and the SEC has not asserted that any of such responses are inadequate, insufficient or otherwise non-responsive. None of the Ecolab SEC Documents is, to the knowledge of Ecolab, the subject of ongoing SEC review.

(d) The audit committee of the Board of Directors of Ecolab has established "whistleblower" procedures that meet the requirements of Exchange Act Rule 10A-3, and has made available to Nalco correct and complete copies of such procedures. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, neither Ecolab nor any Ecolab Subsidiary has received any "complaints" (within the meaning of Exchange Act Rule 10A-3) in respect of any accounting, internal accounting controls or auditing matters and, to Ecolab's knowledge, no complaint seeking relief under Section 806 of the Sarbanes-Oxley Act has been filed with the U.S. Secretary of Labor and no employee has threatened to file any such complaint.

Section 5.7 Absence of Undisclosed Liabilities. Ecolab and the Ecolab Subsidiaries do not have any liabilities or obligations, whether or not accrued, known or unknown, contingent or otherwise and whether or not required to be disclosed or reflected on or reserved against in the consolidated balance sheet of Ecolab and the Ecolab Subsidiaries, except for liabilities or obligations that, individually or in the aggregate, have not had or would not reasonably be expected to have an Ecolab Material Adverse Effect.

Section 5.8 Form S-4; Joint Proxy Statement/Prospectus. None of the information supplied or to be supplied by Ecolab or any Ecolab Subsidiary for inclusion or incorporation by reference in (a) the Form S-4 to be filed by Ecolab with the SEC in connection with the Ecolab Share Issuance will, at the time the Form S-4 is filed with the SEC or at any time it is supplemented or amended or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading or (b) the Joint Proxy Statement/Prospectus will not, on the date mailed to the stockholders of Nalco and Ecolab and at the time of the Nalco Stockholders Meeting and the time of the Ecolab Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

Section 5.9 Absence of Certain Changes. Since January 1, 2011, Ecolab and the Ecolab Subsidiaries have conducted their respective businesses in all material respects in the ordinary course of business and in a manner consistent with past practice. Since January 1, 2011, there have not been any Changes that, individually or in the aggregate, have had or would reasonably be expected to have an Ecolab Material Adverse Effect.

Section 5.10 Litigation. There is no Proceeding (whether at Law or in equity) pending, affecting or, to the knowledge of Ecolab, threatened against Ecolab or any Ecolab Subsidiary or any of their respective directors, officers, properties or assets that, individually or in the aggregate, has had or would reasonably be expected to have an Ecolab Material Adverse Effect. There is no Order outstanding against or, to the knowledge of Ecolab, investigation by any Governmental Authority involving Ecolab or any Ecolab Subsidiary or any of their respective properties or assets that, individually or in the aggregate, has had or would reasonable be expected to have an Ecolab Material Adverse Effect.

Section 5.11 Compliance with Laws.

(a) Each of Ecolab and the Ecolab Subsidiaries hold all material permits, licenses, variances, exemptions, Orders and approvals of all Governmental Authorities necessary for the lawful conduct of their respective businesses or ownership of their respective assets and properties (the

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"*Ecolab Permits*"), except where failure to hold Ecolab Permits, individually or in the aggregate, has not had and would not reasonably be expected to have an Ecolab Material Adverse Effect. Each of Ecolab and the Ecolab Subsidiaries is in compliance with the terms of the Ecolab Permits, except where non-compliance, individually or in the aggregate, has not had and would not reasonably be expected to have an Ecolab Material Adverse Effect. Neither Ecolab nor the Ecolab Subsidiaries has received at any time since January 1, 2008 any notice or other communication from any Governmental Authority or any other Person regarding any actual or threatened revocation, withdrawal, suspension, cancellation, termination or material modification of any Ecolab Permit, except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

(b) Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, Ecolab and each of the Ecolab Subsidiaries are and, since January 1, 2008, have been, in compliance with all applicable Laws. Since January 1, 2008, neither Ecolab nor any of the Ecolab Subsidiaries has received any written notice or, to Ecolab's knowledge, other communication from any Governmental Authority regarding any actual or possible noncompliance with any Law, except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

(c) Each of the principal executive officer of Ecolab and the principal financial officer of Ecolab (or each former principal executive officer of Ecolab and each former principal financial officer of Ecolab, as applicable) has made all applicable certifications required by Rule 13a-14 or 15d-14 under the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act with respect to the Nalco SEC Documents, and the statements contained in such certifications are true and accurate.

(d) Ecolab maintains a system of "internal control over financial reporting" (as defined in Rule 13a-15(f) of the Exchange Act) sufficient to provide reasonable assurance (i) that receipts and expenditures are made in accordance with management's authorization, (ii) that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and (iii) regarding prevention or timely detection of the unauthorized acquisition, use or disposition of Ecolab's properties or assets.

(e) Ecolab's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are reasonably designed to ensure that information required to be disclosed by Ecolab in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the SEC, and that all such information is accumulated and communicated to Ecolab's principal executive officer and principal financial officer as appropriate to allow timely decisions regarding required disclosure and to make the certifications of the principal executive officer and principal financial officer of Ecolab required under the Exchange Act with respect to such reports.

(f) Since January 1, 2008, none of Ecolab's outside auditors or the audit committee of the Board of Directors of Ecolab has received any oral or written notification of (i) any "significant deficiencies" or "material weaknesses" in the design or operation of internal control over financial reporting which could reasonably be expected to adversely affect Ecolab's ability to record, process, summarize and report financial information or (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in Nalco's internal control over financial reporting. Ecolab's outside auditors have confirmed to Ecolab in writing that they are independent registered certified public accountants as required by the Exchange Act and the rules of the Public Company Accounting Oversight Board.

(g) Since January 1, 2008, (i) neither Ecolab nor any Ecolab Subsidiary has received any material complaint, allegation, assertion or claim, whether written or oral, regarding accounting, internal accounting controls or auditing practices, procedures, methodologies or methods of Ecolab or any Ecolab Subsidiary or any material concerns from employees of Ecolab or any Ecolab Subsidiary regarding questionable accounting or auditing matters with respect to Ecolab or any Ecolab Subsidiary relating to periods after January 1, 2008 and (ii) no attorney representing Ecolab or any Ecolab Subsidiary, whether or not employed by Ecolab or any Ecolab Subsidiary, has reported evidence of a violation of securities Laws, breach of fiduciary duty or similar violation by Nalco or any of its directors, officers, employees or agents to the Board of Directors of Ecolab or any committee thereof or to the general counsel or chief executive officer of Nalco pursuant to the rules of the SEC adopted under Section 307 of the Sarbanes-Oxley Act.

(h) This *Section 5.11* does not relate to Tax matters, employee benefits matters, Intellectual Property matters, Environmental laws and regulations, or FCPA and international trade sanction matters, which are the subjects of *Sections 5.12*, *5.14*, *5.16*, *5.18* and *5.20*, respectively.

Section 5.12 Taxes.

(a) Ecolab and each Ecolab Subsidiary have (i) duly and timely filed (or there have been duly and timely filed on its behalf) with the appropriate Governmental Authorities or Taxing Authorities all Tax Returns required to be filed by it in respect of any material Taxes, which Tax Returns were correct and complete in all material respects, (ii) duly and timely paid in full (or Ecolab has paid on the Ecolab Subsidiaries' behalf) all Taxes shown as due on such Tax Returns, (iii) duly and timely paid in full or withheld, or established adequate reserves in accordance with GAAP for, all material Taxes that are due and payable by it, whether or not such Taxes were asserted by the relevant Governmental Authority or Taxing Authority, (iv) established reserves in accordance with GAAP that are adequate for the payment of all material Taxes not yet due and payable by Ecolab and each Ecolab Subsidiary through the date of this Agreement and (v) complied in all material respects with all Laws applicable to the withholding and payment over of Taxes and has timely withheld and paid over to, or, where amounts have not been so withheld, established an adequate reserve under GAAP for the payment to, the respective proper Governmental Authorities or Taxing Authorities all material amounts required to be so withheld and paid over.

(b) Ecolab and each Ecolab Subsidiary will duly and timely file with the appropriate Government Authorities or Taxing Authorities all Tax Returns required to be filed by it in respect of any material Taxes in any jurisdiction for which Ecolab is required by a Governmental Authority to file such Tax Returns, and such Tax Returns will be correct and complete in all material respects.

(c) There (i) is no deficiency, Proceeding or request for information now pending, outstanding or, to the knowledge of Ecolab as of the date of this Agreement, threatened against or with respect to Ecolab or any Ecolab Subsidiary in respect of any material Taxes or material Tax Returns and (ii) are no requests for rulings or determinations in respect of any material Taxes or material Tax Returns pending between Ecolab or any Ecolab Subsidiary and any Governmental Authority or Taxing Authority.

(d) There are no material Tax sharing agreements, Tax indemnity agreements or other similar Contracts with respect to or involving Ecolab or any Ecolab Subsidiary (including any advance pricing agreement, closing agreement or other Contract relating to Taxes with any Governmental Authority).

(e) None of Ecolab or any Ecolab Subsidiary has any material liability for Taxes as a result of having been a member of any affiliated group within the meaning of Section 1504(a) of the Code, or any similar affiliated or consolidated group for tax purposes under state, local or foreign Law (other than a group the common parent of which is Ecolab or any Ecolab Subsidiary), or has any material liability for the Taxes of any Person (other than Ecolab or the Ecolab Subsidiaries) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign Law), or as a transferee or successor, by Contract or otherwise.

(f) There are no material adjustments under Section 481 of the Code (or any similar provision of state, local or foreign Law) for income tax purposes applicable to or required to be made by Ecolab or any Ecolab Subsidiary after the date hereof as a result of changes in methods of accounting or other events occurring on or before the date hereof.

(g) None of Ecolab or any Ecolab Subsidiary will be required to include any material item of income in, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (i) change in method of accounting for a taxable period ending on or prior to the Closing Date, (ii) "closing agreement" as described in Section 7121 of the Code (or any similar provision of state, local or foreign Law) executed on or prior to the Closing Date, (iii) intercompany transactions occurring before the Closing Date or excess loss account described in Treasury Regulations under Section 1502 of the Code (or any similar provision of state, local or foreign Law) existing on the Closing Date, (iv) installment sale or open transaction disposition made on or prior to the Closing Date, (v) prepaid amount received on or prior to the Closing Date outside of the ordinary course of business or (vi) otherwise as a result of a transaction or accounting method that accelerated an item of deduction outside of the ordinary course of business into periods ending on or before the Closing Date or a transaction or accounting method that deferred an item of income outside of the ordinary course of business into periods beginning after the Closing Date.

(h) No material claim, other than claims defeated or withdrawn, has been made within the past five years by an authority in a jurisdiction where Ecolab or any Ecolab Subsidiary has not filed Tax Returns that it is or may be subject to taxation by that jurisdiction.

(i) Ecolab and each Ecolab Subsidiary have made (or there has been made on their behalf) all required current estimated Tax payments sufficient to avoid any material underpayment penalties.

(j) None of the Indebtedness of Ecolab or any Ecolab Subsidiary constitutes (i) "corporate acquisition indebtedness" (as defined in Section 279(b) of the Code) with respect to which any interest deductions may be disallowed under Section 279 of the Code or (ii) an "applicable high yield discount obligation" under Section 163(i) of the Code.

(k) Ecolab and, to the extent required to file U.S. federal income Tax Returns, each Ecolab Subsidiary has adequately disclosed on its U.S. federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of Federal income tax within the meaning of Section 6662 of the Code.

(l) All material Taxes that Ecolab or any Ecolab Subsidiary is required by Law to withhold or collect, including sales, use and value-added Taxes and amounts required to be withheld or collected in connection with any amount paid or owing to any employee, independent contractor, creditor, stockholder, or other Person, have been duly withheld or collected. To the extent required by applicable Law, all such amounts have been paid over to the proper Governmental Authority.

(m) There are no material Liens or other encumbrances for Taxes upon any material property or assets of Ecolab or any Ecolab Subsidiary, except for Permitted Liens.

(n) Neither Ecolab nor any Ecolab Subsidiary has participated in a "listed transaction" within the meaning of Treasury Regulations Section 1.6011-4(b)(2).

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(o) Neither Ecolab nor any Ecolab Subsidiary has currently in effect any waiver of any statute of limitations in respect of Taxes or any agreement to any extension of time with regard to a material Tax assessment or deficiency (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course consistent with past practices), and no such waivers are pending.

(p) None of Ecolab or any Ecolab Subsidiary has been a "controlled corporation" or a "distributing corporation" in any distribution (other than any distribution of an indirect Subsidiary of Ecolab from one direct or indirect Subsidiary to another such Subsidiary or to Ecolab that was not part of the same plan or series of transactions as the Merger, within the meaning of Section 355(e) of the Code) occurring during the two-year period ending on the date of this Agreement that was purported or intended to be governed by Section 355 or Section 361 of the Code (or any similar provision of state, local or foreign Law).

(q) Ecolab is not, and has not been at any time within the last five years, a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code.

(r) There is no power of attorney given by or binding upon Ecolab or any Ecolab Subsidiary with respect to Taxes for any period for which the statute of limitations (including any waivers or extensions) has not yet expired.

(s) None of Ecolab or any Ecolab Subsidiary has taken or failed to take any action, as of the date of this Agreement, or has knowledge of any facts or circumstances that would prevent the Merger from constituting a tax-free reorganization described in Section 368(a) and related provisions of the Code.

(t) As of the date of this Agreement, there are not any material pending or, to the knowledge of Ecolab, threatened audit, examination, investigation or other Proceeding with respect to any Tax Return of Ecolab or any Ecolab Subsidiary.

Section 5.13 Real Property.

(a) With respect to the Ecolab Owned Real Property and Ecolab Leased Real Property (i) all material buildings, structures, fixtures and improvements are in all respects adequate and sufficient and in satisfactory condition, to support the operations of Ecolab and the Ecolab Subsidiaries as presently conducted, except in respects that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

(b) With respect to each parcel of Ecolab Owned Real Property (i) Ecolab or the applicable Ecolab Subsidiary has good and marketable fee simple (or equivalent) title to such Ecolab Owned Real Property, free and clear of all Liens other than Permitted Liens, (ii) there are no outstanding written agreements or other Contracts to purchase, exchange, place a Lien against, lease or otherwise transfer such Ecolab Owned Real Property and (iii) there are no pending or, to the knowledge of Ecolab, threatened condemnation or other Proceedings relating to the Ecolab Owned Real Property, except, in each case, in respects that, individually or in the aggregate, have not had and would not reasonably be expect to have an Ecolab Material Adverse Effect.

(c) With respect to each Lease relating to a parcel of Ecolab Leased Real Property (i) Ecolab or the applicable Ecolab Subsidiary that is party thereto has good and valid leasehold interests in such Lease (subject to the terms of the applicable Lease governing its interests therein), in each case free and clear of all Liens, other than Permitted Liens, (ii) each such Lease is the legal, valid, binding and enforceable obligation of Ecolab or the applicable Ecolab Subsidiary that is lessee thereunder and (iii) Ecolab or the applicable Ecolab Subsidiary has complied with the terms of such Lease, except, in each case, in respects that, individually or in the aggregate, have not had and would not reasonably be expect to have an Ecolab Material Adverse Effect.

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Section 5.14 Employee Benefit Plans and Related Matters; ERISA.

(a) With respect to each of the material Ecolab Benefit Plans, Ecolab has made available to Nalco (to the extent requested by Nalco prior to the date of this Agreement) correct and complete copies of each of the following documents: (i) such Ecolab Benefit Plan (including all material amendments thereto), (ii) the annual report and actuarial report, if required under ERISA or the Code, for the most recent plan year ending prior to the date hereof, (iii) the most recent summary plan description, together with each summary of material modifications, if required under ERISA, (iv) if the Ecolab Benefit Plan is funded through a trust or any third party funding vehicle, the trust or other funding Contract (including all amendments thereto) and the latest financial statements with respect to the reporting period ended most recently preceding the date thereof, (v) the most recent determination letter received from the IRS with respect to each Ecolab Benefit Plan that is intended to be qualified under Section 401(a) of the Code and (vi) all material notices with respect to any Ecolab Benefit Plan that were given by any Governmental Authority to Ecolab, any Ecolab Subsidiary or any ERISA Affiliate or any Ecolab Benefit Plan in the last three plan years ending prior to the date of this Agreement or in the period ending on the date of this Agreement.

(b) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, (i) no liability under Title IV of ERISA has been incurred by Ecolab or any ERISA Affiliate that has not been satisfied in full when due, and no condition exists that presents a risk to Ecolab or any ERISA Affiliate of incurring a liability under Title IV of ERISA, in each case, with respect to any Ecolab U.S. Benefit Plan, (ii) no Ecolab U.S. Benefit Plan subject to the minimum funding requirements of Section 302 of ERISA or any trust established thereunder has failed to meet such minimum funding standards (as described in Section 302 of ERISA), whether or not waived, as of the last day of the most recent fiscal year of such Ecolab Benefit Plan ended prior to the date of this Agreement, (iii) with respect to each of the Ecolab U.S. Benefit Plans that is subject to Title IV of ERISA, the present value of projected benefit obligations under such Ecolab U.S. Benefit Plan, as determined by the Ecolab U.S. Benefit Plan's actuary based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such actuary, did not, as of its latest valuation date, exceed the then-current value of the assets of such Ecolab Benefit Plan allocable to such projected benefit obligations and (iv) any cessation of benefit accruals under an Ecolab Benefit Plan was effected in accordance with any applicable requirements of ERISA and the Code, including (to the extent applicable) Section 204(h) of ERISA. Neither Ecolab nor any ERISA Affiliate maintains or contributes to any Multiemployer Plan and, except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, neither Ecolab nor any ERISA Affiliate has incurred or has any reason to believe it has incurred or will incur any withdrawal liability under Title IV of ERISA.

(c) Each Ecolab U.S. Benefit Plan intended to be "qualified" within the meaning of Section 401(a) of the Code has received a favorable determination letter from the IRS as to its qualification and, to the knowledge of Ecolab as of the date of this Agreement, no event has occurred that could reasonably be expected to result in disqualification of such Ecolab U.S. Benefit Plan.

(d) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, each of the Ecolab U.S. Benefit Plans has been operated and administered in all respects in accordance with its terms and all applicable Laws, including ERISA and the Code.

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(e) The consummation of the transactions contemplated by this Agreement will not (i) entitle any current or former director, officer, employee or agent of Ecolab or any Ecolab Subsidiary to any material severance pay, unemployment compensation or any other payment, (ii) accelerate the time of payment or vesting, or materially increase the amount of any compensation due to any such current or former director, officer, employee or agent or (iii) result in any material prohibited transaction described in Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available.

(f) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, no Ecolab Benefit Plan provides benefits, including death or medical benefits (whether or not insured), with respect to current or former directors, officers, employees or agents of Ecolab or any Ecolab Subsidiary beyond their retirement or other termination of service, other than (i) coverage mandated solely by applicable Law, (ii) death benefits or retirement benefits under any "employee pension plan" (as defined in Section 3(2) of ERISA), (iii) deferred compensation benefits accrued as liabilities on the books of Ecolab or an Ecolab Subsidiary or (iv) benefits the full costs of which are borne by the current or former director, officer, employee or agent or his or her beneficiary.

(g) With respect to each material Ecolab Benefit Plan established or maintained outside of the U.S. primarily for the benefit of employees of Ecolab or any Ecolab Subsidiary residing outside of the U.S. (a "*Foreign Ecolab Benefit Plan*"), except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, (i) all employer and employee contributions to each Foreign Ecolab Benefit Plan required by Law or by the terms of such Foreign Ecolab Benefit Plan have been made, or, if applicable, accrued, in accordance with normal accounting practices, (ii) each Foreign Ecolab Benefit Plan intended to be funded or book reserved is fully funded or book reserved, as appropriate, based on reasonable actuarial assumptions and (iii) each Foreign Ecolab Benefit Plan required to be registered has been registered and has been maintained in good standing with applicable regulatory authorities.

(h) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, there are no pending or, to the knowledge of Ecolab, threatened claims by or on behalf of any of the Ecolab Benefit Plans, by any employee or beneficiary covered under any Ecolab Benefit Plan or otherwise involving any Ecolab Benefit Plan.

(i) Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, each Ecolab Benefit Plan and each employment, management, severance, consulting, relocation, repatriation, expatriation or similar agreement between Ecolab or any Ecolab Subsidiary and any employee, consultant or independent contractor that provides deferred compensation subject to Section 409A of the Code is in compliance with applicable guidance under Section 409A of the Code in form and operation.

Section 5.15 Employees; Labor Matters.

(a) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, (i) as of the date of this Agreement, there is no organizational effort currently being made or, to the knowledge of Ecolab, threatened by or on behalf of any labor union, works council, employee committee or representative or other labor organization to organize any employees of Ecolab or any Ecolab Subsidiary and (ii) as of the date of this Agreement, to the knowledge of Ecolab, no petition has been filed, nor has any Proceeding been instituted by any employee of Ecolab or any Ecolab Subsidiary or group of employees of Ecolab or any Ecolab Subsidiary with any labor relations board or commission seeking recognition of a collective bargaining or similar representative in the past three years.

(b) Except for matters that, individually and in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, as of the date of this Agreement, there is no pending or, to the knowledge of Ecolab, threatened (i) strike, lockout, work stoppage, slowdown, picketing or material labor dispute with respect to or involving any employees of Ecolab or any Ecolab Subsidiary and (ii) arbitration or grievance against Ecolab or any Ecolab Subsidiary involving current or former employees of Ecolab or any Ecolab Subsidiary. Except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, to the knowledge of Ecolab, there is no labor union, works council, employee committee or representative or other labor organization representing employees of Ecolab or any Ecolab Subsidiary which, pursuant to applicable Law or any applicable agreement, must be notified, consulted or with which negotiations are required to be conducted in connection with the transactions contemplated by this Agreement.

Section 5.16 Intellectual Property.

(a) Except in respects that, individually or in the aggregate, have not had and would not be reasonably expected to have an Ecolab Material Adverse Effect, Ecolab and the Ecolab Subsidiaries are the owners of (with valid right, title and interest in), free and clear of all Liens (except Permitted Liens), and have a valid right to use in their business as currently conducted all items of Ecolab Owned Intellectual Property. Ecolab and the Ecolab Subsidiaries have a valid right to use in their business as currently conducted all items of Intellectual Property that are the subject of any Ecolab Intellectual Property License Agreement and subject to the terms of the applicable Ecolab Intellectual Property License Agreement, except where the failure to have the right to use such Ecolab Owned Intellectual Property, individually or in the aggregate, has not had and would not reasonably be expected to have an Ecolab Material Adverse Effect. Neither Ecolab nor any of the Ecolab Subsidiaries has forfeited or otherwise relinquished any Ecolab Owned Intellectual Property, except where such forfeiture or relinquishment, individually or in the aggregate, has not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

(b) There are no pending, or to the knowledge of Ecolab, threatened Proceedings before any court, agency, arbitral tribunal or registration authority in any jurisdiction alleging that the activities or conduct of the business of Ecolab and the Ecolab Subsidiaries infringe upon, misappropriate, violate or constitute the unauthorized use of the Intellectual Property rights of any third party or challenging Ecolab's ownership, use, validity, enforceability or registrability of any Ecolab Owned Intellectual Property, except for matters that, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

(c) To the knowledge of Ecolab, the conduct of the business of Ecolab and the Ecolab Subsidiaries by Ecolab as currently conducted does not infringe upon or misappropriate (either directly or indirectly, such as through contributory infringement or inducement to infringe) any Intellectual Property rights of any other Person, except where such infringement or misappropriation, individually or in the aggregate, has not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

(d) To the knowledge of Ecolab, no third party is misappropriating, infringing, diluting or violating any Ecolab Owned Intellectual Property or Intellectual Property used by Ecolab and no Proceedings or other adversarial claims have been brought or threatened against any third party by Ecolab, except for such misappropriation, infringement, dilution or violation or Proceeding or claim that, individually or in the aggregate, has not had and would not reasonably be expected to have an Ecolab Material Adverse Effect.

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(e) Ecolab and the Ecolab Subsidiaries have taken reasonable measures to protect the confidentiality of their Trade Secrets, including requiring employees and other parties having access thereto to execute written nondisclosure agreements. To the knowledge of Ecolab, none of the material Trade Secrets of Nalco and the Ecolab Subsidiaries has been disclosed or authorized to be disclosed to any third party other than pursuant to a nondisclosure agreement, except where such disclosure or authorization, individually or in the aggregate, has not had and would not be reasonably expected to have an Ecolab Material Adverse Effect. To the knowledge of Ecolab, no third party to any nondisclosure agreement with Ecolab or any Ecolab Subsidiary is in material breach, violation or default, except where such breach, violation or default, individually or in the aggregate, has not had and would not be reasonably expected to have an Ecolab Material Adverse Effect.

(f) Ecolab and the Ecolab Subsidiaries have been in compliance with all applicable federal, state, local and foreign Laws, as well as their own policies, relating to privacy, data protection, breach notification, export and the collection and use of personal information and user information gathered or accessed in the course of the operations of its business, except where such noncompliance, individually or in the aggregate, has not had and would not be reasonably expected to have an Ecolab Material Adverse Effect.

Section 5.17 Contracts.

(a) As of the date of this Agreement, except as filed as an exhibit to an Ecolab SEC Document, and except for Ecolab Benefit Plans, neither Ecolab nor any Ecolab Subsidiary is a party to or bound by:

(i) any Contracts relating to Indebtedness (other than Contracts among direct or indirect wholly-owned Ecolab Subsidiaries) in excess of $10,000,000;

(ii) any joint venture, partnership, limited liability company or other similar Contracts relating to the formation, creation, operation, management, sharing of profit or losses or control of any partnership, strategic alliance or joint venture, in each case, material to Ecolab and the Ecolab Subsidiaries, taken as a whole;

(iii) any Contracts, including any option Contracts, relating to the acquisition or disposition, with material obligations remaining to be performed or material liabilities continuing after the date of this Agreement, of any business or real property that is material to Ecolab and the Ecolab Subsidiaries, taken as a whole (whether by merger, sale of stock, sale of assets or otherwise);

(iv) any Contracts (including any exclusivity Contracts) that limit or restrict or purport to limit or restrict either the type of business in which Ecolab or any Ecolab Subsidiary (or, after the Effective Time, the Surviving Corporation or its Affiliates) may engage or the manner or locations in which any of them may so engage in any business, including any covenant not to compete (geographically or otherwise), "most favored nations" or similar rights, in each case that is material to Ecolab and the Ecolab Subsidiaries, taken as a whole; or

(v) any other Contracts that would be required to be filed as an exhibit to any Ecolab SEC Document (as described in Items 601(b)(4) and 601(b)(10) of Regulation S-K under the Securities Act) that has not been filed as an exhibit to or incorporated by reference in the Ecolab SEC Documents filed prior to the date of this Agreement.

(b) The Contracts listed or required to be listed in *Section 5.17(a)* of the Ecolab Disclosure Letter are referred to herein as the "*Ecolab Contracts*." Except for matters which, individually or in the aggregate, have not had and would not reasonably be expected to have an Ecolab Material Adverse Effect, (i) each Ecolab Contract is a valid and binding Contract of Ecolab or an Ecolab

Subsidiary, as the case may be, and is in full force and effect, except, in each case, as enforcement may be limited by bankruptcy, insolvency, reorganization or similar Laws affecting creditors' rights generally and by general principles of equity, (ii) none of Ecolab, any Ecolab Subsidiary or, to the knowledge of Ecolab as of the date of this Agreement, any other party thereto is (with or without notice or lapse of time, or both) in default or breach under the terms of any such Ecolab Contract. Ecolab has made available to Nalco correct and complete copies of each such Ecolab Contract (including all modifications and amendments thereto and waivers thereunder).

Section 5.18 Environmental Laws and Regulations. Except as has not had and would not reasonably be expected to have, individually or in the aggregate, an Ecolab Material Adverse Effect:

(a) Ecolab and the Ecolab Subsidiaries are in compliance with all applicable Environmental Laws and have obtained and are in compliance with all Environmental Permits currently required for their respective business and operations.

(b) (i) Neither Ecolab nor any of the Ecolab Subsidiaries has received any written notice of violation, notification of liability, demand, request for information, citation, summons or order alleging any liability of Ecolab or any Ecolab Subsidiaries pursuant to any Environmental Law, (ii) no complaint has been filed, and no penalty or fine has been assessed, against Ecolab or any Ecolab Subsidiaries in writing by any Governmental Authority under any applicable Environmental Law that remains unresolved, (iii) no remedial or corrective action by Ecolab or any Ecolab Subsidiaries is being required or requested to be taken (or, to the knowledge of Ecolab as of the date of this Agreement, is being threatened) in writing by any Governmental Authority or any other Person, and (iv) no Proceeding is pending or, to the knowledge of Ecolab, threatened by any Person against Ecolab or any Ecolab Subsidiary relating to or arising under any Environmental Law.

(c) No Release of Hazardous Substances has occurred at, on, above, under or from any properties currently or, to the knowledge of Ecolab, formerly owned, leased, operated or used by Ecolab or any Ecolab Subsidiary that, in each case, has resulted or would reasonably be expected to result in any cost, liability or obligation of Ecolab or any Ecolab Subsidiary under applicable Environmental Law for any cleanup or other remedial action.

(d) Except in compliance with applicable Environmental Law, neither Ecolab nor any Ecolab Subsidiary is currently operating any landfill, surface impoundment, disposal area or underground storage tank at any properties or assets currently owned, leased, operated or used by Ecolab or any Ecolab Subsidiary.

(e) There have been no Releases of Hazardous Substances that could reasonably be expected to result in any liability or obligation of Ecolab or any Ecolab Subsidiary under any Environmental Law for any cleanup or other remedial action relating to (i) the environmental conditions at, on or under any properties or assets currently or formerly owned, leased, operated or used by Ecolab or any Ecolab Subsidiary or (ii) the past or present use, management, handling, transport, treatment, generation, storage or disposal of Hazardous Substances by Ecolab or any Ecolab Subsidiary.

Section 5.19 Insurance Coverage. Ecolab and the Ecolab Subsidiaries maintain policies of insurance in such amounts and against such risks as Ecolab believes to be customary in the industry in which Ecolab and the Ecolab Subsidiaries operate. Except as has not had and would not reasonably be expected to have, individually or in the aggregate, an Ecolab Material Adverse Effect, all such insurance policies are in full force and neither Ecolab nor any of the Ecolab Subsidiaries is in breach or default under any such policy.

Section 5.20 Foreign Corrupt Practices and International Trade Sanctions.

(a) None of Ecolab and the Ecolab Subsidiaries, nor any of their respective, directors, officers, employees, agents or other representatives (nor any Person acting on behalf of any of the foregoing) has directly, or indirectly through a third-party intermediary, paid, offered, given, promised to pay or authorized the payment of any money or anything of value (including any gift, sample, travel, meal and lodging expense, entertainment, service, equipment, debt forgiveness, donation, grant or other thing of value, however characterized) to (i) any officer or employee of a Governmental Authority, (ii) any Person acting for or on behalf of any Governmental Authority, (iii) any political party or official thereof, (iv) any candidate for political office or (v) any other Person at the suggestion, request, direction or for the benefit of any of the above-described Persons, in each case, where the purpose of such offer, gift, payment or promise or authorization to make such payment was, is or would be prohibited under any applicable anti-bribery or anti-corruption Law of any relevant jurisdiction covering a similar subject matter as in effect on or prior to the Effective Time and applicable to Ecolab, the Ecolab Subsidiaries and their respective operations.

(b) None of Ecolab and the Ecolab Subsidiaries, nor any of their respective Affiliates, directors, officers, employees, agents or other representatives has taken any action which would cause them to be in violation in any material respect of the FCPA, or any other applicable Law of similar effect, including Laws implementing the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

(c) Neither the Ecolab nor any Ecolab Subsidiaries nor, to the knowledge of Ecolab, any representatives of Affiliates of Ecolab or any Ecolab Subsidiary has since January 1, 2008 violated or is in violation in any material respect of any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department.

(d) Since January 1, 2008, all imports, exports, re-exports, sales or transfers of products, services or Intellectual Property or related technical information of Ecolab and the Ecolab Subsidiaries have been effected in all material respects in accordance with all applicable anti-corruption, export control, trade sanctions, anti-terrorism and anti-boycott Laws. All products shipped by Ecolab and the Ecolab Subsidiaries have been accurately marked, labeled and transported in all material respects in accordance with such Laws.

(e) Since January 1, 2008, (i) none of Ecolab or the Ecolab Subsidiaries has conducted or initiated any internal investigation or made a voluntary disclosure to any Governmental Authority with respect to any alleged act or omission arising under arising under or relating to the Laws and sanctions referenced in clauses (b) and (c) above and (ii) no Governmental Authority has initiated or, to Ecolab's knowledge as of the date of this Agreement, threatened to initiate, a material Proceeding against Ecolab or the Ecolab Subsidiaries, or, to Ecolab's knowledge as of the date of this Agreement, any of their respective Affiliates, directors, officers, employees, agents or other representatives asserting that Ecolab or the Ecolab Subsidiaries, or any of their respective Affiliates, is not in compliance with any export or import Laws or the FCPA or any other applicable Law of similar effect.

Section 5.21 Financing. Ecolab and Merger Sub will have available at the Closing sufficient funds to make the deposit into the Exchange Fund required pursuant to *Section 3.1(b)*.

Section 5.22 Opinion of Financial Advisor. Ecolab has received the written opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Ecolab Financial Advisor") dated as of July 19, 2011 to the effect that, as of the date of such opinion and subject to the qualifications and limitations set forth therein, the Merger Consideration is fair, from a financial point of view, to Ecolab.

Section 5.23 Brokers. No Person other than the Ecolab Financial Advisor is entitled to any brokerage, financial advisory, finder's or similar fee or commission payable by any Party in connection with the transactions contemplated by this Agreement based upon Contracts made by or on behalf of Ecolab or any Ecolab Subsidiary. Ecolab has delivered to Nalco a correct and complete copy of each Contract between Ecolab or any Ecolab Subsidiary and the Ecolab Financial Advisor relating to the Merger and the other transactions contemplated by this Agreement.

Section 5.24 Ownership of Nalco Common Stock. None of Ecolab, Merger Sub or any Ecolab Subsidiary owns any shares of Nalco Common Stock.

Section 5.25 No Restrictions on the Merger. Assuming the accuracy of the representation in *Section 4.24*, Ecolab has taken or caused to be taken all necessary action in order to make this Agreement and the transactions contemplated by this Agreement comply with, and this Agreement and the transactions contemplated by this Agreement do comply with, the requirements in the Constituent Documents of Ecolab and the Ecolab Subsidiaries concerning "business combination," "fair price," "voting requirement" or other related provisions.

Section 5.26 No Other Representations or Warranties. Except for the representations and warranties contained in this *Article V*, Nalco acknowledges that none of Ecolab, the Ecolab Subsidiaries or any other Person on behalf of Ecolab makes any other express or implied representation or warranty in connection with the transactions contemplated by this Agreement.

ARTICLE VI
COVENANTS RELATING TO CONDUCT OF BUSINESS

Section 6.1 Covenants of Nalco. From the date of this Agreement until the Effective Time, unless Ecolab otherwise consents in writing (which will not be unreasonably withheld or delayed) or except as set forth in *Section 6.1* of the Nalco Disclosure Letter or as otherwise expressly provided for in this Agreement, Nalco will, and will cause each of the Nalco Subsidiaries to, conduct its business in a commercially reasonable manner consistent with industry and past practices, and will use its reasonable best efforts to preserve intact its business organization and goodwill and relationships with all Governmental Authorities, customers, suppliers, business associates, strategic and joint venture partners and others having business dealings with it, to keep available the services of its current officers and key employees and to maintain its current rights and franchises, in each case, consistent with industry and past practices. In addition to and without limiting the generality of the foregoing, except as expressly set forth in *Section 6.1* of the Nalco Disclosure Letter or as otherwise expressly provided for in this Agreement or as required by applicable Law, from the date of this Agreement until the Effective Time, without the prior written consent of Ecolab (which will not be unreasonably withheld or delayed), Nalco will not, and will not permit any Nalco Subsidiary to:

(a) amend or modify any of the Constituent Documents of Nalco or any Nalco Subsidiary;

(b) subject to *Section 7.20*, declare, set aside, make or pay any dividend or other distribution (whether in cash, stock or property) in respect of any of its Securities, other than dividends or distributions by wholly-owned Nalco Subsidiaries to Nalco or regular quarterly cash dividends by Nalco consistent with past practices to holders of Nalco Common Stock, which will not exceed $0.035 per share per calendar quarter;

(c) split, combine or reclassify any of its Securities or issue or propose or authorize the issuance of any other Securities or Equity Rights in respect of, in lieu of, or in substitution for, its Securities, other than issuances of Nalco Common Stock in connection with the exercise of Nalco Stock Options or settlement of Nalco Stock-Based Awards that are outstanding on the date of this Agreement;

(d) repurchase, redeem or otherwise acquire any Securities or Equity Rights of Nalco or any Nalco Subsidiary, or any other equity interests or any rights, warrants or options to acquire any such Securities, other than (i) the acquisition by Nalco of shares of Nalco Common Stock in connection with the surrender of shares of Nalco Common Stock by holders of Nalco Stock Options in order to pay the exercise price thereof, (ii) the withholding of shares of Nalco Common Stock to satisfy tax obligations with respect to awards granted pursuant to the Nalco Stock Plans or pursuant to individual equity compensation award agreements, (iii) the acquisition by Nalco of Equity Rights of Nalco in connection with the forfeiture of such Equity Rights or (iv) as required by any Nalco Benefit Plan as in effect on the date of this Agreement;

(e) issue, sell, grant, pledge or otherwise encumber any Securities, or Equity Rights, other than (i) issuances of Nalco Stock Options, Nalco Stock-Based Awards or other Nalco Securities or Equity Rights in the ordinary course of business consistent with past practices to participants in the Nalco Benefit Plans or pursuant to individual award agreements with directors, officers, employees or agents of Nalco or the Nalco Subsidiaries (which individual award agreements are outstanding as of the date of this Agreement), (ii) issuances of Nalco Common Stock in connection with the exercise of Nalco Stock Options or settlement of Nalco Stock-Based Awards that are outstanding on the date of this Agreement and (iii) issuance of Securities between or among Nalco and any wholly-owned Nalco Subsidiaries;

(f) merge or consolidate with any Person (other than Nalco or a wholly-owned Nalco Subsidiary) or acquire, directly or indirectly, all or substantially all of the assets or Securities of any other Person (other than Nalco or a Nalco Subsidiary), in each case, in an amount of $25,000,000 or more for any such individual transaction or in excess of $100,000,000 in the aggregate for all such transactions (in each case taking into account all Indebtedness and accrued liabilities assumed in connection with any such transaction); *provided* that Nalco shall consult with Ecolab with respect to any such transaction that is in an amount in excess of $10,000,000;

(g) make any loans, advances or capital contributions to, or investments in, any other Person other than (i) by Nalco or any wholly-owned Nalco Subsidiary to or in Nalco or any wholly-owned Nalco Subsidiary or (ii) pursuant to any Contract or other legal obligation existing at the date of this Agreement set forth on Section 6.1(g) of the Nalco Disclosure Letter;

(h) create, incur, guarantee or assume any Indebtedness, issuances of debt securities, guarantees, loans or advances not in existence as of the date of this Agreement, except (i) Indebtedness incurred in the ordinary course of business consistent with past practices not to exceed $5,000,000 in the aggregate, (ii) Indebtedness incurred under facilities or lines of credit in existence on the date of this Agreement, (iii) Indebtedness in replacement of existing Indebtedness on customary commercial terms, but in all cases consistent in all material respects with the Indebtedness being replaced and (iv) guarantees by Nalco of Indebtedness of wholly-owned Nalco Subsidiaries or guarantees by Nalco Subsidiaries of Indebtedness of Nalco;

(i) make or commit to make any capital expenditure, except for (i) aggregate expenditures (calculated net of proceeds from normal course asset disposals) in an amount not in excess of (and for projects consistent with) the capital expenditure budget (plus a five percent variance) delivered to Ecolab prior to the date of this Agreement (the amount of the capital expenditure budget being set forth in *Section 6.1(i)* of the Nalco Disclosure Letter), and (ii) additional expenditures in an amount not to exceed $5,000,000 in the aggregate;

(j) other than in the ordinary course of business consistent with past practices, as required by any Nalco Benefit Plan or as necessary to comply with applicable Law, (i) amend or otherwise modify benefits under any Nalco Benefit Plan, (ii) accelerate the payment or vesting of benefits or amounts payable or to become payable under any Nalco Benefit Plan as currently in effect on the date of this Agreement or (iii) terminate or establish any Nalco Benefit Plan;

(k) except as required by any Nalco Benefit Plan, grant any material increase (determined with reference to the compensation paid to the individuals involved) in the compensation or benefits of directors, officers, employees or agents of Nalco or any Nalco Subsidiary; *provided* that Nalco or any Nalco Subsidiary may grant increases (i) in base salaries to non-executive employees, non-executive officers and agents in the ordinary course of business consistent with past practices or (ii) in compensation and benefits in the context of promotions based on job performance or workplace requirements, in the ordinary course of business consistent with past practices and provided that such increases are consistent with the past practices of increasing compensation and benefits to promoted employees in similar positions;

(l) enter into or materially amend or modify any severance, consulting, retention or employment agreement, plan, program or Contract, other than, (i) in the case of consulting agreements, in the ordinary course of business consistent with past practices, or (ii) with respect to new hires or employees in the context of promotions based on job performance or workplace requirements, in each case in the ordinary course of business consistent with past practices; *provided* that (A) in the case of new hires, such agreements, plans, programs or Contracts, or any amendments or modifications thereto, are consistent with the past practices of entering into such agreements, plans, programs or Contracts, for newly hired employees in similar positions and (b) in the case of promotions, such amendments or modifications are consistent with the past practices of making such amendment or modifications for promoted employees in similar positions;

(m) other than in the ordinary course of business consistent with past practices, enter into a collective bargaining agreement or similar labor Contract with a labor union, works council, employee committee or representative or other labor organization with respect to employees of Nalco or any Nalco Subsidiary;

(n) (i) settle or compromise any Proceeding involving claims for monetary damages, other than such settlements and compromises that (A) relate to Taxes (which are the subject of *Section 6.1(o)*), (B) are settlements or compromises of routine claims in ordinary course of business consistent with past practices (both in terms of the nature and amount of such claims) or (C) are settlements or compromises outside of the ordinary course of business consistent with past practice that do not require payments by Nalco or the Nalco Subsidiaries in excess of $500,000 per Proceeding or $2,500,000 in the aggregate for all such Proceedings or (ii) enter into any consent, decree, injunction or similar restraint or form of equitable relief that, individually or in the aggregate, are material to Nalco and the Nalco Subsidiaries, taken as a whole, or would reasonably be expected to impede or delay the consummation of the transactions contemplated by this Agreement, including obtaining the Nalco Stockholder Approval;

(o) other than in the ordinary course of business consistent with past practices, (i) make, revoke or amend any material election relating to Taxes (other than an election under Treasury Regulation Section 301.7701-3 for a non-U.S. Nalco Subsidiary), (ii) settle or compromise any Proceeding relating to Taxes in an amount in excess of $500,000 per Proceeding or $2,000,000 when such Proceedings are aggregated, (iii) make a request for a written ruling of a Taxing Authority relating to Taxes, other than any request for a determination concerning qualified status of any Nalco Benefit Plan intended to be qualified under Section 401(a) of the Code, (iv) enter into a written and legally binding Contract with a Taxing Authority relating to material Taxes or (v) except as required by Law, change any of its methods, policies or practices of reporting income or deductions for U.S. federal income Tax purposes from those employed in the preparation of its U.S. federal income Tax returns for the taxable year ending December 31, 2009;

(p) (i) take any action or cause any action to be taken (including any action otherwise permitted by this *Section 6.1*) that would prevent the Merger from constituting a tax-free reorganization under Section 368(a) and related provisions of the Code or (ii) fail to take any

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commercially reasonable action or fail to cause any commercially reasonable action to be taken (including any failure otherwise permitted by this *Section 6.1*) that is necessary to cause the Merger to constitute a tax-free reorganization under Section 368(a) and related provisions of the Code;

(q) modify or amend in any material respect or terminate any Specified Nalco Contract, enter into any successor Contract to an expiring Specified Nalco Contract that changes the terms of the expiring Specified Nalco Contract in a way that is materially adverse to Nalco or any Nalco Subsidiary or enter into any new Contract that would have been a Specified Nalco Contract if it were entered into at or prior to the date of this Agreement. "*Specified Nalco Contract*" means a Nalco Contract of the type described in clauses *(a)(ii)* and *(a)(iv)* of *Section 4.18(a)*;

(r) for non-Tax purposes, change any method of accounting or accounting principles or practices (or any system of internal accounting controls) by Nalco or any U.S. Nalco Subsidiary, except for any such change required by a change in GAAP or by a Governmental Authority or applicable Law;

(s) adopt or implement a plan of complete or partial liquidation or resolution providing for or authorizing such liquidation or a dissolution, merger, restructuring, consolidation, recapitalization or other reorganization of Nalco or any material Nalco Subsidiary; *provided* that any Tax election otherwise permitted by *Section 6.1(o)* will not be prohibited by this *Section 6.1(s)*; or

(t) agree or commit to do any of the foregoing.

Section 6.2 Covenants of Ecolab. From the date of this Agreement until the Effective Time, unless Nalco otherwise consents in writing (which will not be unreasonably withheld or delayed) or except as set forth in *Section 6.2* of the Ecolab Disclosure Letter or as otherwise expressly provided for in this Agreement, Ecolab will, and will cause each of the Ecolab Subsidiaries to, conduct its business in a commercially reasonable manner consistent with industry and past practices, and will use its reasonable best efforts to preserve intact its business organization and goodwill and relationships with all Governmental Authorities, customers, suppliers, business associates, strategic and joint venture partners and others having business dealings with it, to keep available the services of its current officers and key employees and to maintain its current rights and franchises, in each case, consistent with industry and past practices. In addition to and without limiting the generality of the foregoing, except as expressly set forth in *Section 6.2* of the Ecolab Disclosure Letter or as otherwise expressly provided for in this Agreement or as required by applicable Law, from the date of this Agreement until the Effective Time, without the prior written consent of Nalco (which will not be unreasonably withheld or delayed), Ecolab will not, and will not permit any Ecolab Subsidiary to:

(a) amend or modify any of the Constituent Documents of Ecolab;

(b) declare, set aside, make or pay any dividend or other distribution (whether in cash, stock or property) in respect of any of its Securities, other than dividends or distributions by wholly-owned Ecolab Subsidiaries to Ecolab or regular quarterly cash dividends by Ecolab consistent with past practices to holders of Ecolab Common Stock, which will not exceed $0.175 per share per calendar quarter (unless adjusted in the ordinary course of business consistent with past practices of Ecolab with respect to increases in its regular quarterly dividend payment);

(c) split, combine or reclassify any of its Securities or issue or propose or authorize the issuance of any other Securities or Equity Rights in respect of, in lieu of, or in substitution for, its outstanding Securities, other than issuances of Ecolab Common Stock in connection with the exercise of Ecolab Stock Options or settlement of Ecolab Stock-Based Awards that are outstanding on the date of this Agreement;

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(d) repurchase, redeem or otherwise acquire any Securities or Equity Rights of Ecolab or any Ecolab Subsidiary, or any other equity interests or any rights, warrants or options to acquire any such Securities, other than (i) the acquisition by Ecolab of shares of Ecolab Common Stock in connection with the surrender of shares of Ecolab Common Stock by holders of Ecolab Stock Options in order to pay the exercise price thereof, (ii) the withholding of shares of Ecolab Common Stock to satisfy tax obligations with respect to awards granted pursuant to the Ecolab Stock Plans or pursuant to individual equity compensation award agreements, (iii) the acquisition by Ecolab of Equity Rights of Ecolab in connection with the forfeiture of such Equity Rights or (iv) as required by any Ecolab Benefit Plan as in effect on the date of this Agreement;

(e) issue, sell, grant, pledge or otherwise encumber any Securities, or Equity Rights, other than (i) issuances of Ecolab Stock Options, Ecolab Stock-Based Awards or other Ecolab Securities or Equity Rights in the ordinary course of business consistent with past practices to participants in the Ecolab Benefit Plans or pursuant to individual award agreements with directors, officers, employees or agents of Ecolab or the Ecolab Subsidiaries, (ii) issuances of Ecolab Common Stock in connection with the exercise of Ecolab Stock Options or settlement of Ecolab Stock-Based Awards that are outstanding on the date of this Agreement or that are issued in accordance with clause (i), (iii) issuances of Securities or Equity Rights in connection with any merger, consolidation or acquisition permitted in accordance with *Section 6.2(f)* and (iv) the issuance of Securities between or among Ecolab and any wholly-owned Ecolab Subsidiaries;

(f) merge or consolidate with any Person (other than Ecolab or a wholly-owned Ecolab Subsidiary) or acquire, directly or indirectly, all or substantially all of the assets or Securities of any other Person (other than Ecolab or an Ecolab Subsidiary) if such merger, consolidation or acquisition, together with all such mergers, consolidations and acquisitions subsequent to the date of this Agreement, would be material to Ecolab and the Ecolab Subsidiaries, taken as a whole;

(g) create, incur, guarantee or assume any Indebtedness, issuances of debt securities, guarantees, loans or advances not in existence as of the date of this Agreement, except (i) Indebtedness incurred under facilities or lines of credit in existence on the date of this Agreement, (ii) Indebtedness incurred in connection with the consummation of the transactions contemplated by this Agreement, including any Indebtedness incurred for the purpose of repaying or refinancing Indebtedness of Ecolab, Nalco or their respective Subsidiaries, (iii) Indebtedness incurred in replacement of existing Indebtedness (other the replacements of Indebtedness contemplated by clause (ii) above) on customary commercial terms, (v) Indebtedness incurred in the ordinary course of business consistent with past practices in connection with any merger, consolidation or acquisition permitted in accordance with *Section 6.2(f)*, (vi) other Indebtedness incurred in the ordinary course of business consistent with past practices not to exceed $350,000,000 in the aggregate, and (vii) guarantees by Ecolab of Indebtedness of wholly-owned Ecolab Subsidiaries or guarantees by Ecolab Subsidiaries of Indebtedness of Ecolab;

(h) other than in the ordinary course of business consistent with past practices, (i) make, revoke or amend any material election relating to Taxes (other than an election under Treasury Regulation Section 301.7701-3 for a non-U.S. Ecolab Subsidiary), (ii) settle or compromise any Proceeding relating to Taxes in an amount in excess of $500,000 per Proceeding or $2,000,000 when such Proceedings are aggregated, (iii) make a request for a written ruling of a Taxing Authority relating to Taxes, other than any request for a determination concerning qualified status of any Ecolab Benefit Plan intended to be qualified under Section 401(a) of the Code, (iv) enter into a written and legally binding Contract with a Taxing Authority relating to material Taxes or (v) except as required by Law, change any of its methods, policies or practices of reporting income or deductions for U.S. federal income Tax purposes from those employed in the preparation of its U.S. federal income Tax returns for the taxable year ending December 31, 2009;

(i) (i) take any action or cause any action to be taken (including any action otherwise permitted by this *Section 6.2*) that would prevent the Merger from constituting a tax-free reorganization under Section 368(a) and related provisions of the Code or (ii) fail to take any commercially reasonable action or fail to cause any commercially reasonable action to be taken (including any failure otherwise permitted by this *Section 6.2*) that is necessary to cause the Merger to constitute a tax-free reorganization under Section 368(a) and related provisions of the Code;

(j) adopt or implement a plan of complete or partial liquidation or resolution providing for or authorizing such liquidation or a dissolution, merger, restructuring, consolidation, recapitalization or other reorganization of Ecolab or any material Ecolab Subsidiary; *provided* that any Tax election otherwise permitted by *Section 6.2(h)* will not be prohibited by this *Section 6.2(j)*; or

(k) agree or commit to do any of the foregoing.

ARTICLE VII
ADDITIONAL AGREEMENTS

Section 7.1 Preparation and Mailing of Joint Proxy Statement/Prospectus.

(a) As promptly as practicable following the date of this Agreement, Ecolab and Nalco will prepare and file with the SEC mutually acceptable proxy materials that will constitute the proxy statement/prospectus relating to the matters to be submitted to the stockholders of Ecolab at the Ecolab Stockholders Meeting and to the stockholders of Nalco at the Nalco Stockholders Meeting (such proxy statement/prospectus, and any amendments or supplements thereto, the "*Joint Proxy Statement/Prospectus*") and Ecolab will prepare and file the Form S-4. The Joint Proxy Statement/Prospectus will be included in and will constitute a part of the Form S-4. The Form S-4 and the Joint Proxy Statement/Prospectus will comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act.

(b) Each of Ecolab and Nalco will use its reasonable best efforts to have the Form S-4 declared effective by the SEC as promptly as practicable after the date of this Agreement and to keep the Form S-4 effective as long as is necessary to consummate the Merger and the transactions contemplated by this Agreement.

(c) Each of Ecolab and Nalco will, as promptly as practicable after receipt thereof, provide the other Party copies of any written comments and advise the other Party of any oral comments, with respect to the Joint Proxy Statement/Prospectus received from the SEC. Ecolab (i) will provide Nalco with a reasonable opportunity to review and comment on any amendment or supplement to the Form S-4 and any communications (including any responses to any comments of the SEC) prior to filing such with the SEC, (ii) will include in such document or communications all comments reasonably proposed by Nalco, (iii) will not file such document or communication with the SEC prior to receiving the approval of Nalco (which will not be unreasonably withheld or delayed) and (iv) will promptly provide Nalco with a copy of all such filings and communications made with the SEC.

(d) Each of Ecolab and Nalco will cause the Joint Proxy Statement/Prospectus to be mailed to its respective stockholders at the earliest practicable time after the Form S-4 is declared effective under the Securities Act. Ecolab and Nalco will take all actions (other than qualifying to do business in any jurisdiction in which it is not now so qualified or to file a general consent to service of process) required to be taken under any applicable state securities Laws in connection with the Merger and each of Ecolab and Nalco will furnish all information concerning it and the holders of its capital stock as may be reasonably requested in connection with any such action. Each Party will advise the other Party, promptly after it receives notice thereof, of the time when

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the Form S-4 has become effective, the issuance of any stop order, the suspension of the qualification of the Ecolab Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Joint Proxy Statement/Prospectus or the Form S-4, and each of Ecolab and Nalco will use its reasonable best efforts to have any such stop order or suspension lifted, reversed or otherwise terminated.

(e) If at any time prior to the Effective Time (i) any Change occurs with respect to the Parties or any of their respective Affiliates, directors or officers, which should, in the reasonable discretion of Ecolab or Nalco, be set forth in an amendment of, or supplement to, the Form S-4 or the Joint Proxy Statement/Prospectus or (ii) any information relating to the Parties, or any of their respective Affiliates, directors or officers, should be discovered by any of the Parties which should be set forth in an amendment or supplement to the Form S-4 or the Joint Proxy Statement/Prospectus so that any such document would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Parties will file as promptly as practicable with the SEC a mutually acceptable amendment of, or supplement to, the Form S-4 or the Joint Proxy Statement/Prospectus and, as required by Law, disseminate the information contained in such amendment or supplement to the stockholders of Ecolab and Nalco.

Section 7.2 Stockholders Meetings; Recommendations.

(a) Nalco will duly take all lawful action to call, give notice of, convene and hold a meeting of the stockholders of Nalco (the "*Nalco Stockholders Meeting*") on a date as promptly as practicable after the Form S-4 is declared effective for the purpose of obtaining the Nalco Stockholder Approval and will, subject to *Section 7.5*, take all lawful action to solicit and obtain the Nalco Stockholder Approval. Subject to *Section 7.5*, the Board of Directors of Nalco will recommend adoption of this Agreement by the stockholders of Nalco to the effect as set forth in *Section 4.4(b)* (the "*Nalco Recommendation*"), and, subject to *Section 7.5*, the Board of Directors of Nalco will not (i) withhold, withdraw or adversely modify, or propose publicly to withhold, withdraw or adversely modify, the Nalco Recommendation or (ii) approve or recommend, or publicly propose to approve or recommend, any Nalco Acquisition Proposal (any of the actions described in clauses (i) or (ii), a "*Nalco Change in Recommendation*"). The notice for the Nalco Stockholders Meeting will also contain a proposal, which will be separate from the proposal relating to the Nalco Stockholder Approval, with respect to any non-binding advisory vote of Nalco's stockholders required pursuant to Rule 14a-21(c) under the Exchange Act. The approval of such proposal by the stockholders of Nalco will not be a condition to the obligations of the Parties to effect the Merger in accordance with *Article VIII*, and the failure of the stockholders of Nalco to approve such proposal at the Nalco Stockholders Meeting, or any adjournment or postponement thereof, will not affect any of the rights or obligations of the Parties in connection with this Agreement.

(b) Ecolab will duly take all lawful action to call, give notice of, convene and hold a meeting of the stockholders of Ecolab (the "*Ecolab Stockholders Meeting*") on a date as promptly as practicable after the Form S-4 is declared effective for the purpose of obtaining the Ecolab Stockholder Approval and will take all lawful action, subject to *Section 7.6*, to solicit and obtain the Ecolab Stockholder Approval. Subject to *Section 7*.6, the Board of Directors of Ecolab will recommend approval of the Ecolab Share Issuance by the stockholders of Ecolab to the effect as set forth in *Section 5.4(b)* (the "*Ecolab Recommendation*"), and, subject to *Section 7.6*, the Board of Directors of Ecolab will not (i) withhold, withdraw or adversely modify, or propose publicly to withhold, withdraw or adversely modify, the Ecolab Recommendation or (ii) approve or recommend, or publicly propose to approve or recommend, any Ecolab Acquisition Proposal (any of the actions described in clauses (i) or (ii), an "*Ecolab Change in Recommendation*").

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(c) The Parties will use their reasonable best efforts to cause the Nalco Stockholders Meeting and the Ecolab Stockholders Meeting to be held on the same date.

Section 7.3 Access to Information; Confidentiality.

(a) Upon reasonable notice and, in the case of Nalco, for such purposes as may reasonably be related to the consummation of the transactions contemplated by this Agreement, each of Ecolab and Nalco will, and will cause each of its respective Subsidiaries to, afford to the directors, officers, employees, accountants, counsel, financial advisors, consultants, financing sources and other advisors or representatives (collectively, "*Representatives*") of such other Party reasonable access during normal business hours to Ecolab's and Nalco's respective properties, books, records, Contracts, commitments and personnel and will furnish, and will cause to be furnished, as promptly as practicable to such other Party (i) a copy of each material report, schedule and other document filed, furnished, published, announced or received by it during such period pursuant to the requirements of federal or state securities Laws or a Governmental Authority and (ii) all other information with respect to Ecolab or Nalco and their respective Subsidiaries, as applicable, as such other Party may reasonably request.

(b) Notwithstanding *Section 7.3(a)*, each of Ecolab and Nalco will not be required to permit any inspection, or to disclose any information, that in the reasonable judgment of such other Party (i) would violate applicable Law, (ii) would waive the protection of an attorney-client privilege or other legal privilege (subject to reasonable cooperation between the Parties with respect to entering into appropriate joint defense, community of interest or similar agreements or arrangements with respect to the preservation of such privileges) or (iii) would result in the disclosure of any trade secrets of third parties or violate any of its obligations with respect to confidentiality if such other Party has used its reasonable best efforts to obtain the consent of such third party to such inspection or disclosure. Without limiting the foregoing, in the event that either Party does not provide access or information in reliance on the immediately preceding sentence, it will provide notice to the other Party that it is withholding such access or information and will use its reasonable best efforts to communicate, to the extent feasible, the applicable information in a way that would not violate the applicable Law, Contract or obligation or risk waiver of such privilege. Each of Ecolab and Nalco will keep such other Party reasonably informed from time to time as to status and developments regarding any Proceeding with respect to Taxes and provide to such other Party, when available and prior to filing, drafts of any income Tax Returns relating to Ecolab or Nalco or any of their respective Subsidiaries, as applicable.

(c) Without limiting the generality of the foregoing and subject to applicable Law, the Parties will reasonably cooperate with each other from and after the date of this Agreement with respect to post-Closing integration matters.

(d) All information furnished pursuant to this *Section 7.3* or otherwise pursuant to this Agreement will be subject to the confidentiality agreement dated as of June 9, 2011 between Nalco and Ecolab (the "*Confidentiality Agreement*"). No investigation pursuant to this *Section 7.3* will affect the representations, warranties or conditions to the obligations of the Parties contained in this Agreement.

Section 7.4 Consents and Approvals.

(a) Subject to the terms and conditions of this Agreement, each of Ecolab and Nalco will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable Law to consummate the Merger and the other transactions contemplated by this Agreement, including (i) determining all necessary or, in the reasonable judgment of Ecolab and Nalco, advisable filings, notices, petitions, statements, registrations, submissions of information, applications and other documents necessary to consummate the Merger and the other transactions contemplated by this Agreement (including from Governmental Authorities or third parties), (ii) preparing and filing as promptly as practicable all documentation to effect such filings, notices, petitions, statements, registrations, submissions of information, applications and other documents and (iii) vigorously contesting and resisting any Proceedings or having any Order, whether temporary, preliminary or permanent, vacated, lifted, reserved or overturned that challenge this Agreement, the Merger or the other transactions contemplated by this Agreement.

(b) In furtherance and not in limitation of the foregoing, each of Ecolab and Nalco will (i) make or cause to be made the filings required of such Party (or, in the reasonable judgment of Ecolab and Nalco, filings that are advisable to be made by such Party) under the HSR Act and any other applicable Competition Laws with respect to the transactions contemplated by this Agreement as promptly as practicable after the date of this Agreement, (ii) comply at the earliest practicable date with any request for additional information, documents or other materials (including a "second request" under the HSR Act) received by such Party from the U.S. Federal Trade Commission ("*FTC*"), the Antitrust Division of the U.S. Department of Justice or any other Governmental Authority under any applicable Competition Laws with respect to such filings or such transactions, (iii) act in good faith and reasonably cooperate with the other Party in connection with any such filings and in connection with resolving any investigation or other inquiry of any such agency or other Governmental Authority under any of the HSR Act or any other applicable Competition Laws with respect to any such filing or any such transaction and (iv) not extend any waiting period under the HSR Act or enter into any agreement with any Governmental Authority not to consummate the transactions contemplated by this Agreement, except with the prior written consent of the other Party, which consent will not be unreasonably withheld or delayed.

(c) To the extent not prohibited by applicable Law, each of Ecolab and Nalco will use its reasonable best efforts to furnish to the other Party all information required for any application or other filing to be made pursuant to any applicable Law in connection with the transactions contemplated by this Agreement. Each of Ecolab and Nalco will give the other Party reasonable prior notice of any communication with, and any proposed understanding, undertaking or Contract with, any Governmental Authority regarding any such filings or any such transaction. Each of Ecolab and Nalco will not independently participate in any meeting, or engage in any substantive conversation, with any Governmental Authority in respect of any such filings, investigation or other inquiry without giving such other Party prior notice of the meeting or conversation and, unless prohibited by such any Governmental Authority, the opportunity to attend or participate. The Parties will consult and cooperate with one another in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any Party in connection with proceedings under or relating to the HSR Act or any other applicable Competition Laws. Ecolab and Nalco will jointly control the coordination of any filings, obtaining any necessary approvals, and resolving any investigation or other inquiry of any such agency or other Governmental Authority under the HSR Act or any other applicable Competition Laws, including the timing of the initial filing, which will be made as promptly as practicable after the date of this Agreement.

(d) Subject to the foregoing provisions of this *Section 7.4*, each of Ecolab and Nalco will use its reasonable best efforts (including by taking actions and entering into agreements of the type set forth in the definition of "Burdensome Condition" which are not excluded by the limitations set forth in the provisos thereto) to resolve such objections, if any, as may be asserted by any Governmental Authority with respect to the transactions contemplated by this Agreement under the HSR Act or any other applicable Competition Laws. In connection therewith, if any Proceeding is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement as inconsistent with or violative of any Competition Law, each of Ecolab and Nalco will (by negotiation, litigation or otherwise) cooperate and use its reasonable best efforts to vigorously contest and resist any such Proceeding and have vacated, lifted, reversed or overturned any Order whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents, delays or restricts consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing or any other provision of this Agreement, nothing in this *Section 7.4* will limit the right of a Party to terminate this Agreement in accordance with *Section 9.1*, so long as such Party has until that time complied in all material respects with its obligations under this *Section 7.4*. Each of Ecolab and Nalco will use its reasonable best efforts to take such action as may be required to cause the expiration of the notice periods under the HSR Act and all other applicable Competition Laws with respect to the transactions contemplated by this Agreement as promptly as possible after the date of this Agreement.

(e) Notwithstanding anything to the contrary in *Section 7.4(d)* or anything else in this Agreement, nothing in this Agreement will be deemed to require Ecolab or Nalco or any of their respective Subsidiaries to agree to or take any action that would result in any Burdensome Condition.

Section 7.5 No Solicitation by Nalco.

(a) Nalco will (i) immediately cease and cause to be terminated any existing activities, discussions or negotiations with any Person or its Representatives (other than Ecolab and Merger Sub and their Representatives) conducted prior to the date of this Agreement with respect to any Nalco Acquisition Proposal and will request the prompt return of any confidential information previously furnished to such Persons in connection therewith and (ii) promptly inform its and its Subsidiaries' respective Representatives of the restrictions set forth in this *Section 7.5*. Any breach or violation of the restrictions set forth in this *Section 7.5* by any Representative of Nalco or any Nalco Subsidiary will be deemed to be a breach or violation of this *Section 7.5* by Nalco.

(b) Except as otherwise expressly permitted in accordance with *Section 7.5(c)* or *Section 7.5(d)*, neither Nalco or any Nalco Subsidiary, nor any of its or their respective Representatives, will directly or indirectly (i) solicit or knowingly facilitate or encourage any inquiry or the making or announcement of any proposal that constitutes or would reasonably be expected to lead to a Nalco Acquisition Proposal, (ii) participate or engage in any discussions or negotiations regarding, furnish to any Person any information or data with respect to, or otherwise cooperate with or knowingly take any other action to facilitate any proposal that constitutes or would reasonably be expected to lead to any Nalco Acquisition Proposal or that requires Nalco to abandon, terminate or fail to consummate the Merger or (iii) enter into any Contract relating to or providing for a Nalco Acquisition Proposal.

(c) Notwithstanding *Section 7.5(b)* or anything else to the contrary contained in this Agreement, at any time prior to the receipt of the Nalco Stockholder Approval, Nalco may, in response to a *bona fide* written Nalco Acquisition Proposal that did not result from a breach of this *Section 7.5*, furnish information and data to the Person making such Nalco Acquisition Proposal and its Representatives pursuant to and in accordance with a written confidentiality agreement, containing provisions relating to confidentiality that are no less restrictive in the aggregate than those contained in the Confidentiality Agreement (it being understood that such confidentiality agreement need not contain "standstill" provisions), and participate and engage in discussions or negotiations with such Person or its Representatives regarding such Nalco Acquisition Proposal; *provided*, in each case, that the Board of Directors of Nalco has determined in good faith, after consultation with its outside legal counsel and a financial advisor of nationally recognized reputation, that such Nalco Acquisition Proposal constitutes or could reasonably be expected to result in a Superior Nalco Proposal and that the failure to furnish such information or participate in such discussions or negotiations would be inconsistent with its fiduciary duties to the stockholders of Nalco under applicable Law. No confidentiality agreement entered into pursuant to this *Section 7.5(c)* may contain any provision that would prevent Nalco from complying with its obligation to provide any disclosure to Ecolab required pursuant to *Section 7.5(g)*. All information provided by Nalco or any Nalco Subsidiary to any Person entering into a confidentiality agreement pursuant to this *Section 7.5(c)* that has not been previously provided to Ecolab must be provided by Nalco to Ecolab prior to or concurrently with the time it is provided to such Person.

(d) Notwithstanding *Section 7.5(b)* or *Section 7.2* or anything else to the contrary contained in this Agreement, but subject to *Section 7.5(e)*, at any time prior to the Nalco Stockholder Approval, the Board of Directors of Nalco may effect a Nalco Change in Recommendation; *provided* that the Board of Directors of Nalco has determined in good faith, after consultation with its outside legal counsel and a financial advisor of nationally recognized reputation, that the failure to do so would be inconsistent with its fiduciary duties to the stockholders of Nalco under applicable Law.

(e) Notwithstanding *Section 7.5(d)*, the Board of Directors of Nalco may not effect a Nalco Change in Recommendation unless (i) the Board of Directors of Nalco has first provided written notice to Ecolab that it is prepared to effect a Nalco Change in Recommendation, which notice will, in the case of a Superior Nalco Proposal, attach the most current version of any written agreement relating to the transaction that constitutes such Superior Nalco Proposal and, in any other case, attach information specifying in reasonable detail the reasons for such action and (ii) Ecolab does not make, within three Business Days after the receipt of such notice in the case of a notice relating to a Superior Nalco Proposal or within five Business Days in any other case, a proposal that the Board of Directors of Nalco determines in good faith (taking into account any revisions to the terms of the transaction contemplated by this Agreement proposed by Ecolab as provided in this *Section 7.5(e)*), after consultation with outside legal counsel and a financial advisor of nationally recognized reputation, obviates the need for a Nalco Change in Recommendation. Nalco agrees that, during the applicable period prior to its effecting a Nalco Change in Recommendation, Nalco and its Representatives will negotiate in good faith with Ecolab and its Representatives regarding any revisions to the terms of the transactions contemplated by this Agreement proposed by Ecolab. If, following the execution by the Parties of an amendment to this Agreement providing for revisions to the terms of the transactions contemplated by this Agreement that obviate the need for a Nalco Change in Recommendation in connection with a Superior Nalco Proposal, such Superior Nalco Proposal is revised (on one or more occasions), or Nalco receives a Superior Nalco Proposal from another Person, then the provisions of this *Section 7.5(e)* will be applicable with respect to each Nalco Change in Recommendation relating to any such amended or additional Superior Nalco Proposal.

(f) Notwithstanding any Nalco Change in Recommendation, the Board of Directors of Nalco will continue to comply with its obligations under *Section 7.2(a)* and will submit this Agreement to the stockholders of Nalco for the purpose of obtaining the Nalco Stockholder Approval unless this Agreement has been terminated prior to the date of the Nalco Stockholders Meeting, or any adjournment or postponement thereof, in accordance with *Article IX*.

(g) As promptly as practicable after the receipt by Nalco of any Nalco Acquisition Proposal, whether orally or in writing, or any inquiry with respect to, or that could reasonably be expected to lead to, any Nalco Acquisition Proposal, and in any case within 24 hours after the receipt thereof by an executive officer of Nalco, Nalco will provide oral and written notice to Ecolab of such Nalco Acquisition Proposal or inquiry, the identity of the Person making any such Nalco Acquisition Proposal or inquiry and the material terms and conditions of such Nalco Acquisition Proposal or inquiry, including a copy of any such written Nalco Acquisition Proposal and any amendments or modifications thereto. Nalco (or its outside counsel) will, in person or by telephone, keep Ecolab (or its outside counsel) reasonably informed on a prompt basis with respect to any change to price or other material terms of such Nalco Acquisition Proposal. Nalco will, promptly upon receipt or delivery thereof, provide Ecolab (or its outside counsel) with copies of all drafts and final versions (and any comments thereon) of definitive or other agreements (including schedules and exhibits thereto, which may be redacted to the extent necessary to protect confidential information of the Person making such Nalco Acquisition Proposal) relating to such Nalco Acquisition Proposal exchanged between Nalco or any of its Representatives, on the one hand, and the Person making such Nalco Acquisition Proposal or any of its Representatives, on the other hand.

(h) Notwithstanding anything contained in this Agreement to the contrary, nothing contained in *Section 7.5* or *Section 7.2* will prohibit Nalco from complying with Rule 14d-9 and Rule 14e-2 promulgated under the Exchange Act in respect of any Nalco Acquisition Proposal or making any disclosure to the stockholders of Nalco if the Board of Directors of Nalco determines in good faith, after consultation with its outside legal counsel, that the failure to make such disclosure would be inconsistent with applicable Law or its fiduciary duties to the stockholders of Nalco; *provided* that the Board of Directors of Nalco will not, except as expressly permitted by *Section 7.5(d)*, effect a Nalco Change in Recommendation.

Section 7.6 No Solicitation by Ecolab.

(a) Ecolab will (i) immediately cease and cause to be terminated any existing activities, discussions or negotiations with any Person or its Representatives (other than Nalco and Merger Sub and their Representatives) conducted prior to the date of this Agreement with respect to any Ecolab Acquisition Proposal and will request the prompt return of any confidential information previously furnished to such Persons in connection therewith and (ii) promptly inform its and its Subsidiaries' respective Representatives of the restrictions set forth in this *Section 7.6*. Any breach or violation of the restrictions set forth in this *Section 7.6* by any Representative of Ecolab or any Ecolab Subsidiary will be deemed to be a breach or violation of this *Section 7.6* by Ecolab.

(b) Except as otherwise expressly permitted in accordance with *Section 7.6(c)* or *Section 7.6(d)*, neither Ecolab or any Ecolab Subsidiary, nor any of its or their respective Representatives, will directly or indirectly (i) solicit or knowingly facilitate or encourage any inquiry or the making or announcement of any proposal that constitutes or would reasonably be expected to lead to an Ecolab Acquisition Proposal, (ii) participate or engage in any discussions or negotiations regarding, furnish to any Person any information or data with respect to, or otherwise cooperate with or knowingly take any other action to facilitate any proposal that constitutes or would reasonably be expected to lead to any Ecolab Acquisition Proposal or that requires Ecolab to abandon, terminate or fail to consummate the Merger or (iii) enter into any Contract relating to or providing for an Ecolab Acquisition Proposal.

(c) Notwithstanding *Section 7.6(b)* or anything else to the contrary contained in this Agreement, at any time prior to the receipt of the Ecolab Stockholder Approval, Ecolab may, in response to a *bona fide* written Ecolab Acquisition Proposal that did not result from a breach of this *Section 7.6*, furnish information and data to the Person making such Ecolab Acquisition Proposal and its Representatives pursuant to and in accordance with a written confidentiality agreement, containing provisions relating to confidentiality that are no less restrictive in the aggregate than those contained in the Confidentiality Agreement (it being understood that such confidentiality agreement need not contain "standstill" provisions), and participate and engage in discussions or negotiations with such Person or its Representatives regarding such Ecolab Acquisition Proposal; *provided*, in each case, that the Board of Directors of Ecolab has determined in good faith, after consultation with its outside legal counsel and a financial advisor of nationally recognized reputation, that such Ecolab Acquisition Proposal constitutes or could reasonably be expected to result in a Superior Ecolab Proposal and that the failure to furnish such information or participate in such discussions or negotiations would be inconsistent with its fiduciary duties to the stockholders of Ecolab under applicable Law. No confidentiality agreement entered into pursuant to this *Section 7.6(c)* may contain any provision that would prevent Ecolab from complying with its obligation to provide any disclosure to Nalco required pursuant to *Section 7.6(g)*. All information provided by Ecolab or any Ecolab Subsidiary to any Person entering into a confidentiality agreement pursuant to this *Section 7.6(c)* that has not been previously provided to Nalco must be provided by Ecolab to Nalco prior to or concurrently with the time it is provided to such Person.

(d) Notwithstanding *Section 7.6(b)* or *Section 7.2* or anything to the contrary contained in this Agreement, but subject to *Section 7.6(e)*, at any time prior to the Ecolab Stockholder Approval, the Board of Directors of Ecolab may, effect an Ecolab Change in Recommendation; *provided* that the Board of Directors of Ecolab has determined in good faith, after consultation with its outside legal counsel and a financial advisor of nationally recognized reputation, that the failure to do so would be inconsistent with its fiduciary duties to the stockholders of Ecolab under applicable Law.

(e) Notwithstanding *Section 7.6(d)*, the Board of Directors of Ecolab may not effect an Ecolab Change in Recommendation unless (i) the Board of Directors has first provided written notice to Ecolab that it is prepared to effect an Ecolab Change in Recommendation, which notice will, in the case of a Superior Ecolab Proposal, attach the most current version of any written agreement relating to the transaction that constitutes such Superior Ecolab Proposal and, in any other case, attach information specifying the reasons for such action and (ii) Nalco does not make, within three Business Days after the receipt of such notice in the case of a notice relating to a Superior Ecolab Proposal or within five Business Days in any other case, a proposal that the Board of Directors of Ecolab determines in good faith (taking into account any revisions to the terms of the transaction contemplated by this Agreement proposed by Ecolab as provided in this *Section 7.6(e)*), after consultation with outside legal counsel and a financial advisor of nationally recognized reputation, obviates the need for an Ecolab Change in Recommendation. Ecolab agrees that, during the applicable period prior to its effecting an Ecolab Change in Recommendation, Ecolab and its Representatives will negotiate in good faith with Nalco and its Representatives regarding any revisions to the terms of the transactions contemplated by this Agreement proposed by Nalco. If, following the execution by the Parties of an amendment to this Agreement providing for revisions to the terms of the transactions contemplated by this Agreement that obviate the need for an Ecolab Change in Recommendation in connection with a Superior Ecolab Proposal, such Superior Ecolab Proposal is revised (on one or more occasions), or Ecolab receives a Superior Ecolab Proposal from another Person, then the provisions of this *Section 7.6(e)* will be applicable with respect to each Ecolab Change in Recommendation relating to any such amended or additional Superior Ecolab Proposal.

(f) Notwithstanding any Ecolab Change in Recommendation, the Board of Directors of Ecolab will continue to comply with its obligations under *Section 7.2(b)* and will submit this Agreement to the stockholders of Ecolab for the purpose of obtaining the Ecolab Stockholder Approval unless this Agreement has been terminated prior to the date of the Ecolab Stockholders Meeting, or any adjournment or postponement thereof, in accordance with *Article IX*.

(g) As promptly as practicable after the receipt by Ecolab of any Ecolab Acquisition Proposal, whether orally or in writing, or any inquiry with respect to, or that could reasonably be expected to lead to, any Ecolab Acquisition Proposal, and in any case within 24 hours after the receipt thereof by an executive officer of Nalco, Ecolab will provide oral and written notice to Nalco of such Ecolab Acquisition Proposal or inquiry, the identity of the Person making any such Ecolab Acquisition Proposal or inquiry and the material terms and conditions of such Ecolab Acquisition Proposal or inquiry, including a copy of any such written Ecolab Acquisition Proposal and any amendments or modifications thereto. Ecolab (or its outside counsel) will, in person or by telephone, keep Nalco (or its outside counsel) reasonably informed on a prompt basis with respect to any change to price or other material terms of such Ecolab Acquisition Proposal. Ecolab will, promptly upon receipt or delivery thereof, provide Nalco (or its outside counsel) with copies of all drafts and final versions (and any comments thereon) of definitive or other agreements (including schedules and exhibits thereto, which may be redacted to the extent necessary to protect confidential information of the Person making such Nalco Acquisition Proposal) relating to such Ecolab Acquisition Proposal exchanged between Ecolab or any of its Representatives, on the one hand, and the Person making such Ecolab Acquisition Proposal or any of its Representatives, on the other hand.

(h) Notwithstanding anything contained in this *Section 7.6* or *Section 7.2* will prohibit Ecolab from complying with Rule 14d-9 and Rule 14e-2 promulgated under the Exchange Act in respect of any Ecolab Acquisition Proposal or making any disclosure to the stockholders of Ecolab if the Board of Directors of Ecolab determines in good faith, after consultation with its outside legal counsel, that the failure to make such disclosure would be inconsistent with applicable Law or its fiduciary duties to the stockholders of Ecolab; *provided* that the Board of Directors of Ecolab will not, except as expressly permitted by *Section 7.6(d)*, effect an Ecolab Change in Recommendation.

Section 7.7 Employee Matters.

(a) From and after the Effective Time, Ecolab and its Subsidiaries (including the Surviving Corporation and its Subsidiaries) shall honor all Nalco Benefit Plans and compensation arrangements and agreements in accordance with their terms as in effect immediately before the Effective Time.

(b) Except to the extent necessary to avoid the duplication of benefits, the Surviving Corporation will recognize the service of each employee of Nalco and any Nalco Subsidiary who remains in the employment of the Surviving Corporation and its Subsidiaries (each, a "Continuing *Employee*") with Nalco or its Affiliates before the Effective Time as if such service had been performed with Ecolab or its Affiliates (i) for all purposes under the Nalco Benefit Plans maintained by the Surviving Corporation or its Affiliates after the Effective Time (to the extent such plans, programs or Contracts cover the Continuing Employee), (ii) for purposes of eligibility and vesting under any employee benefit plans and programs of the Surviving Corporation or its Affiliates other than the Nalco Benefit Plans (the "*Surviving Corporation Plans*") in which the Continuing Employee participates after the Effective Time and (iii) for benefit accrual purposes under any Surviving Corporation Plan that is a vacation or severance plan in which the Continuing Employee participates after the Effective Time.

(c) With respect to any welfare plan maintained by the Surviving Corporation or its Affiliates in which Continuing Employees are eligible to participate after the Effective Time, the Surviving Corporation and its Affiliates will use their reasonable best efforts to (i) waive all limitations as to preexisting conditions and exclusions with respect to participation and coverage requirements applicable to such employees to the extent such conditions and exclusions were satisfied or did not apply to such employees under the corresponding welfare plans maintained by Nalco or its Affiliates prior to the Effective Time and (ii) provide each Continuing Employee with credit for any co payments and deductibles paid by such Continuing Employee prior to the Effective Time in satisfying any analogous deductible or out of pocket requirements to the extent applicable under any such plan.

(d) This Agreement is not intended by the Parties to (i) constitute an amendment to any employee benefit plan, fund or program, (ii) obligate Ecolab, the Surviving Corporation or any of their Affiliates to maintain any particular compensation or benefit plan, program, policy or arrangement or (iii) create any obligation of the Parties with respect to any employee benefit plan of Ecolab, the Surviving Corporation or any of their Affiliates. Nothing contained in this

Agreement, express or implied, is intended to confer upon any employee any benefits under any employee benefit plan, fund or program, including severance benefits or the right to employment or continued employment with Ecolab, the Surviving Corporation or any of their Affiliates for any period by reason of this Agreement.

(e) Reasonably promptly after the date hereof, Nalco will deliver to Ecolab a worksheet or memorandum demonstrating the extent (if any) to which payments or benefits to be paid or provided to Section 16 Officers in connection with the Merger (under this Agreement or any other Contract, plan or arrangement with Nalco or otherwise) could constitute "excess parachute payments" within the meaning of Section 280G of the Code.

Section 7.8 Fees and Expenses. Subject to *Section 9.3*, whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the transactions contemplated by this Agreement will be paid by the Party incurring such Expenses.

Section 7.9 Directors' and Officers' Indemnification and Insurance.

(a) From and after the Effective Time, the Surviving Corporation will (i) indemnify and hold harmless, against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any Proceeding, whether civil, criminal, administrative or investigative, and provide advancement of expenses to, all past and present directors and officers of Nalco and the Nalco Subsidiaries (in all of their capacities) (the "*Indemnified Persons*") (A) to the same extent such Indemnified Persons are indemnified or exculpated or have the right to advancement of expenses as of the date of this Agreement by Nalco pursuant to Nalco's Constituent Documents and indemnification Contracts, if any, in existence on the date of this Agreement with the Indemnified Persons and (B) without limitation to clause (A), to the fullest extent permitted by Law, (ii) honor the provisions regarding elimination of liability of directors, indemnification of directors and officers and advancement of expenses contained in Nalco's Constituent Documents immediately prior to the Effective Time and (iii) maintain for a period of six years after the Effective Time policies of directors' and officers' liability insurance and fiduciary liability insurance ("*D & O Insurance*") covering each person covered by Nalco's current D & O Insurance as of the Effective Time, providing for at least the same coverage and amounts as, and containing terms and conditions which are no less favorable to the insured than, such current D & O Insurance, with respect to claims arising from facts or events that occurred on or before the Effective Time, including for acts or omissions occurring in connection with the approval of this Agreement and the consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing, in no event will the Surviving Corporation be required to expend for any one coverage year more than 250 percent of the current annual premium expended by Nalco and the Nalco Subsidiaries to maintain or procure such D & O Insurance immediately prior to the Effective Time (such amount, the "*Maximum Annual Premium*"). If the annual premiums of such insurance coverage exceed the Maximum Annual Premium, the Surviving Corporation will be obligated to obtain a policy with the greatest coverage available for a cost not exceeding the Maximum Annual Premium. In lieu of the foregoing insurance coverage, Ecolab may direct Nalco or the Surviving Corporation to purchase "tail" insurance coverage, at a cost no greater than the six times the Maximum Annual Premium, that provides coverage not less favorable than the coverage described above.

(b) The rights of each Indemnified Person hereunder will be in addition to, and not in limitation of, any other rights such Indemnified Person may have under the Constituent Documents of Nalco or any of the Nalco Subsidiaries or the Surviving Corporation, any other indemnification Contract, the DGCL or otherwise.

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(c) The provisions of this *Section 7.9* will survive the consummation of the Merger and expressly are intended to benefit, and are enforceable by, each of the Indemnified Persons and his or her heirs. In the event that the Surviving Corporation or any of its respective successors or assigns consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity in such consolidation or merger or transfers all or substantially all of its properties and assets to any Person, then, and in either such case, proper provision will be made so that the successors and assigns of the Surviving Corporation will assume and comply with the obligations set forth in this *Section 7.9*.

(d) The obligations of the Surviving Corporation under this *Section 7.9* will not be terminated or modified in such a manner as to adversely affect any Indemnified Person without the consent of such Indemnified Person, it being expressly agreed that the Indemnified Persons will be third party beneficiaries of this *Section 7.9*. Ecolab will honor, guaranty and stand as a surety for, and will cause the Surviving Corporation and its Subsidiaries and successors to honor and comply with, in accordance with their respective terms, each of the covenants contained in this *Section 7.9* without limit as to time. Ecolab will pay all reasonable expenses that may be incurred by an Indemnified Person in enforcing the indemnity and other obligations provided in this *Section 7.9*.

Section 7.10 Public Announcements. Ecolab and Nalco will develop a joint communications plan and, unless a Party has received an Ecolab Acquisition Proposal or a Nalco Acquisition Proposal, each Party will (a) ensure that all press releases and other public statements or communications with respect to the transactions contemplated by this Agreement are consistent with such joint communications plan and (b) unless otherwise required by applicable Law or by obligations pursuant to the rules of the NYSE or any other applicable securities exchange, consult with each other before issuing any press release or, to the extent practicable, otherwise making any public statement or communication with respect to this Agreement or the transactions contemplated by this Agreement. In addition to the foregoing, except to the extent disclosed in or consistent with the Joint Proxy Statement/Prospectus in accordance with the provisions of *Section 7.1*, neither Ecolab nor Nalco will issue any press release or otherwise make any public statement or disclosure concerning the other Party or the other Party's business, financial condition or results of operations without the consent of the other Party, which consent will not be unreasonably withheld or delayed.

Section 7.11 Notice of Certain Events. Each of Ecolab and Nalco will promptly notify the other after receiving or becoming aware of (a) any notice or other communication from any Person alleging that the consent of that Person is or may be required in connection with the transactions contemplated by this Agreement, (b) the occurrence, or non-occurrence, of any event which would be reasonably likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect, (c) any Proceeding commenced or, to its knowledge, threatened against, relating to or otherwise involving Ecolab or any of the Ecolab Subsidiaries or Nalco or any of the Nalco Subsidiaries, as the case may be, that relates to the consummation of the transactions contemplated by this Agreement and (d) any failure of Ecolab or Nalco, as the case may be, to comply with or satisfy in all material respects any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; *provided* that (i) the delivery of any notice pursuant to this *Section 7.11* will not limit or otherwise affect the remedies available hereunder to the Party receiving such notice and (ii) the failure of a Party to disclose or notify the other Party of the occurrence, or non-occurrence, of an event described in clause (b) of this *Section 7.11* will not constitute a breach or noncompliance of a covenant of such Party for purposes of determining the satisfaction of the conditions set forth in *Section 8.2(b)* or *Section 8.3(b)*.

Section 7.12 Listing of Shares of Ecolab Common Stock. Ecolab will use its reasonable best efforts to cause the shares of Ecolab Common Stock to be issued in the Merger to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Closing Date.

Section 7.13 Section 16 of the Exchange Act. Prior to the Effective Time, each of Ecolab and Nalco will take all such steps as may be required to cause any dispositions of Nalco equity securities (including derivative securities with respect to Nalco Common Stock) or acquisitions of Ecolab equity securities (including derivative securities with respect to Ecolab Common Stock) resulting from the transactions contemplated by this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act to be exempt under Rule 16b-3 promulgated under the Exchange Act.

Section 7.14 State Takeover Laws. If any "fair price," "business combination" or "control share acquisition" statute or other similar statute or regulation is or becomes applicable to the transactions contemplated by this Agreement, Nalco and its Board of Directors will use their reasonable best efforts to grant such approvals and take such actions as are necessary so that the transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated by this Agreement and will otherwise act to minimize the effects of any such statute or regulation on the transactions contemplated by this Agreement.

Section 7.15 Stockholder Litigation. Nalco will promptly advise Ecolab orally and in writing of any Proceeding brought by any stockholder of Nalco against Nalco or its directors or officers relating to this Agreement or the transactions contemplated by this Agreement and will keep Ecolab fully informed regarding any such litigation. Nalco will give Ecolab the opportunity to participate in, subject to a customary joint defense agreement, but not control the defense of any such litigation, will give due consideration to Ecolab's advice with respect to such litigation and will not settle any such litigation without the prior written consent of Ecolab, such consent not to be unreasonably withheld or delayed. Ecolab will promptly advise Nalco orally and in writing of any Proceeding brought by any stockholder of Ecolab against Ecolab or its directors or officers relating to this Agreement or the transactions contemplated by this Agreement and will keep Ecolab fully informed regarding any such litigation. Ecolab will give Nalco the opportunity to participate in, subject to a customary joint defense agreement, but not control the defense of any such litigation, will give due consideration to Nalco's advice with respect to such litigation and will not settle any such litigation without the prior written consent of Nalco if such settlement would reasonably be expected to prevent or materially impair or materially delay the consummation of the Merger.

Section 7.16 Control of Operations. Without limiting any Party's rights or obligations under this Agreement, the Parties understand and agree that (a) nothing contained in this Agreement will give either Party, directly or indirectly, the right to control, direct or influence the other Party's operations prior to the Effective Time, (b) prior to the Effective Time, each Party will exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its operations.

Section 7.17 Certain Transfer Taxes. Any liability arising out of any real estate transfer Tax with respect to interests in real property owned directly or indirectly by Nalco or any the Nalco Subsidiaries immediately prior to the Merger, if applicable and due with respect to the Merger, will be borne by the Surviving Corporation and expressly will not be a liability of stockholders of Ecolab or Nalco.

Section 7.18 Reorganization Treatment. The Parties intend that the Merger qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and each will not, and will not permit any of their respective Subsidiaries to, take any action, or fail to take any action, that would reasonably be expected to jeopardize the qualification of the Merger as a "reorganization" within the meaning of Section 368(a) of the Code. Provided that the opinion conditions contained in *Section 8.2(d)* and *Section 8.3(c)* have been satisfied, Ecolab will file the opinions described in *Section 8.2(d)* and *Section 8.3(c)* with the SEC by a post-effective amendment to the Form S-4 promptly following the Closing.

Section 7.19 Tax Representation Letters. Ecolab will use its reasonable best efforts to deliver to Baker & McKenzie LLP, counsel to Ecolab ("*Ecolab's Counsel*"), and Cravath, Swaine & Moore LLP, counsel to Nalco ("*Nalco's Counsel*"), a tax representation letter dated as of the Closing Date (and, if requested, dated as of the date the Form S-4 will have been declared effective by the SEC) and signed by an officer of Ecolab and Merger Sub, containing representations of Ecolab and Merger Sub, and Nalco will use its reasonable best efforts to deliver to Ecolab's Counsel and Nalco's Counsel a tax representation letter dated as of the Closing Date (and, if requested, dated as of the date the Form S-4 will have been declared effective by the SEC) and signed by an officer of Nalco, containing representations of Nalco, in each case as reasonably necessary or appropriate to enable Ecolab's Counsel to render the opinion described in *Section 8.2(d)* and Nalco's Counsel to render the opinion described in *Section 8.3(c)*.

Section 7.20 Dividends. From the date of this Agreement until the Effective Time, Ecolab and Nalco will reasonably coordinate with each other regarding the declaration and payment of dividends with respect to the shares of Ecolab Common Stock and Nalco Common Stock and the record dates and payment dates relating thereto such that (a) no holder of Ecolab Common Stock or Nalco Common Stock will receive two dividends, or fail to receive one dividend, for any single calendar quarter with respect to its shares of Ecolab Common Stock or Nalco Common Stock, including Ecolab Common Stock issued in connection with the Merger, and (b) the quarterly payments of dividends to the holders of Ecolab Common Stock will be made substantially in accordance with Ecolab's historical quarterly dividend payment schedule.

ARTICLE VIII
CONDITIONS PRECEDENT

Section 8.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each Party to effect the Merger are subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Nalco must have obtained the Nalco Stockholder Approval and Ecolab must have obtained the Ecolab Stockholder Approval;

(b) the waiting period (and any extension thereof) applicable to the Merger under the HSR Act and under any other applicable material Competition Laws must have been terminated or expired, and any investigation opened pursuant to the HSR Act or such other material Competition Law by means of a second request for additional information or otherwise must have been terminated or closed, and no Proceeding must have been instituted by the U.S. Department of Justice, the FTC or any other material Governmental Authority under any applicable Competition Law challenging or seeking to enjoin the consummation of the transactions contemplated by this Agreement or to impose any Burdensome Condition, which Proceeding has not have been withdrawn, terminated or finally resolved;

(c) other than the authorizations and filings provided for by *Section 8.1(b)*, all material notices, reports, filings, consents, registrations, approvals, permits or authorizations, if any, required to be obtained from or of any Governmental Authority, in each case in connection with the consummation of the Merger and the transactions contemplated by this Agreement, will have been obtained, except for those, the failure of which to be obtained, individually or in the aggregate, would not reasonably be expected to (A) result in a Burdensome Condition or (B) provide a reasonable basis to conclude that Nalco, Ecolab or Merger Sub or any of their Affiliates or any of their respective officers or directors, as applicable, would be subject to the risk of criminal liability;

(d) no Laws must have been adopted or promulgated, and no temporary restraining order, preliminary or permanent injunction or other Order, judgment, decision, opinion or decree must have been issued and remain in effect issued by a court or other Governmental Authority of

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competent jurisdiction, having the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger (collectively, "*Restraints*");

(e) the Form S-4 must have been declared effective by the SEC under the Securities Act, no stop order suspending the effectiveness of the Form S-4 must have been issued by the SEC and no Proceedings for that purpose must have been initiated or threatened by the SEC; and

(f) the shares of Ecolab Common Stock to be issued in the Merger and such other shares to be reserved for issuance in connection with the Merger must have been approved for listing on the NYSE, subject to official notice of issuance.

Section 8.2 Conditions to Obligations of Ecolab and Merger Sub. The obligations of Ecolab and Merger Sub to effect the Merger are subject to the satisfaction, or waiver by Ecolab, on or prior to the Closing Date of the following additional conditions:

(a) each of the representations and warranties of Nalco set forth in this Agreement, in each case made as if none of such representations and warranties contained any qualifications or limitations as to "materiality" or "Material Adverse Effect," must be true and correct as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent in either case that such representations and warranties are made as of another specified date prior to the date of this Agreement), except where the failure of such representations and warranties to be true and correct as so made would not, individually or in the aggregate, have a Material Adverse Effect on Nalco; *provided* that notwithstanding the foregoing, each of the representations and warranties of Nalco set forth in *Section 4.3*, *Section 4.4* and *Section 4.5* must be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date. Ecolab must have received a certificate of the chief executive officer or the chief financial officer of Nalco to such effect;

(b) Nalco must have performed or complied in all material respects with all covenants and agreements required to be performed by it under this Agreement at or prior to the Closing Date, and Ecolab must have received a certificate of the chief executive officer or the chief financial officer of Nalco to such effect;

(c) there must not be pending any Litigation by any material Governmental Authority (i) seeking to restrain or prohibit the consummation of the Merger or seeking to obtain from Nalco, Ecolab, Merger Sub or any other Affiliate of Ecolab any damages that are material in relation to Nalco, (ii) seeking to impose material limitations on the ability of Ecolab or any Affiliate of Ecolab to hold, or exercise full rights of ownership of, any shares of capital stock of the Surviving Corporation, including the right to vote such shares on all matters properly presented to the shareholders of the Surviving Corporation, (iii) seeking to prohibit Ecolab or any of its Affiliates from effectively controlling in any material respect the business or operations of Nalco or any Nalco Subsidiary or (iv) that has had or would reasonably be expected to have a Material Adverse Effect on Nalco or on Ecolab; and

(d) Ecolab must have received an opinion of Ecolab's Counsel, in form and substance reasonably satisfactory to Ecolab, based on facts, representations and assumptions set forth in such opinion that are consistent with the state of facts existing at the Effective Time, to the effect that (i) the Merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and (ii) each of Ecolab, Merger Sub and Nalco will be a party to such reorganization. In rendering such opinion, counsel may require and rely upon representations contained in certificates of officers of Ecolab, Nalco and others.

Section 8.3 Conditions to Obligations of Nalco. The obligations of Nalco to effect the Merger are subject to the satisfaction of, or waiver by Nalco, on or prior to the Closing Date of the following additional conditions:

(a) Each of the representations and warranties of Ecolab set forth in this Agreement, in each case made as if none of such representations and warranties contained any qualifications or limitations as to "materiality" or "Material Adverse Effect," must be true and correct as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent in either case that such representations and warranties are made as of another specified date prior to the date of this Agreement), except where the failure of such representations and warranties to be true and correct as so made would not, individually or in the aggregate, have a Material Adverse Effect on Ecolab; *provided* that notwithstanding the foregoing, each of the representations and warranties of Ecolab and Merger Sub set forth in *Section 5.3*, *Section 5.4* and *Section 5.25* must be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date. Nalco must have received a certificate of the chief executive officer or the chief financial officer of Ecolab to such effect;

(b) Each of Ecolab and Merger Sub must have performed or complied in all material respects with all covenants and agreements required to be performed by it under this Agreement at or prior to the Closing Date and Nalco must have received a certificate of the chief executive officer or the chief financial officer of Ecolab to such effect; and

(c) Nalco must have received an opinion of Nalco's Counsel, in form and substance reasonably satisfactory to Nalco, based on facts, representations and assumptions set forth in such opinion that are consistent with the state of facts existing at the Effective Time, to the effect that (i) the Merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code and (ii) each of Nalco, Ecolab and Merger Sub will be a party to such reorganization. In rendering such opinion, counsel may require and rely upon representations contained in certificates of officers of Nalco, Ecolab and others.

Section 8.4 Frustration of Closing Conditions. Neither Nalco nor Ecolab may rely, either as a basis for not consummating the Merger or terminating this Agreement and abandoning the Merger, on the failure of any condition set forth in this *Article VIII* to be satisfied if such failure was caused by such Party's intentional breach of any material provision of this Agreement or failure to use reasonable best efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to *Section 7.4*.

ARTICLE IX
TERMINATION AND AMENDMENT

Section 9.1 Termination. This Agreement may be terminated and the transactions contemplated by this Agreement may be abandoned at any time prior to the Effective Time, whether before or after receipt of the Nalco Stockholder Approval or the Ecolab Stockholder Approval:

(a) by mutual written consent of Ecolab and Nalco;

(b) by either Ecolab or Nalco, if:

(i) the Merger has not been consummated by March 1, 2012 (the "*End Date*"), whether the End Date is before or after the date of the Nalco Stockholder Approval and the Ecolab Stockholder Approval; *provided* that the right to terminate this Agreement pursuant to this *Section 9.1(b)(i)* will not be available to any Party whose failure to perform in all material respects its obligations under this Agreement is the primary cause of the failure of the Merger to be consummated by the End Date;

(ii) any Restraint having any of the effects set forth in *Section 8.1(d)* is in effect and has become final and non-appealable; *provided* that the Party seeking to terminate this Agreement pursuant to this *Section 9.1(b)(ii)* must have complied in all material respects with its obligations under *Section 7.4*;

(iii) the Nalco Stockholder Approval is not obtained at the Nalco Stockholders Meeting or any adjournment or postponement thereof; or

(iv) the Ecolab Stockholder Approval is not obtained at the Ecolab Stockholders Meeting or any adjournment or postponement thereof;

(c) by Ecolab, if:

(i) Nalco has breached or failed to perform any of its representations, warranties, covenants or agreements contained in this Agreement and such breach or failure to perform (A) is incapable of being cured by Nalco prior to the End Date and (B) would result in a failure of any condition set forth in *Section 8.2(a)* or *Section 8.2(b)*; *provided* that the right to terminate this Agreement pursuant to this *Section 9.1(c)(i)* will not be available to Ecolab if Ecolab is in material breach of its representations, warranties, covenants or agreements contained in this Agreement as of the time of such purported termination;

(ii) the Board of Directors of Nalco has effected a Nalco Change in Recommendation;

(iii) the Board of Directors of Nalco fails to publicly reaffirm the Nalco Recommendation within ten Business Days after receipt of a written request by Ecolab to provide such reaffirmation following a Nalco Acquisition Proposal that has been publicly announced or that has become publicly known; *provided* that the right to terminate this Agreement pursuant to this *Section 9.1(c)(iii)* will not be available to Ecolab if the Board of Directors of Nalco has given notice that it is prepared to effect a Nalco Change in Recommendation in accordance with *Section 7.5(e)*; or

(iv) Ecolab effects an Ecolab Change in Recommendation when permitted to do so pursuant to *Section 7.6(e)* in order to permit Ecolab to enter into a definitive written agreement providing for a Superior Ecolab Proposal concurrently with or immediately following the termination of this Agreement; *provided* that the termination of this Agreement pursuant to this *Section 9.1(c)(iv)* will not be effective unless and until Ecolab has paid the Ecolab Termination Fee to Ecolab in accordance with *Section 9.3(b)*;

(d) by Nalco, if:

(i) Ecolab or Merger Sub has breached or failed to perform any of its representations, warranties, covenants or agreements contained in this Agreement and such breach or failure to perform (A) is incapable of being cured by Ecolab or Merger Sub prior to the End Date and (B) would result in a failure of any condition set forth in *Section 8.3(a)* or *Section 8.3(b)*; *provided* that the right to terminate this Agreement pursuant to this *Section 9.1(d)(i)* will not be available to Nalco if Nalco is in material breach of its representations, warranties, covenants or agreements contained in this Agreement as of the time of such purported termination;

(ii) the Board of Directors of Ecolab has effected an Ecolab Change in Recommendation;

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(iii) the Board of Directors of Ecolab fails to publicly reaffirm the Ecolab Recommendation within ten Business Days after receipt of a written request by Nalco to provide such reaffirmation following an Ecolab Acquisition Proposal that has been publicly announced or that has become publicly known; *provided* that the right to terminate this Agreement pursuant to this *Section 9.1(d)(iii)* will not be available to Nalco if the Board of Directors of Ecolab has given notice that it is prepared to effect an Ecolab Change in Recommendation in accordance with *Section 7.6(e)*; or

(iv) Nalco effects a Nalco Change in Recommendation when permitted to do so pursuant to *Section 7.5(e)* in order to permit Nalco to enter into a definitive written agreement providing for a Superior Nalco Proposal concurrently with or immediately following the termination of this Agreement; *provided* that the termination of this Agreement pursuant to this *Section 9.1(d)(iv)* will not be effective unless and until Nalco has paid the Nalco Termination Fee to Ecolab in accordance with *Section 9.3(a)*.

Section 9.2 Effect of Termination. In the event of any termination of this Agreement as provided in *Section 9.1*, the obligations of the Parties under this Agreement will terminate and there will be no liability on the part of any Party with respect thereto, except for the confidentiality provisions of *Section 7.3* and the provisions of this *Section 9.2*, *Section 9.3* (which, subject to the proviso of this sentence, will constitute the sole and exclusive remedy of the Party receiving payment thereunder) and *Article X*, each of which will remain in full force and effect; *provided* that no Party will be relieved or released from any liability or damages arising from an intentional breach of any provision of this Agreement or fraud, and the aggrieved Party will be entitled to all rights and remedies available at law or in equity, including (a) in the case of a breach by Ecolab or Merger Sub, liability to Nalco for damages, determined taking into account all relevant factors, including, without duplication, the loss of the benefit of the Merger to Ecolab and the lost stockholder premium and any benefit to Ecolab or its stockholders arising from such breach, and (b) in the case of a breach by Nalco, liability to Ecolab for damages determined taking into account all relevant factors, including the loss of the benefit of the Merger to Ecolab and any benefit to Nalco or its stockholders arising from such breach. The foregoing sentence is not intended to create any right of the stockholders of Nalco or Ecolab to bring any action against the other Party pursuant to this Agreement. The Parties acknowledge and agree that the payment of the Nalco Termination Fee or the Ecolab Termination Fee, as applicable, pursuant to *Section 9.3* will not preclude such non-breaching Party in the case of an intentional breach of this Agreement or fraud by such breaching Party from seeking additional damages from such breaching Party on account of such intentional breach or fraud.

Section 9.3 Termination Fee and Expense Reimbursement.

(a) Nalco will pay to Ecolab, by wire transfer of immediately available funds, the sum of $135,000,000 (the "*Nalco Termination Fee*") if this Agreement is terminated under the following circumstances:

(i) if this Agreement is terminated pursuant to *Section 9.1(c)(ii)* or *(iii)*, then Nalco will pay the Nalco Termination Fee by the second Business Day following the date of such termination;

(ii) if (A) this Agreement is terminated (1) pursuant to *Section 9.1(b)(i)* without a vote of the stockholders of Nalco contemplated by this Agreement at the Nalco Stockholders Meeting having occurred or (2) pursuant to *Section 9.1(b)(iii)*, and in any such case a Nalco Acquisition Proposal has been publicly announced or has otherwise become publicly known, or any Person has publicly announced or communicated a *bona fide* intention, whether or not conditional, to make a Nalco Acquisition Proposal, at any time after the date of this Agreement and prior to the time of the taking of the vote of the stockholders of Nalco at the Nalco Stockholders Meeting, in the case of clause (2), or the date of termination, in the case of clause (1), and (B) within 12 months after the date of such termination, Nalco enters into a definitive agreement to consummate, or consummates, the transaction contemplated by such Nalco Acquisition Proposal, then Nalco will pay the Nalco Termination Fee by the second Business Day following the date Nalco enters into such definitive agreement or consummates such transaction; *provided* that, for purposes of this *Section 9.3(a)(ii)*, all references to 15 percent including in the definition of the term "*Nalco Acquisition Proposal*" will be changed to 50 percent; or

(iii) if this Agreement is terminated pursuant to *Section 9.1(d)(iv)*, then Nalco will pay the Nalco Termination Fee on the date, and as a condition to the effectiveness, of such termination.

(b) Ecolab will pay to Nalco, by wire transfer of immediately available funds, the sum of $275,000,000 (the "*Ecolab Termination Fee*") if this Agreement is terminated under the following circumstances:

(i) if this Agreement is terminated pursuant to Section *9.1(d)(ii)* or *(iii)*, then Ecolab will pay the Ecolab Termination Fee by the second Business Day following the date of such termination; or

(ii) if (A) this Agreement is terminated (1) pursuant to *Section 9.1(b)(i)* without a vote of the stockholders of Ecolab contemplated by this Agreement at the Ecolab Stockholders Meeting having occurred or (2) pursuant to *Section 9.1(b)(iv)*, and in any such case an Ecolab Acquisition Proposal has been publicly announced or has otherwise become publicly known, or any Person has publicly announced or communicated a *bona fide* intention, whether or not conditional, to make an Ecolab Acquisition Proposal, at any time after the date of this Agreement and prior to the time of the taking of the vote of the stockholders of Ecolab at the Ecolab Stockholders Meeting, in the case of clause (2), or the date of termination, in the case of clause (1), and (B) within 12 months after the date of such termination, Ecolab enters into a definitive agreement to consummate, or consummates, the transaction contemplated by such Ecolab Acquisition Proposal, then Ecolab will pay the Ecolab Termination Fee by the second Business Day following the date Ecolab enters into such definitive agreement or consummates such transaction; *provided* that, for purposes of this *Section 9.3(b)(ii)*, all references to 15 percent including in the definition of the term "*Ecolab Acquisition Proposal*" will be changed to 50 percent; or

(iii) if this Agreement is terminated pursuant to *Section 9.1(c)(iv)*, then Ecolab will pay the Ecolab Termination Fee on the date, and as a condition to the effectiveness, of such termination.

(c) If this Agreement is terminated pursuant to *Section 9.1(b)(iii)* and the conditions set forth in *Section 9.3(a)(ii)(A)* regarding a publicly announced or otherwise communicated Nalco Acquisition Proposal, or intention to make a Nalco Acquisition Proposal, are not applicable, then Nalco will reimburse Ecolab for up to $8,000,000 of its reasonably documented Expenses incurred in connection with the transactions contemplated by this Agreement. Such Expenses will be reimbursed by wire transfer of immediately available funds within two Business Days after delivery by Ecolab to Nalco of a written statement setting forth the amount thereof and attaching the applicable documentation.

(d) If this Agreement is terminated pursuant to *Section 9.1(b)(iv)* and the conditions set forth in *Section 9.3(b)(ii)(A)* regarding a publicly announced or otherwise communicated Ecolab Acquisition Proposal, or intention to make an Ecolab Acquisition Proposal, are not applicable, then Ecolab will reimburse Nalco for up to $8,000,000 of its reasonably documented Expenses incurred in connection with the transactions contemplated by this Agreement. Such Expenses will be reimbursed by wire transfer of immediately available funds within two Business Days after delivery by Nalco to Ecolab of a written statement setting forth the amount thereof and attaching the applicable documentation.

(e) Each of Ecolab and Nalco acknowledges and agrees that the agreements contained in this *Section 9.3* are an integral part of the transaction contemplated by this Agreement and that, without these agreements, such other Party would not enter into this Agreement. Accordingly, if Ecolab or Nalco fails promptly to pay any amounts due under this *Section 9.3* and, in order to obtain such payment, such other Party commences any Proceeding that results in a judgment against such nonpaying Party for such amounts, such nonpaying Party will pay interest on such amounts from the date payment of such amounts was due to the date of actual payment at the prime rate of the Bank of New York in effect on the date such payment was due, together with the costs and expenses of such Party that commenced such Proceeding (including reasonable legal fees and expenses) in connection with such Proceedings.

ARTICLE X
GENERAL PROVISIONS

Section 10.1 Non-Survival of Representations, Warranties and Agreements. None of the representations, warranties, covenants and agreements in this Agreement or in any instrument delivered pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and agreements, will survive the Effective Time, except for those covenants and agreements contained in this Agreement and such other instruments (including *Section 7.9*) that by their terms apply or are to be performed in whole or in part after the Effective Time and this *Article X*.

Section 10.2 Notices. All notices and other communications in connection with this Agreement will be in writing and will be deemed duly given (a) on the date of delivery if delivered personally or by facsimile, upon confirmation of receipt, (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service or (c) on the third Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices in connection with this Agreement will be delivered as set forth below or pursuant to such other instructions as may be designated in writing by the Party to receive such notice:

If to Ecolab or Merger Sub, to:

Ecolab Inc.
370 Wabasha Street North
Saint Paul, Minnesota 55102
Facsimile: (651) 293-2471
Attention: James J. Seifert
Vice President, General Counsel and Secretary

with a copy (which will not constitute notice) to:

Baker & McKenzie LLP
130 East Randolph Drive
Chicago, Illinois 60601
Facsimile: (312) 861-2899
Attention: Dieter A. Schmitz
Craig A. Roeder

If to Nalco, to:

Nalco Holding Company
1601 West Diehl Road
Naperville, Illinois 60563-1198
Facsimile: (630) 305-2840
Attention: Office of General Counsel

with a copy (which will not constitute notice) to:

Cravath, Swaine & Moore LLP
Worldwide Plaza
825 Eighth Avenue
New York, New York 10019
Facsimile: (212) 474-3700
Attention: Scott A. Barshay
George F. Schoen

Section 10.3 Counterparts; Effectiveness. This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original but all of which will constitute one and the same instrument. This Agreement will become effective when each Party has received counterparts signed and delivered (by facsimile or otherwise) by the other Parties.

Section 10.4 Entire Agreement; Third Party Beneficiaries. This Agreement (including the Exhibits, Schedules and the Parties' disclosure letters) and the Confidentiality Agreement constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, between the Parties with respect to their subject matter. This Agreement will be binding upon and inure solely to the benefit of each Party, and nothing in this Agreement, express or implied, is intended to or will confer upon any Person not a party to this Agreement any rights, benefits or remedies of any nature whatsoever, other than (a) *Section 7.9*, which is intended to be for the benefit of the Indemnified Persons and their heirs and assigns covered thereby and may be enforced by such Indemnified Persons and their heirs and assigns and (b) *Article II*, which is intended to be for the benefit of holders of shares of Nalco Common Stock, Nalco Stock Options and Nalco Stock-Based Awards with respect to the right of such holders to receive, as applicable, the Merger Consideration, Converted Stock Options or Converted Stock-Based Awards.

Section 10.5 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any Law or public policy, all other terms and provisions of this Agreement will nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated by this Agreement is not affected in any manner materially adverse to any Party. Notwithstanding the foregoing, upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties will negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order that the transactions contemplated by this Agreement are consummated as originally contemplated to the greatest extent possible.

Section 10.6 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any of the Parties, in whole or in part (whether by operation of Law or otherwise), without the prior written consent of the other Parties, and any attempt to make any such assignment without such consent will be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and assigns.

Section 10.7 Amendment. This Agreement may be amended by the Parties, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the matters presented in connection with the Merger by the stockholders of Nalco or the stockholders of Ecolab, but after such approval, no amendment will be made which by Law or in accordance with the rules of the NYSE requires further approval by such stockholders without such further approval. Notwithstanding the preceding sentence, no amendment will be made to this Agreement after the Effective Time. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the Parties.

Section 10.8 Extension; Waiver. At any time prior to the Effective Time, the Parties, by action taken or authorized by their respective Boards of Directors, may to the extent legally permitted (a) extend the time for the performance of any of the obligations or other acts of the other Parties, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any document delivered pursuant to this Agreement and (c) waive compliance with any of the agreements or conditions contained in this Agreement. No extension or waiver will be made which by Law or in accordance with the rules of the NYSE requires further approval by the stockholders of Nalco or the stockholders of Ecolab without such further approval. Any agreement on the part of a Party to any such extension or waiver will be valid only if set forth in a written instrument signed on behalf of such Party. The failure of any Party to assert any of its rights under this Agreement or otherwise will not constitute a waiver of those rights.

Section 10.9 Governing Law and Venue: Waiver of Jury Trial.

(a) THIS AGREEMENT WILL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS WILL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE SUBSTANTIVE AND PROCEDURAL LAWS OF THE STATE OF DELAWARE, WITHOUT REGARD TO ITS RULES OF CONFLICTS OF LAW. The Parties irrevocably submit to the exclusive jurisdiction of the courts of the State of Delaware and the federal courts of the United States of America located in the State of Delaware with respect to all matters arising out of or relating to this Agreement the interpretation and enforcement of the provisions of this Agreement, and of the documents referred to in this Agreement, and in respect of the transactions contemplated by this Agreement, and waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in such courts or that the venue thereof may not be appropriate or that this Agreement or any such document may not be enforced in or by such courts, and the Parties agree that all claims with respect to such action or proceeding will be heard and determined exclusively in such a Delaware state or federal court. The Parties consent to and grant any such court jurisdiction over the person of such Parties solely for such purpose and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in *Section 10.2* or in such other manner as may be permitted by Law will be valid and sufficient service.

(b) EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY ACKNOWLEDGES AND AGREES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER. EACH PARTY MAKES THIS WAIVER VOLUNTARILY AND EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS IN THIS *SECTION 10.9(b)*.

Section 10.10 Enforcement. The Parties acknowledge and agree that irreparable damage would occur in the event that any provision of this Agreement was not performed in accordance with its specific terms or was otherwise breached, and that monetary damages, even if available, would not be an adequate remedy therefor. Except as provided in *Section 9.2*, it is accordingly agreed that the Parties will be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the performance of the terms and provisions hereof in any court referred to in *Section 10.9*, without proof of actual damages (and each Party hereby waives any requirement for the securing or posting of any bond in connection with such remedy), this being in addition to any other remedy to which they are entitled at Law or in equity. The Parties further agree not to assert that a remedy of specific enforcement is unenforceable, invalid, contrary to Law or inequitable for any reason, nor to assert that a remedy of monetary damages would provide an adequate remedy for such breach.

[*Signature page follows.*]

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IN WITNESS WHEREOF, Ecolab Inc., Sustainability Partners Corporation and Nalco Holding Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first above written.

ECOLAB INC.

By: /s/ DOUGLAS M. BAKER, JR.

Name: Douglas M. Baker, Jr.

Title: *Chairman of the Board, President and Chief Executive Officer*

SUSTAINABILITY PARTNERS CORPORATION

By: /s/ DOUGLAS M. BAKER, JR.

Name: Douglas M. Baker, Jr.

Title: *Chairman of the Board, President and Chief Executive Officer*

NALCO HOLDING COMPANY

By: /s/ J. ERIK FYRWALD

Name: J. Erik Fyrwald

Title: *Chairman, President and Chief Executive Officer*

[Signature Page to Merger Agreement]

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Annex B

Merrill Lynch, Pierce, Fenner & Smith Incorporated

GLOBAL CORPORATE & INVESTMENT BANKING

July 19, 2011

The Board of Directors
Ecolab Inc.
Ecolab Center
370 N. Wabasha Street
St. Paul, Minnesota 55102

Members of the Board of Directors:

We understand that Ecolab Inc. ("Ecolab") proposes to enter into an Agreement and Plan of Merger, dated as of July 19, 2011 (the "Agreement"), among Ecolab, Sustainability Partners Corporation, a wholly owned subsidiary of Ecolab ("Merger Sub"), and Nalco Holding Company ("Nalco"), pursuant to which, among other things, Nalco will merge with and into Merger Sub (the "Transaction") and each outstanding share of common stock, par value $0.01 per share, of Nalco ("Nalco Common Stock") will be converted into the right to receive at the option of the holder thereof, and subject to certain limitations and proration procedures set forth in the Agreement (as to which we express no opinion), either (i) $38.80 in cash, without interest (the "Cash Consideration") or (ii) that portion of a share of common stock, par value $1.00 per share, of Ecolab ("Ecolab Common Stock") that is equal to the Exchange Ratio (as defined in the Agreement) (the "Stock Consideration" and, together with the Cash Consideration, the "Consideration"); *provided*, *however*, that the amount of Cash Consideration shall equal 30% of the product of (a) $38.80 and (b) the number of issued and outstanding shares of Nalco Common Stock immediately prior to the effective time of the Transaction (other than shares owned by Ecolab, Nalco or their respective subsidiaries and other than shares held by holders who have properly exercised appraisal rights with respect thereto). The terms and conditions of the Transaction are more fully set forth in the Agreement.

You have requested our opinion as to the fairness, from a financial point of view, to Ecolab of the Consideration to be paid by Ecolab in the Transaction.

In connection with this opinion, we have, among other things:

(i) reviewed certain publicly available business and financial information relating to Nalco and Ecolab;

(ii) reviewed certain internal financial and operating information with respect to the business, operations and prospects of Nalco furnished to or discussed with us by the management of Nalco, including certain financial forecasts relating to Nalco prepared by the management of Nalco (such forecasts, the "Nalco Forecasts");

(iii) reviewed (1) certain financial forecasts relating to Nalco prepared by the management of Ecolab as of June 16, 2011 (the "June 16 Model"), (2) certain financial forecasts relating to Nalco prepared by the management of Ecolab as of July 1, 2011 (the "July 1 Model") and

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(3) certain financial forecasts relating to Nalco prepared by the management of Ecolab as of July 19, 2011 (the "July 19 Model") and discussed with the management of Ecolab its assessments as to the relative likelihood of achieving the future financial results reflected in the Nalco Forecasts, the June 16 Model, the July 1 Model and the July 19 Model;

(iv) reviewed certain internal financial and operating information with respect to the business, operations and prospects of Ecolab furnished to or discussed with us by the management of Ecolab, including certain financial forecasts relating to Ecolab prepared by the management of Ecolab (such forecasts, the "Ecolab Forecasts");

(v) reviewed certain estimates as to the amount and timing of cost savings and revenue enhancements (collectively, the "Synergies/Cost Savings") anticipated by the management of Ecolab to result from the Transaction;

(vi) discussed the past and current business, operations, financial condition and prospects of Nalco with members of senior managements of Nalco and Ecolab, and discussed the past and current business, operations, financial condition and prospects of Ecolab with members of senior management of Ecolab;

(vii) discussed with the management of Ecolab its assessments as to the products, product candidates and technology of Nalco, including the validity of, risks associated with, and the integration by Ecolab of, such products, product candidates and technology;

(viii) reviewed the potential pro forma financial impact of the Transaction on the future financial performance of Ecolab, including the potential effect on Ecolab's estimated earnings per share;

(ix) reviewed the trading histories for Nalco Common Stock and Ecolab Common Stock and a comparison of such trading histories with each other and with the trading histories of other companies we deemed relevant;

(x) compared certain financial and stock market information of Nalco and Ecolab with similar information of other companies we deemed relevant;

(xi) compared certain financial terms of the Transaction to financial terms, to the extent publicly available, of other transactions we deemed relevant;

(xii) reviewed the relative financial contributions of Nalco and Ecolab to the future financial performance of the combined company on a pro forma basis;

(xiii) reviewed the Agreement; and

(xiv) performed such other analyses and studies and considered such other information and factors as we deemed appropriate.

In arriving at our opinion, we have assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with us and have relied upon the assurances of the managements of Ecolab and Nalco that they are not aware of any facts or circumstances that would

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make such information or data inaccurate or misleading in any material respect. With respect to the Nalco Forecasts, we have been advised by Nalco, and have assumed, that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Nalco as to the future financial performance of Nalco. With respect to the June 16 Model and the July 1 Model, we have been advised by Ecolab, and have assumed, that they have been reasonably prepared on bases reflecting the best then-available estimates and good faith judgments of the management of Ecolab as to the future financial performance of Nalco. With respect to the July 19 Model, the Ecolab Forecasts and the Synergies/Cost Savings, we have assumed, at the direction of Ecolab, that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Ecolab as to the future financial performance of Nalco and Ecolab and the other matters covered thereby and, based on the assessments of the management of Ecolab as to the relative likelihood of achieving the future financial results reflected in the Nalco Forecasts, the June 16 Model, the July 1 Model and the July 19 Model, we have relied, at the direction of Ecolab, on the July 19 Model for purposes of our opinion. We have relied, at the direction of Ecolab, on the assessments of the management of Ecolab as to Ecolab's ability to achieve the Synergies/Cost Savings and have been advised by Ecolab, and have assumed, that the Synergies/Cost Savings will be realized in the amounts and at the times projected. We have relied, at the direction of Ecolab, on the assessments of the management of Ecolab as to the products, product candidates and technology of Nalco, including the validity of, risks associated with, and the integration by Ecolab of, such products, product candidates and technology. We have not made or been provided with any independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Nalco or Ecolab, nor have we made any physical inspection of the properties or assets of Nalco or Ecolab. We have not evaluated the solvency or fair value of Nalco or Ecolab under any state, federal or other laws relating to bankruptcy, insolvency or similar matters. We have assumed, at the direction of Ecolab, that the Transaction will be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary governmental, regulatory and other approvals, consents, releases and waivers for the Transaction, no delay, limitation, restriction or condition, including any divestiture requirements or amendments or modifications, will be imposed that would have an adverse effect on Nalco, Ecolab or the contemplated benefits of the Transaction. We also have assumed at the direction of Ecolab that the Transaction will qualify for federal income tax purposes as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended.

We express no view or opinion as to any terms or other aspects of the Transaction (other than the Consideration to the extent expressly specified herein), including, without limitation, the form or structure of the Transaction. Our opinion is limited to the fairness, from a financial point of view, to Ecolab of the Consideration to be paid in the Transaction and no opinion or view is expressed with respect to any consideration received in connection with the Transaction by the holders of any class of securities, creditors or other constituencies of any party. In addition, no opinion or view is expressed with respect to the fairness (financial or otherwise) of the amount, nature or any other aspect of any compensation to any of the officers, directors or employees of any party to the Transaction, or class of such persons, relative to the Consideration. Furthermore, no opinion or view is expressed as to the relative merits of the Transaction in comparison to other strategies or transactions that might

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be available to Ecolab or in which Ecolab might engage or as to the underlying business decision of Ecolab to proceed with or effect the Transaction. We are not expressing any opinion as to what the value of Ecolab Common Stock actually will be when issued or the prices at which Ecolab Common Stock or Nalco Common Stock will trade at any time, including following announcement or consummation of the Transaction. In addition, we express no opinion or recommendation as to how any stockholder should vote or act in connection with the Transaction or any related matter.

We have acted as financial advisor to the Board of Directors of Ecolab in connection with the Transaction and will receive a fee for our services, a portion of which is payable in connection with, and upon the rendering of, this opinion and a significant portion of which is contingent upon consummation of the Transaction. We and certain of our affiliates also may be participating in the financing for the Transaction, including potentially acting as lead arranger in connection with a new revolving credit facility and as underwriter for new bonds and/or any related hedging activity, for which services we and our affiliates would receive compensation. In addition, Ecolab has agreed to reimburse our expenses and indemnify us against certain liabilities arising out of our engagement.

We and our affiliates comprise a full service securities firm and commercial bank engaged in securities, commodities and derivatives trading, foreign exchange and other brokerage activities, and principal investing as well as providing investment, corporate and private banking, asset and investment management, financing and financial advisory services and other commercial services and products to a wide range of companies, governments and individuals. In the ordinary course of our businesses, we and our affiliates may invest on a principal basis or on behalf of customers or manage funds that invest, make or hold long or short positions, finance positions or trade or otherwise effect transactions in equity, debt or other securities or financial instruments (including derivatives, bank loans or other obligations) of Ecolab, Nalco and certain of their respective affiliates.

We and our affiliates in the past have provided, currently are providing, and in the future may provide, investment banking, commercial banking and other financial services to Ecolab and have received or in the future may receive compensation for the rendering of these services, including having acted or acting as book-running manager for various debt offerings and having provided or providing certain derivatives and foreign exchange trading services to Ecolab.

In addition, we and our affiliates in the past have provided, currently are providing, and in the future may provide, investment banking, commercial banking and other financial services to Nalco and have received or in the future may receive compensation for the rendering of these services, including having (i) acted or acting as book-running manager and arranger for various debt offerings and lender under certain letters of credit and credit facilities and (ii) provided or providing certain cash, treasury management, derivatives and foreign exchange trading products and services to Nalco.

It is understood that this letter is for the benefit and use of the Board of Directors of Ecolab (in its capacity as such) in connection with and for purposes of its evaluation of the Transaction and is not rendered to or for the benefit of, and shall not confer rights or remedies upon, any person other than the Board of Directors of Ecolab.

Our opinion is necessarily based on financial, economic, monetary, market and other conditions and circumstances as in effect on, and the information made available to us as of, the date hereof. As you

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are aware, the credit, financial and stock markets have been experiencing unusual volatility and we express no opinion or view as to any potential effects of such volatility on Ecolab, Nalco or the Transaction. It should be understood that subsequent developments may affect this opinion, and we do not have any obligation to update, revise, or reaffirm this opinion. The issuance of this opinion was approved by our Americas Fairness Opinion Review Committee.

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, we are of the opinion on the date hereof that the Consideration to be paid in the Transaction by Ecolab is fair, from a financial point of view, to Ecolab.

Very truly yours,

/s/ Merrill Lynch, Pierce, Fenner & Smith Incorporated

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ANNEX C

PERSONAL AND CONFIDENTIAL

July 19, 2011

Board of Directors
Nalco Holding Company
1601 West Diehl Road
Naperville, IL 60563-1198

Ladies and Gentlemen:

You have requested our opinion as to the fairness from a financial point of view to the holders of the outstanding shares of common stock, par value $0.01 per share (the "Shares"), of Nalco Holding Company (the "Company") of the Aggregate Consideration (as defined below) to be paid to such holders pursuant to the Agreement and Plan of Merger, dated as of July 19, 2011 (the "Agreement"), by and among Ecolab, Inc. ("Ecolab"), Sustainability Partners Corporation, a wholly owned subsidiary of Ecolab ("Merger Sub"), and the Company. Pursuant to the Agreement, the Company will be merged with and into Merger Sub and holders of outstanding Shares (other than Excluded Shares and Dissenting Shares (each as defined in the Agreement)) may elect to receive in respect of each such Share either (i) 0.7005 shares of common stock, par value $1.00 per share (the "Ecolab Common Stock"), of Ecolab (the "Stock Consideration") or (ii) $38.80 in cash (the "Cash Consideration" and Stock Consideration, taken in the aggregate, the "Aggregate Consideration"), subject to certain procedures and limitations contained in the Agreement, as to which procedures and limitations we express no opinion.

Goldman, Sachs & Co. and its affiliates are engaged in investment banking and financial advisory services, commercial banking, securities trading, investment management, principal investment, financial planning, benefits counseling, risk management, hedging, financing, brokerage activities and other financial and non-financial activities and services for various persons and entities. In the ordinary course of these activities and services, Goldman, Sachs & Co. and its affiliates may at any time make or hold long or short positions and investments, as well as actively trade or effect transactions, in the equity, debt and other securities (or related derivative securities) and financial instruments (including bank loans and other obligations) of the Company, Ecolab and any of their respective affiliates or third parties or any currency or commodity that may be involved in the transaction contemplated by the Agreement (the "Transaction") for their own account and for the accounts of their customers. We have acted as financial advisor to the Company in connection with, and have participated in certain of the negotiations leading to, the Transaction. We expect to receive fees for our services in connection with the Transaction, the principal portion of which is contingent upon consummation of the Transaction, and the Company has agreed to reimburse our expenses arising, and indemnify us against certain liabilities that may arise, out of our engagement. We have provided certain investment banking services to the Company and its affiliates from time to time for which our Investment Banking Division has received, and may receive, compensation, including having acted as bookrunner in connection with the public offering of the Company's 6.625% Senior Unsecured Notes due January 15, 2019 (aggregate principal amount $750 million) and 6.875% Senior Unsecured Notes due January 15, 2019 (aggregate principal amount €200 million) in December 2010 and financial advisor to the Company in connection with the sale of its Performance Product Group to the Lubrizol Corporation in January 2011. We may also in the future provide investment banking services to the Company, Ecolab and their respective affiliates for which our Investment Banking Division may receive compensation.

In connection with this opinion, we have reviewed, among other things, the Agreement; annual reports to stockholders and Annual Reports on Form 10-K of the Company and Ecolab for the five years ended December 31, 2010; certain interim reports to stockholders and Quarterly Reports on

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Board of Directors
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July 19, 2011
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Form 10-Q of the Company and Ecolab; certain other communications from the Company and Ecolab to their respective stockholders; certain publicly available research analyst reports for the Company and Ecolab; and certain internal financial analyses and forecasts for the Company prepared by its management and for Ecolab prepared by its management, in each case, as approved for our use by the Company (the "Forecasts"), including certain cost savings and operating synergies projected by the management of Ecolab to result from the Transaction, as approved for our use by the Company (the "Synergies"). We have also held discussions with members of the senior managements of the Company and Ecolab regarding their assessment of the strategic rationale for, and the potential benefits of, the Transaction and the past and current business operations, financial condition and future prospects of their respective companies; reviewed the reported price and trading activity for the Shares and the shares of Ecolab Common Stock; compared certain financial and stock market information for the Company and Ecolab with similar information for certain other companies the securities of which are publicly traded; reviewed the financial terms of certain recent business combinations in the chemical industry and in other industries; and performed such other studies and analyses, and considered such other factors, as we deemed appropriate.

For purposes of rendering this opinion, we have relied upon and assumed, without assuming any responsibility for independent verification, the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or reviewed by, us; and we do not assume any responsibility for any such information. In that regard, we have assumed with your consent that the Forecasts, including the Synergies, have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company. We have not made an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or other off-balance-sheet assets and liabilities) of the Company or Ecolab or any of their respective subsidiaries and we have not been furnished with any such evaluation or appraisal. We have assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the Transaction will be obtained without any adverse effect on the Company or Ecolab on the expected benefits of the Transaction in any way meaningful to our analysis. We also have assumed that the Transaction will be consummated on the terms set forth in the Agreement, without the waiver or modification of any term or condition the effect of which would be in any way meaningful to our analysis.

Our opinion does not address the underlying business decision of the Company to engage in the Transaction, or the relative merits of the Transaction as compared to any strategic alternatives that may be available to the Company; nor does it address any legal, regulatory, tax or accounting matters. We were not requested to solicit, and did not solicit, interest from other parties with respect to an acquisition of, or other business combination with, the Company or any other alternative transaction. This opinion addresses only the fairness from a financial point of view, as of the date hereof, to the holders of Shares of the Aggregate Consideration to be paid to such holders pursuant to the Agreement. We do not express any view on, and our opinion does not address, any other term or aspect of the Agreement or Transaction or any term or aspect of any other agreement or instrument contemplated by the Agreement or entered into or amended in connection with the Transaction, including, without limitation, the fairness of the Transaction to, or any consideration received in connection therewith by, the holders of any other class of securities, creditors, or other constituencies of the Company; nor as to the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors or employees of the Company, or class of such persons, in

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connection with the Transaction, whether relative to the Aggregate Consideration to be paid to the holders of Shares pursuant to the Agreement or otherwise. We are not expressing any opinion as to the prices at which shares of Ecolab Common Stock will trade at any time or as to the impact of the Transaction on the solvency or viability of the Company or Ecolab or the ability of the Company or Ecolab to pay their respective obligations when they come due. Our opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to us as of, the date hereof and we assume no responsibility for updating, revising or reaffirming this opinion based on circumstances, developments or events occurring after the date hereof. Our advisory services and the opinion expressed herein are provided for the information and assistance of the Board of Directors of the Company in connection with its consideration of the Transaction and such opinion does not constitute a recommendation as to how any holder of Shares should vote or make any election with respect to such Transaction or any other matter. This opinion has been approved by a fairness committee of Goldman, Sachs & Co.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Aggregate Consideration to be paid to holders of Shares pursuant to the Agreement is fair from a financial point of view to such holders.

Very truly yours,

(GOLDMAN, SACHS & CO.)

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ANNEX D

DELAWARE GENERAL CORPORATION LAW
SECTION 262 APPRAISAL RIGHTS

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in 1 or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title), § 252, § 254, § 255, § 256, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in § 251(f) of this title.

(2) Notwithstanding paragraph (b)(1) of this section, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 255, 256, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing paragraphs (b)(2)a. and b. of this section; or

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 253 or § 267 of this title is not owned by the parent immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

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(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for notice of such meeting (or such members who received notice in accordance with § 255(c) of this title) with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) of this section that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228, § 253, or § 267 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give

either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) of this section hereof and who is otherwise entitled to appraisal rights, may commence an appraisal proceeding by filing a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) of this section hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) of this section hereof, whichever is later. Notwithstanding subsection (a) of this section, a person who is the beneficial owner of shares of such stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition or request from the corporation the statement described in this subsection.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After the Court determines the stockholders entitled to an appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding the Court shall determine the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. Unless the Court in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, proceed to trial upon the appraisal prior to the final determination of the stockholders entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder's certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just; provided, however that this provision shall not affect the right of any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation within 60 days after the effective date of the merger or consolidation, as set forth in subsection (e) of this section.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

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ANNEX E

The following shows the proposed amendment to the first paragraph of Article III of the restated certificate of incorporation of Ecolab in accordance with the additional share authorization proposal described in this joint proxy statement/prospectus.

"ARTICLE III

The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is ~~four hundred fifteen million (415,000,000)~~ eight hundred fifteen million (815,000,000) consisting of ~~four hundred million (400,000,000)~~ eight hundred million (800,000,000) shares of Common Stock of the par value of One Dollar ($1.00) per share and fifteen million (15,000,000) shares of Preferred Stock without par value. The number of authorized shares of any class of capital stock may be increased or decreased by the affirmative vote of the holders of a majority of capital stock of the Corporation entitled to vote."

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