

Nalco Holding CO
Form 10-Q
August 01, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File No. 001-32342

NALCO HOLDING COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or Organization)

16-1701300
(I.R.S. Employer
Identification Number)

**1601 West Diehl Road
Naperville, IL 60563-1198
(630) 305-1000**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant 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. (Check one):

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

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

As of July 22, 2008, the number of shares of the registrant's common stock, par value \$0.01 per share, outstanding was 140,786,530 shares.

QUARTERLY REPORT ON FORM 10-Q
NALCO HOLDING COMPANY
Quarter Ended June 30, 2008

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Nalco Holding Company and Subsidiaries
Condensed Consolidated Balance Sheets
(dollars in millions)

	(Unaudited) June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 86.2	\$ 119.9
Accounts receivable, less allowances of \$23.8 in 2008 and \$19.5 in 2007	811.9	805.6
Inventories:		
Finished products	328.8	268.9
Materials and work in process	107.4	81.5
	436.2	350.4
Prepaid expenses, taxes and other current assets	100.9	112.6
Total current assets	1,435.2	1,388.5
Property, plant, and equipment, net	771.9	762.3
Intangible assets:		
Goodwill	2,488.2	2,459.8
Other intangibles, net	1,122.2	1,121.4
Other assets	215.8	246.6
Total assets	\$ 6,033.3	\$ 5,978.6
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 357.9	\$ 316.4
Short-term debt	90.8	130.4
Other current liabilities	300.5	322.5
Total current liabilities	749.2	769.3
Other liabilities:		
Long-term debt	3,241.9	3,193.7
Deferred income taxes	268.3	327.5
Accrued pension benefits	322.6	314.4
Other liabilities	220.2	234.7

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Minority interest	19.0	21.2
Shareholders' equity	1,212.1	1,117.8
Total liabilities and shareholders' equity	\$ 6,033.3	\$ 5,978.6

See accompanying notes to condensed consolidated financial statements.

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Nalco Holding Company and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(dollars in millions, except per share amounts)

	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Net sales	\$ 1,066.3	\$ 970.9	\$ 2,066.0	\$ 1,880.2
Operating costs and expenses:				
Cost of product sold	594.9	537.5	1,159.3	1,041.9
Selling, administrative, and research expenses	332.2	292.2	641.0	579.7
Amortization of intangible assets	15.9	15.4	29.5	30.6
Business optimization expenses	1.4	2.3	2.4	2.3
Total operating costs and expenses	944.4	847.4	1,832.2	1,654.5
Operating earnings	121.9	123.5	233.8	225.7
Other income (expense), net	(4.3)		(7.3)	(0.3)
Interest income	2.0	1.9	4.5	4.5
Interest expense	(64.7)	(68.2)	(132.0)	(136.5)
Earnings before income taxes and minority interests	54.9	57.2	99.0	93.4
Income tax provision	9.0	13.7	22.5	28.4
Minority interests	(1.7)	(1.7)	(3.1)	(3.6)
Net earnings	\$ 44.2	\$ 41.8	\$ 73.4	\$ 61.4
Net earnings per share:				
Basic	\$ 0.32	\$ 0.29	\$ 0.52	\$ 0.43
Diluted	\$ 0.31	\$ 0.28	\$ 0.51	\$ 0.41
Weighted-average shares outstanding (millions):				
Basic	141.4	144.4	141.7	144.0
Diluted	142.2	148.0	142.5	148.0
Cash dividends declared per share	\$ 0.035	\$ 0.035	\$ 0.07	\$ 0.07

See accompanying notes to condensed consolidated financial statements.

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Nalco Holding Company and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(dollars in millions)

	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Operating activities		
Net earnings	\$ 73.4	\$ 61.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	69.9	64.0
Amortization	29.5	30.6
Amortization of deferred financing costs and accretion of senior discount notes	23.8	22.3
Other, net	1.7	(10.4)
Changes in operating assets and liabilities	(64.6)	(97.2)
Net cash provided by operating activities	133.7	70.7
Investing activities		
Additions to property, plant, and equipment, net	(61.9)	(47.6)
Other, net	(14.0)	(1.0)
Net cash used for investing activities	(75.9)	(48.6)
Financing activities		
Cash dividends	(9.9)	(5.0)
Changes in short-term debt, net	(61.2)	(8.3)
Proceeds from long-term debt	3.1	48.8
Repayments of long-term debt	(0.7)	(24.0)
Purchases of treasury stock	(21.7)	
Other, net	(3.9)	(4.1)
Net cash provided by (used for) financing activities	(94.3)	7.4
Effect of exchange rate changes on cash and cash equivalents	2.8	1.8
Increase (decrease) in cash and cash equivalents	(33.7)	31.3
Cash and cash equivalents at beginning of period	119.9	37.3
Cash and cash equivalents at end of period	\$ 86.2	\$ 68.6

See accompanying notes to condensed consolidated financial statements.

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**Nalco Holding Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)**

June 30, 2008

1. Description of Business

We are engaged in the worldwide manufacture and sale of highly specialized service chemical programs. This includes production and service related to the sale and application of chemicals and technology used in water treatment, pollution control, energy conservation, oil production and refining, steelmaking, papermaking, mining, and other industrial processes.

2. Basis of Presentation

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report for Nalco Holding Company and subsidiaries for the fiscal year ended December 31, 2007.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Management believes these financial statements include all normal recurring adjustments considered necessary for a fair presentation of our financial position and results of operations. Operating results for the six months ended June 30, 2008 are not necessarily indicative of results that may be expected for the year ended December 31, 2008.

Certain minor reclassifications have been made to the prior year data to conform to the current year presentation which had no effect on net earnings reported for any period.

3. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. This statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS No. 157 defines fair value based upon an exit price model. Relative to SFAS No. 157, the FASB has issued FASB Staff Position (FSP) 157-2, which delays the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. As required, we adopted SFAS No. 157 on January 1, 2008, for financial assets and liabilities and for nonfinancial assets and liabilities that are remeasured at least annually. There was no material effect on our financial statements upon adoption. We do not expect a material impact on our financial statements from adoption of SFAS No. 157 as it pertains to nonfinancial assets and nonfinancial liabilities for our first quarter of 2009.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires an

employer to recognize in its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status, measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those

Table of Contents**3. Recent Accounting Pronouncements (continued)**

changes are reported in comprehensive income and as a separate component of shareholders' equity. SFAS No. 158 does not change the amount of net periodic benefit cost included in net earnings. We adopted the recognition and disclosure provisions of SFAS No. 158 as of December 31, 2006, as required. We will change our measurement date to our December 31 fiscal year end from the current measurement date of November 30 in 2008, as required.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment in retained earnings. Subsequent to adopting SFAS No. 159, changes in fair value are recognized in earnings. As required, we adopted SFAS No. 159 as of January 1, 2008; however, we have not elected to change the measurement attribute for any of the permitted items to fair value upon adoption.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which replaces SFAS No. 141, *Business Combinations*. SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for under the acquisition method of accounting, but SFAS No. 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for changes in valuation allowances on deferred taxes and acquired tax contingencies related to acquisitions prior to the date of adoption. SFAS No. 141(R) amends SFAS No. 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141(R) would also apply the provisions of SFAS No. 141(R). Early adoption is not permitted. We are currently evaluating the effects, if any, that SFAS No. 141(R) may have on our financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, with earlier adoption prohibited. This statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net earnings attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. The statement also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). This statement also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. We are currently evaluating SFAS No. 160 and anticipate that it will not have a significant impact on the reporting of our results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of

gains and losses on derivative instruments, and

Table of Contents**3. Recent Accounting Pronouncements (continued)**

disclosures about credit-risk-related contingent features in derivative agreements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. Early application is encouraged, as are comparative disclosures for earlier periods, but neither are required.

4. Debt

Debt consists of the following:

(dollars in millions)	June 30, 2008	December 31, 2007
Short-term		
Checks outstanding and bank overdrafts	\$ 31.3	\$ 14.1
Notes payable to banks	27.3	6.1
Current maturities of long-term debt	22.2	32.4
Unsecured notes, due May 2008		27.8
Revolving credit facility	10.0	50.0
	\$ 90.8	\$ 130.4
Long-term		
Securitized trade accounts receivable facility	\$ 137.0	\$ 134.0
Term loan A, due November 2009	39.5	64.8
Term loan B, due November 2010	887.0	887.0
Senior notes, due November 2011	980.2	959.6
Senior subordinated notes, due November 2013	780.2	759.6
Senior discount notes, due February 2014	439.3	420.6
Other	0.9	0.5
	3,264.1	3,226.1
Less: Current portion	22.2	32.4
	\$ 3,241.9	\$ 3,193.7

5. Shareholders Equity

Shareholders equity consists of the following:

(dollars in millions, except per share amounts)	June 30, 2008	December 31, 2007
Preferred stock, par value \$0.01 per share; authorized 100,000,000 shares; none issued	\$ 1.4	\$ 1.4

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Common stock, par value \$0.01 per share; authorized 500,000,000 shares;
146,764,030 and 144,377,068 shares issued at June 30, 2008 and December 31,
2007, respectively

Additional paid-in capital	761.2	749.7
Treasury stock, at cost; 5,977,500 shares and 4,588,500 shares at June 30, 2008 and December 31, 2007, respectively	(138.4)	(108.0)
Retained earnings	163.1	100.7
Accumulated other comprehensive income	424.8	374.0
Total shareholders' equity	\$ 1,212.1	\$ 1,117.8

In November 2004, a warrant to purchase, for \$0.01 per share, up to 6,191,854 shares of Nalco Holding Company common stock was issued as part of a dividend to Nalco LLC, our sole stockholder on the record date of the dividend. Nalco LLC exercised warrants to acquire 2,126,650 shares of common stock during the six months ended June 30, 2008. At June 30, 2008, up to 1,414,399 shares of common stock could be purchased by Nalco LLC under the warrant, subject to certain vesting conditions. The amount includes 789,099 shares of common stock that would be required to be deposited into an

Table of Contents**5. Shareholders Equity (continued)**

escrow account under the terms of the warrant. Nalco Holding Company would beneficially own such shares, which would be used solely for the purpose of delivering shares of common stock pursuant to incentive compensation plans.

In July 2007, our Board of Directors authorized a \$300 million share repurchase program, and gave our management discretion in determining the conditions under which shares may be purchased from time to time. The program has no stated expiration date. As of December 31, 2007, we had repurchased 4,588,500 shares at a cost of \$108.0 million. During the six months ended June 30, 2008, we repurchased an additional 1,389,000 shares at a cost of \$30.4 million. Of that amount, we expended \$21.7 million in cash and an additional \$8.7 million was reported as a payable on the balance sheet at June 30, 2008, for share repurchases executed in June 2008 and settling in July 2008.

6. Pension and Other Postretirement Benefit Plans

The components of net periodic pension cost and the cost of other postretirement benefits for the three months and six months ended June 30, 2008 and 2007 were as follows:

(dollars in millions)	Pension Benefits			
	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Service cost	\$ 6.4	\$ 7.1	\$ 13.1	\$ 14.2
Interest cost	12.2	11.4	24.4	22.5
Expected return on plan assets	(9.7)	(8.6)	(18.9)	(16.8)
Prior service (credit) cost	(0.5)	0.1	(1.1)	0.1
Net actuarial loss	0.1	0.2	0.2	0.3
Net periodic cost	\$ 8.5	\$ 10.2	\$ 17.7	\$ 20.3

(dollars in millions)	Other Postretirement Benefits			
	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Service cost	\$ 0.9	\$ 1.1	\$ 2.2	\$ 2.7
Interest cost	2.0	1.9	4.4	4.1
Prior service credit	(1.2)	(1.3)	(2.4)	(2.4)
Net actuarial gain	(1.0)	(0.1)	(1.3)	(0.1)
Net periodic cost	\$ 0.7	\$ 1.6	\$ 2.9	\$ 4.3

7. Business Optimization Expenses

We continue to redesign and optimize our business and work processes. Business process optimization expenses, consisting mostly of employee severance and related costs, were \$1.4 million and \$2.3 million for the three months ended June 30, 2008 and 2007, respectively. Business process optimization expenses were \$2.4 million for the six months ended June 30, 2008 and \$2.3 million for the six months ended June 30, 2007, as employee severance and related costs were partly offset by the impact of a \$0.4 million reduction in the impairment provision for a facility that was held for sale.

Table of Contents**8. Summary of Other Income (Expense)**

The components of other income (expense), net for the three months and six months ended June 30, 2008 and 2007, include the following:

(dollars in millions)	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Franchise taxes	\$ (0.7)	\$ (0.8)	\$ (1.3)	\$ (1.6)
Equity in earnings of unconsolidated subsidiaries	0.5	0.5	0.9	0.9
Foreign currency exchange adjustments	(2.4)	0.7	(5.4)	0.5
Other	(1.7)	(0.4)	(1.5)	(0.1)
	\$ (4.3)	\$	\$ (7.3)	\$ (0.3)

9. Income Taxes

The income tax provision for the three months and six months ended June 30, 2008 was favorably impacted by the recognition of benefits related to certain U.S. foreign tax credits, and unfavorably impacted by the proposed settlement of the U.S. federal tax audit of years 2003 and 2004, as well as the creation of valuation allowances related to the realization of a deductible temporary difference and net operating loss carryforwards in the U.K. The income tax provision also varies from the U.S. federal statutory income tax rate of 35% primarily due to the reversal of prior year state valuation allowances, the incremental tax on dividends received from non-U.S. subsidiaries, foreign taxes provided at other than the 35% U.S. statutory rate, U.S. state income taxes, nondeductible expenses, and other permanent differences.

Since our sale by Suez S.A. in November 2003, we have incurred incremental tax expense for foreign withholding taxes that we were able to deduct, but not credit for U.S. federal tax purposes. We have completed a restructuring that combined with increased U.S. taxable income results in the ability to convert the previously deducted foreign withholding taxes into U.S. foreign tax credits. The recognition of this benefit lowered the tax provision by \$40.1 million in the three months and six months ended June 30, 2008.

The Internal Revenue Service (the Service) had previously concluded its examination of the consolidated federal income tax returns of our subsidiary, Nalco Company and Nalco Company's subsidiaries for the years 2003 and 2004. The Service had originally proposed to disallow deductions totaling \$116.2 million relating to debt issuance costs and consulting fees, some of which amortize through 2011. We believed the expenditures to be valid tax deductions. During the current quarter, the Service offered to reduce the disallowance to \$5.8 million and close the audit. We intend to accept the offer, which caused the recognition of \$2.2 million of additional federal and state tax expense in the three months and six months ended June 30, 2008.

We have a net operating loss carryforward in the U.K. of approximately \$32.9 million (\$9.2 million tax effect) that does not expire. In addition, we have a net deferred tax asset in the U.K. primarily related to \$40.0 million of future

tax deductions (\$11.2 million tax effect) for pension contributions. A valuation allowance of \$72.9 million (\$20.4 million tax effect) was established in the second quarter of 2008, due to a lack of profitability in recent years.

Table of Contents**9. Income Taxes (continued)**

The effective rate of the provision for income taxes differs from the U.S. statutory tax rate due to the following items:

(dollars in millions)	Three Months ended	Three Months ended	Six Months ended	Six Months ended
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
U.S. statutory tax rate	\$ 19.2	\$ 20.0	\$ 34.6	\$ 32.7
Foreign tax credits	(40.1)		(40.1)	
U.K. valuation allowances	20.4		20.4	
U.S. audit	2.2		2.5	
Other	7.3	(6.3)	5.1	(4.3)
Income tax provision	\$ 9.0	\$ 13.7	\$ 22.5	\$ 28.4

10. Comprehensive Income

Total comprehensive income and its components, net of related tax, for the three months and six months ended June 30, 2008 and 2007, were as follows:

(dollars in millions)	Three Months ended	Three Months ended	Six Months ended	Six Months ended
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net earnings	\$ 44.2	\$ 41.8	\$ 73.4	\$ 61.4
Other comprehensive income, net of income taxes:				
Derivatives	0.6	(0.2)	1.3	0.9
Net prior service credit	(1.2)	(0.8)	(2.3)	(1.5)
Net actuarial (gain) loss	(0.9)		(1.1)	0.1
Foreign currency translation adjustments	14.9	48.8	52.9	64.5
Comprehensive income	\$ 57.6	\$ 89.6	\$ 124.2	\$ 125.4

11. Segment Information

We operate four reportable segments:

Industrial and Institutional Services This segment serves the global water treatment and process chemical needs of the industrial, institutional, and municipal markets.

Energy Services This segment serves the process chemicals and water treatment needs of the global petroleum and petrochemical industries in both upstream and downstream applications.

Paper Services This segment serves the process chemicals and water treatment needs of the global pulp and paper industry.

Other This segment includes the Integrated Channels Group, revenue recognition adjustments, supply chain activities, standard cost variances, and certain other operating expenses not allocated to a segment.

In 2008, we began reporting the results of our subsidiary in India and the Katayama Nalco joint venture related to the Industrial and Institutional Services segment, the Energy Services segment, and the Paper Services segment with those segments. These results had previously been reported in the Other segment. In addition, certain petrochemical and emerging markets customers that had previously been reported in the Industrial and Institutional Services segment are now included in Energy Services.

Table of Contents**11. Segment Information (continued)**

Amounts for prior periods have been restated to conform with this change in the composition of our segments.

We evaluate the performance of our segments based on direct contribution, which is defined as net sales, less cost of product sold (excluding variances to standard costs), selling and service expenses, marketing expenses, research expenses and capital charges directly attributable to each segment. Each segment is assessed an internal non-GAAP capital charge based on trade accounts receivable, inventories and equipment specifically identifiable to the segment. The capital charges included in each segment's direct contribution are eliminated to arrive at our consolidated direct contribution. There are no intersegment revenues.

Net sales by reportable segment were as follows:

(dollars in millions)	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Industrial and Institutional Services	\$ 474.8	\$ 432.5	\$ 902.9	\$ 836.9
Energy Services	363.0	316.9	709.7	611.3
Paper Services	203.0	194.8	404.0	381.5
Other	25.5	26.7	49.4	50.5
Net sales	\$ 1,066.3	\$ 970.9	\$ 2,066.0	\$ 1,880.2

The following table presents direct contribution by reportable segment and reconciles the total segment direct contribution to earnings before income taxes and minority interests:

(dollars in millions)	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Segment direct contribution:				
Industrial and Institutional Services	\$ 96.1	\$ 93.6	\$ 177.1	\$ 178.7
Energy Services	72.4	74.5	147.8	136.5
Paper Services	24.3	31.9	52.6	58.2
Other	(24.6)	(27.2)	(53.8)	(49.7)
Capital charge elimination	24.6	20.9	48.1	41.0
Total segment direct contribution	192.8	193.7	371.8	364.7
Expenses not allocated to segments:				
Administrative expenses	53.6	52.5	106.1	106.1
Amortization of intangible assets	15.9	15.4	29.5	30.6
Business optimization expenses	1.4	2.3	2.4	2.3

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Operating earnings	121.9	123.5	233.8	225.7
Other income (expense), net	(4.3)		(7.3)	(0.3)
Interest income	2.0	1.9	4.5	4.5
Interest expense	(64.7)	(68.2)	(132.0)	(136.5)
Earnings before income taxes and minority interests	\$ 54.9	\$ 57.2	\$ 99.0	\$ 93.4

Administrative expenses primarily represent the cost of support functions, including information technology, finance, human resources and legal, as well as expenses for support facilities, executive management and management incentive plans.

Table of Contents**12. Earnings Per Share**

Basic earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

Basic and diluted earnings per share were calculated as follows:

(in millions)	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Numerator for basic and diluted earnings per share:				
Net earnings	\$ 44.2	\$ 41.8	\$ 73.4	\$ 61.4
Denominator for basic earnings per share				
weighted average common shares outstanding	141.4	144.4	141.7	144.0
Effect of dilutive securities:				
Stock purchase warrant	0.6	3.5	0.6	3.9
Share-based compensation plans	0.2	0.1	0.2	0.1
Denominator for diluted earnings per share	142.2	148.0	142.5	148.0

13. Contingencies and Litigation

Various claims, lawsuits and administrative proceedings are pending or threatened against us, arising from the ordinary course of business with respect to commercial, contract, intellectual property, product liability, employee, environmental and other matters. Historically, these matters have not had a material impact on our consolidated financial position, and the resolution of those proceedings is not expected to have a material effect on our results of operations, financial condition or cash flows. However, we cannot predict the outcome of any litigation or the potential for future litigation.

We have been named as a potentially responsible party (PRP) by the Environmental Protection Agency or state enforcement agencies at five waste sites where some financial contribution is or may be required. These agencies have also identified many other parties who may be responsible for clean up costs at these waste disposal sites. We are also remediating a small spill at our plant in Pilar, Argentina. Our financial contribution to remediate these sites is not expected to be material. There has been no significant financial impact on us up to the present, nor is it anticipated that there will be in the future, as a result of these matters.

Our undiscounted reserves for known environmental clean up costs were \$1.8 million at June 30, 2008. These environmental reserves represent our current estimate of our proportional clean-up costs and are based upon negotiation and agreement with enforcement agencies, our previous experience with respect to clean-up activities, a detailed review by us of known conditions, and information about other PRPs. They are not reduced by any possible

recoveries from insurance companies or other PRPs not specifically identified. Although we cannot determine whether or not a material effect on future operations is reasonably likely to occur, given the evolving nature of environmental regulations, we believe that the recorded reserve levels are appropriate estimates of the potential liability. Although settlement will require future cash outlays, it is not expected that such outlays will materially impact our liquidity position. Expenditures for the six months ended June 30, 2008, relating to environmental compliance and clean up activities, were not significant.

We have been named as a defendant in lawsuits based on claimed involvement in the supply of allegedly defective or hazardous materials and the claimed presence of hazardous substances at our plants. We have also been named as a defendant in lawsuits where our products have not caused

Table of Contents**13. Contingencies and Litigation (continued)**

injuries, but the claimants seek amounts so they might be monitored in the future for potential injuries arising from our products. The plaintiffs in these cases seek damages for alleged personal injury or potential injury resulting from exposure to our products or other chemicals. These matters have had a *de minimis* impact on our business historically, and we do not anticipate these matters will present any material risk to our business in the future. Notwithstanding, we cannot predict the outcome of any such lawsuits or the involvement we might have in these matters in the future.

On November 27, 2006, the U.K. Health and Safety Executive (HSE) issued a criminal summons charging our U.K. subsidiary with a violation of the Health and Safety at Work Act. The summons was re-issued in the Crown Court of Worcester on July 23, 2007. The charge relates to a Legionella outbreak that is claimed to have originated at cooling towers owned by one of the subsidiary's customers. The Legionella outbreak is believed to have resulted in two fatalities and multiple injuries. The customer, H. P. Bulmer Limited, is also charged. Our subsidiary entered a guilty plea to a portion of the charge, exposing non-employees to a health risk, on September 3, 2007. Similarly, our subsidiary's customer submitted a guilty plea. On July 1, 2008, the Crown Court issued a penalty of £300,000 (\$0.6 million) and court costs of £50,000 (\$0.1 million) against our subsidiary relating to this violation. An identical penalty was issued against the subsidiary's customer.

In the ordinary course of our business, we are also a party to a number of lawsuits and are subject to various claims relating to trademarks, employee matters, contracts, transactions, chemicals and other matters, the outcome of which, in our opinion, should not have a material effect on our consolidated financial position. However, we cannot predict the outcome of any litigation or the potential for future litigation. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the results of operations for the period in which the ruling occurs. We maintain accruals where the outcome of the matter is probable and can be reasonably estimated.

14. Fair Value Measurements

As stated in Note 3, *Recent Accounting Pronouncements*, we adopted SFAS No. 157, *Fair Value Measurements*, on January 1, 2008, for financial assets and liabilities and for nonfinancial assets and liabilities that are remeasured at least annually. SFAS No. 157 defines fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

- Level 1 Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 Observable inputs other than quoted prices in active markets.
- Level 3 Unobservable inputs for which there is little or no market data available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Table of Contents**14. Fair Value Measurements (continued)**

The fair value of financial assets and liabilities measured at fair value on a recurring basis was as follows:

(dollars in millions)	Balance June 30, 2008	Level 1	Level 2	Level 3
Assets:				
Foreign exchange forward contracts	\$ 0.1	\$	\$ 0.1	\$
Natural gas forward contracts	1.3		1.3	
	\$ 1.4	\$	\$ 1.4	\$
Liabilities:				
Foreign exchange forward contracts	\$ 4.0	\$	\$ 4.0	\$

Foreign exchange forward contracts are valued using quoted forward foreign exchange prices at the reporting date.

Natural gas forward contracts are valued using NYMEX futures prices for natural gas at the reporting date.

15. Guarantees

No significant guarantees were outstanding at June 30, 2008, other than subsidiary-related performance guarantees.

We had \$21.5 million of letters of credit outstanding at June 30, 2008.

16. Subsequent Event

On July 25, 2008, we announced that we had entered into a definitive agreement to sell our Finishing Technologies surface treatment business to Rockwood Holdings for \$75.0 million. A plant in Jackson, Michigan, dedicated to the Finishing Technologies business, is included in the sale, along with dedicated Finishing Technologies sales, service, marketing, research and supply chain employees. The transaction is expected to close prior to the end of the third quarter, following regulatory approval, and result in an after-tax gain that will increase diluted earnings per share by an estimated 29 cents per share.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Overview**

Key financial highlights for the second quarter 2008 include:

Second quarter 2008 revenues of \$1,066.3 million increased 9.8% over second quarter 2007 revenues of \$970.9 million. This increase consisted of organic growth of 5.7%, a currency benefit of 5.4%, less an acquisition/divestiture impact of 1.3%. We define organic growth as nominal, or actual, sales growth less the impacts of changes in foreign currency translation rates and acquisitions and divestitures.

We experienced increases in product and freight costs approximating \$36 million in the second quarter of 2008 over the prior-year period, but these were largely offset with price increases of about \$29 million.

The effective tax rate dropped to 16.4% for the second quarter of 2008 from 24.0% for the year-ago quarter, as a result of recognizing federal tax benefits for the expected utilization of foreign tax credit carryforwards generated in previous years. This resulted from continued improvements in profitability in the U.S. and the rationalization of our legal entity structure to make it more tax efficient.

Second quarter 2008 net earnings of \$44.2 million were up 5.7% over year-ago net earnings of \$41.8 million. Diluted earnings per share (EPS) of 31 cents rose 10.7% over the 28 cents reported in the second quarter of 2007.

Adjusted EBITDA, a measure used to determine compliance with our debt covenants, was \$175.7 million for the second quarter of 2008, a 1.5% increase over year-ago Adjusted EBITDA of \$173.1 million that excludes the waste coal agglomeration (synfuel) business that ended with a December 31, 2007 tax code expiration. With that synfuel business included, Adjusted EBITDA was \$179.9 million in the second quarter of 2007.

Free Cash Flow, defined as cash from operating activities less capital expenditures and minority interest charges, was \$25.9 million in the second quarter of 2008, an improvement of \$41.3 million from the negative Free Cash Flow of \$15.4 million in the year-ago period. The increase primarily resulted from lower net working capital requirements, most notably for receivables; however, cash required for inventories was up over the year-ago period primarily because of higher raw material costs and additions to support business growth in emerging geographies. Lower pension funding requirements also contributed to the improvement. Net cash provided by operating activities is reconciled to Free Cash Flow as follows:

(dollars in millions)	Three Months ended June 30, 2008	Three Months ended June 30, 2007
Net cash provided by operating activities	\$ 63.1	\$ 12.8
Minority interests	(1.7)	(1.7)
Additions to property, plant, and equipment, net	(35.5)	(26.5)
Free cash flow	\$ 25.9	\$ (15.4)

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We repurchased an additional 639,000 shares at a cost of \$14.2 million during the second quarter of 2008. For the first six months of 2008, we have repurchased 1,389,000 shares at a cost of \$30.4 million, of which \$21.7 million was expended in cash and \$8.7 million was reported as a payable at June 30, 2008, for share repurchases executed in June 2008 and settling in July 2008.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)****Outlook**

We expect to deliver our previously communicated target for Adjusted EBITDA growth of about 8% over synfuel-adjusted 2007 results of \$707 million, assuming raw material and freight costs stabilize within the next few months. We expect our effective tax rate for the year to average out at about 27%-28%, with an effective tax rate expected to be about 30% on a going-forward basis. Free Cash Flow continues to be projected in the high \$200 million range.

Results of Operations Consolidated***Quarter Ended June 30, 2008 Compared to the Quarter Ended June 30, 2007***

Net sales for the three months ended June 30, 2008 were \$1,066.3 million, a 9.8% increase over the \$970.9 million reported for the quarter ended June 30, 2007. On an organic basis, which excludes the impacts of changes in foreign currency translation rates and acquisitions and divestitures, net sales were up 5.7%. On a geographic basis, North America, Latin America and Asia reported organic growth of 8.8%, 8.0% and 7.4%, respectively, while sales in the Europe, Africa, and Middle East (EAME) region were down 1.3% organically.

Gross profit, defined as the difference between net sales and cost of product sold, of \$471.4 million for the quarter ended June 30, 2008 increased by \$38.0 million, or 8.8%, over the \$433.4 million for the year-ago period. On an organic basis, gross profit increased by 3.9%. The improvement was mainly attributable to cost savings and higher sales volumes, partly offset by higher service costs and unfavorable changes in product mix. Higher product and freight costs were largely offset by price increases to our customers. Gross profit margin for the three months ended June 30, 2008 was 44.2% compared to 44.6% for the three months ended June 30, 2007.

Selling, administrative, and research expenses for the three months ended June 30, 2008 of \$332.2 million rose \$40.0 million, or 13.7%, from \$292.2 million for the year-ago period. On an organic basis, selling, administrative, and research expenses increased 6.8%. This was mostly attributable to higher salaries, travel and bad debts. Lower outside consulting for work process redesign initiatives and the rationalization of our legal entity structure partly offset these increases.

Amortization of intangible assets was \$15.9 million and \$15.4 million for the three months ended June 30, 2008 and 2007, respectively. Higher amortization resulting from the December 2007 acquisition of Nalco Mobotec was partly offset by lower amortization of customer relationships, which are amortized using an accelerated method.

Business optimization expenses, representing mostly employee severance and related costs associated with the continuing redesign and optimization of business and work processes, were \$1.4 million and \$2.3 million for the three months ended June 30, 2008 and June 30, 2007, respectively.

Other income (expense), net was a net expense of \$4.3 million and nil for the three months ended June 30, 2008 and 2007, respectively. An unfavorable change in foreign currency transaction gains and losses of \$3.1 million, resulting from the continued weakening of the U.S. dollar versus the euro and other currencies, accounted for most of the variation.

Net interest expense, defined as the combination of interest income and interest expense, of \$62.7 million for the three months ended June 30, 2008 decreased by \$3.6 million from the \$66.3 million reported for the three months ended

June 30, 2007. Translation rate changes due to the weaker U.S. dollar versus the euro increased interest expense by \$1.9 million, and accretion of our senior discount notes was \$0.8 million higher than a year ago. However, these increases were more than offset by the impact of lower interest rates on our variable rate debt and a slightly lower average debt level compared to the year-ago period.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

The income tax provision for the three months ended June 30, 2008 was favorably impacted by the recognition of benefits related to certain U.S. foreign tax credits, and unfavorably impacted by the proposed settlement of the U.S. federal tax audit of years 2003 and 2004, as well as the creation of valuation allowances related to the realization of a deductible temporary difference and net operating loss carryforwards in the U.K. These items are discussed in more detail in Note 9 to the condensed consolidated financial statements, included in Part I, Item 1. The income tax provision also varies from the U.S. federal statutory income tax rate of 35% primarily due to the reversal of prior year state valuation allowances, the incremental tax on dividends received from non-U.S. subsidiaries, foreign taxes provided at other than the 35% U.S. statutory rate, U.S. state income taxes, nondeductible expenses and other permanent differences.

The incremental tax on dividends received from non-U.S. subsidiaries, foreign taxes provided at other than the 35% U.S. statutory rate, U.S. state income taxes, nondeductible expenses, and other permanent differences contributed to the variation between the U.S. federal statutory income tax rate and our income tax provision for the three months ended June 30, 2007. In addition, the 2007 provision included the recognition of net benefits related to settling tax positions in The Netherlands.

Minority interest expense of \$1.7 million for the three months ended June 30, 2008 was comparable to the year-ago period. The impact of slightly higher earnings by our Malaysian subsidiary and our Katayama Nalco joint venture in Japan compared to the year-ago period was offset by the effect of lower earnings of our subsidiary in Saudi Arabia.

Six Months Ended June 30, 2008 Compared to the Six Months Ended June 30, 2007

Net sales for the six months ended June 30, 2008 were \$2,066.0 million, a 9.9% increase from the \$1,880.2 million reported for the six months ended June 30, 2007. On an organic basis, which excludes the impacts of changes in foreign currency translation rates and acquisitions and divestitures, net sales were up 5.6%. On a geographic basis, North America, Asia and Latin America reported organic growth of 9.9%, 7.5% and 6.2%, respectively. Sales in EAME declined 2.7% organically.

Gross profit, defined as the difference between net sales and cost of product sold, of \$906.7 million for the six months ended June 30, 2008 increased by \$68.4 million, or 8.2%, over the \$838.3 million for the six months ended June 30, 2007. On an organic basis, gross profit increased by 3.1%. Most of the improvement was attributable to higher sales volumes and cost savings, partly offset by higher service costs and unfavorable changes in product mix. Increases in product and freight costs exceeded price increases to our customers by \$11.7 million. Gross profit margin for the six months ended June 30, 2008 was 43.9% compared to 44.6% for the year-ago period.

Selling, administrative, and research expenses for the six months ended June 30, 2008 of \$641.0 million increased \$61.3 million, or 10.6%, from \$579.7 million for the six months ended June 30, 2007. On an organic basis, selling, administrative, and research expenses were up 4.0%. Higher salaries, travel and bad debts, partly offset by lower outside consulting for work process redesign initiatives and the rationalization of our legal entity structure, accounted for most of the increase.

Amortization of intangible assets was \$29.5 million and \$30.6 million for the six months ended June 30, 2008 and 2007, respectively. Lower amortization of customer relationships, which are amortized using an accelerated method, was partly offset by amortization of intangibles of Nalco Mobotec, which was acquired in December 2007.

Business optimization expenses, representing mostly employee severance and related costs associated with the continuing redesign and optimization of business and work processes, were \$2.4 million and \$2.3 million for the six

months ended June 30, 2008 and June 30, 2007, respectively.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Other income (expense), net was a net expense of \$7.3 million and \$0.3 million for the six months ended June 30, 2008 and 2007, respectively. The increase of \$7.0 million was mostly attributable to an unfavorable change in foreign currency transaction gains and losses of \$5.9 million.

Net interest expense, defined as the combination of interest income and interest expense, of \$127.5 million for the six months ended June 30, 2008 decreased by \$4.5 million from the \$132.0 million reported for the six months ended June 30, 2007. Translation rate changes due to the weaker U.S. dollar versus the euro increased interest expense by \$3.7 million, and accretion of our senior discount notes was \$1.6 million higher than a year ago. However, lower interest rates on our variable rate debt and a slightly lower average debt level compared to the first half of 2007 more than offset those increases.

The income tax provision for the six months ended June 30, 2008 was favorably impacted by the recognition of benefits related to certain U.S. foreign tax credits, and unfavorably impacted by the proposed settlement of the U.S. federal tax audit of years 2003 and 2004, as well as the creation of valuation allowances related to the realization of a deductible temporary difference and net operating loss carryforwards in the U.K. These items are discussed in more detail in Note 9 to the condensed consolidated financial statements, included in Part I, Item 1. The income tax provision also varies from the U.S. federal statutory income tax rate of 35% primarily due to the reversal of prior year state valuation allowances, the incremental tax on dividends received from non-U.S. subsidiaries, foreign taxes provided at other than the 35% U.S. statutory rate, U.S. state income taxes, nondeductible expenses and other permanent differences.

The incremental tax on dividends received from non-U.S. subsidiaries, foreign taxes provided at other than the 35% U.S. statutory rate, U.S. state income taxes, nondeductible expenses, and other permanent differences contributed to the variation between the U.S. federal statutory income tax rate and our income tax provision for the six months ended June 30, 2007. In addition, the 2007 provision included the recognition of net benefits related to settling tax positions in The Netherlands.

Minority interest expense was \$3.1 million and \$3.6 million for the six months ended June 30, 2008 and 2007, respectively. The impact of lower earnings by our Katayama Nalco joint venture and our subsidiary in Saudi Arabia accounted for most of the change.

Results of Operations Segment Reporting***Quarter Ended June 30, 2008 Compared to the Quarter Ended June 30, 2007***

Net sales by reportable segment for the three months ended June 30, 2008 and June 30, 2007 may be compared as follows:

(dollars in millions)	Three Months Ended		% Change	Attributable to Changes in the Following Factors		
	June 30, 2008	June 30, 2007		Currency Translation	Acquisitions/Divestitures	Organic
Industrial & Institutional Services	\$ 474.8	\$ 432.5	9.8%	6.6%	(3.0)%	6.2%
Energy Services	363.0	316.9	14.5%	3.6%		10.9%
Paper Services	203.0	194.8	4.2%	5.9%		(1.7)%

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Other	25.5	26.7	(4.3)%	5.9%		(10.2)%
Net sales	\$ 1,066.3	\$ 970.9	9.8%	5.4%	(1.3)%	5.7%

The Industrial and Institutional Services division reported sales of \$474.8 million for the quarter ended June 30, 2008, a 9.8% increase over the \$432.5 million for the year-ago-period. Sales rose 6.2% organically, as double-digit growth was posted in Asia and the Emerging Markets of EAME, while North America and Latin America reported organic improvements of 4.3% and 5.8%, respectively.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Overall, EAME posted an organic increase of 5.8%, as flat growth in our Western European water business tempered the double-digit gains in the Emerging Markets. The 3.0% decrease in sales from acquisitions/divestitures was attributable to our waste coal agglomeration (synfuel) business, which ceased with the expiration of customer tax incentives at the end of 2007, partly offset by sales of Nalco Mobotec, which was acquired in December 2007.

The Energy Services division reported sales of \$363.0 million for the three months ended June 30, 2008, a 14.5% gain over the \$316.9 million for the quarter ended June 30, 2007. Organically, sales rose 10.9%, as double-digit gains were posted by our Oilfield and Adomite businesses, and a more modest improvement was reported by our Downstream business. Organic growth was strongest in North America on continued strong domestic demand and export sales to West Africa operations.

The Paper Services division reported sales of \$203.0 million for the three months ended June 30, 2008, a 4.2% increase over the \$194.8 million reported for the second quarter of 2007. Sales were down 1.7% organically, reflecting declining paper production in North America and Western Europe.

The 10.2% organic decrease in sales in our Other segment was mostly attributable to quarter-over-quarter variations in revenue recognition adjustments. We have historically applied our corporate revenue recognition adjustments to our Other segment. These adjustments are primarily made for shipments reflected in Division results, but which were shipped late enough in the quarter that they would not have been received by customers and properly recognized as revenue in the period.

Direct contribution by reportable segment for the three months ended June 30, 2008 and June 30, 2007 may be compared as follows:

(dollars in millions)	Three Months Ended		% Change	Attributable to Changes in the Following Factors		
	June 30, 2008	June 30, 2007		Currency Translation	Acquisitions/ Divestitures	Organic
Industrial & Institutional Services	\$ 96.1	\$ 93.6	2.8%	7.0%	(7.4)%	3.2%
Energy Services	72.4	74.5	(2.8)%	3.5%	0.1%	(6.4)%
Paper Services	24.3	31.9	(24.0)%	4.4%		(28.4)%
Other	(24.6)	(27.2)	9.8%	(3.5)%		13.3%

Direct contribution of the Industrial and Institutional Services division was \$96.1 million for the three months ended June 30, 2008, an increase of 2.8% over the \$93.6 million reported for the three months ended June 30, 2007.

Organically, higher gross profit accounted for the 3.2% increase in direct contribution, as operating expenses were up only 0.5%. The 7.4% decrease in direct contribution from acquisitions/divestitures was mostly attributable to the expiration of our synfuel business at the end of 2007.

The Energy Services division reported direct contribution of \$72.4 million for the three months ended June 30, 2008, a 2.8% decrease from the \$74.5 million reported for the year-ago period. On an organic basis, direct contribution was down 6.4%, primarily as a result of investments in sales and marketing staff that ran ahead of revenue growth, but which are expected to support future growth.

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The Paper Services division reported direct contribution of \$24.3 million for the three months ended June 30, 2008, a 24.0% decrease from the direct contribution of \$31.9 million reported for the second quarter of 2007. Organically, direct contribution was down 28.4%, due to lower sales volumes, higher product costs, and a 4.6% organic increase in operating expenses, nearly half of which was attributable to bad debts.

The direct contribution loss of \$24.6 million reported in Other for the three months ended June 30, 2008 represented a \$2.6 million decrease from the \$27.2 million direct contribution loss reported in the second quarter 2007, which was mostly attributable to a favorable change in manufacturing variances.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)*****Six Months Ended June 30, 2008 Compared to the Six Months Ended June 30, 2007***

Net sales by reportable segment for the six months ended June 30, 2008 and June 30, 2007 may be compared as follows:

(dollars in millions)	Six Months Ended		% Change	Attributable to Changes in the Following Factors		
	June 30, 2008	June 30, 2007		Currency Translation	Acquisitions/ Divestitures	Organic
Industrial & Institutional Services	\$ 902.9	\$ 836.9	7.9%	6.6%	(3.0)%	4.3%
Energy Services	709.7	611.3	16.1%	3.9%		12.2%
Paper Services	404.0	381.5	5.9%	6.1%		(0.2)%
Other	49.4	50.5	(2.2)%	6.8%		(9.0)%
Net sales	\$ 2,066.0	\$ 1,880.2	9.9%	5.6%	(1.3)%	5.6%

The Industrial and Institutional Services division reported sales of \$902.9 million for the six months ended June 30, 2008, a 7.9% increase over the \$836.9 million for the six months ended June 30, 2007. Organically, sales grew 4.3%, with near double-digit growth in Asia and more modest gains in North America, Latin America and EAME. The growth in EAME was nearly entirely attributable to the Emerging Markets. The 3.0% decrease in sales from acquisitions/divestitures was attributable to our now-ended waste coal agglomeration (synfuel) business, partly offset by sales of Nalco Mobotec, which was acquired in December 2007.

The Energy Services division reported sales of \$709.7 million for the six months ended June 30, 2008, a 16.1% gain over the \$611.3 million for the year-ago period. Organically, sales rose 12.2%, with double-digit gains reported by our Oilfield and Adomite businesses, and solid growth posted by our Downstream business.

The Paper Services division reported sales of \$404.0 million for the six months ended June 30, 2008, a 5.9% increase over the \$381.5 million reported for the first half of 2007. Sales were flat on an organic basis, as slight declines in EAME and Asia were nearly offset by modest improvements in North America and Latin America.

The 9.0% organic decrease in sales in our Other segment was mostly attributable to variations in revenue recognition adjustments and the Integrated Channels Group in North America.

Direct contribution by reportable segment for the six months ended June 30, 2008 and June 30, 2007 may be compared as follows:

(dollars in millions)	Six Months Ended		% Change	Attributable to Changes in the Following Factors		
	June 30, 2008	June 30, 2007		Currency Translation	Acquisitions/ Divestitures	Organic

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Industrial & Institutional Services	\$ 177.1	\$ 178.7	(0.9)%	6.9%	(7.1)%	(0.7)%
Energy Services	147.8	136.5	8.3%	4.1%		4.2%
Paper Services	52.6	58.2	(9.7)%	5.9%		(15.6)%
Other	(53.8)	(49.7)	(8.2)%	(3.7)%		(4.5)%

Direct contribution of the Industrial and Institutional Services division was \$177.1 million for the six months ended June 30, 2008, a decrease of 0.9% from the \$178.7 million reported for the six months ended June 30, 2007.

Organically, direct contribution declined 0.7%, as a result of slightly lower gross profit and a 0.3% increase in operating expenses. The 7.1% decrease in direct contribution from acquisitions/divestitures was mostly attributable to the expiration of our synfuel business at the end of 2007.

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

The Energy Services division reported direct contribution of \$147.8 million for the six months ended June 30, 2008, an 8.3% improvement over the \$136.5 million reported for the first half of 2007. On an organic basis, direct contribution rose 4.2% on the strength of higher sales volumes. Operating expenses were up 13.0% organically, with the largest increases in salaries, employee benefits, travel, outside services and commission expenses to support the current and expected growth in business.

The Paper Services division reported direct contribution of \$52.6 million for the six months ended June 30, 2008, a 9.7% decrease from the direct contribution of \$58.2 million reported for the year-ago period. Direct contribution declined 15.6% on an organic basis, which was attributable to lower sales volumes, higher product costs, and a 3.6% organic increase in operating expenses.

The direct contribution loss of \$53.8 million reported in Other for the six months ended June 30, 2008 represented an 8.2% increase over the \$49.7 million direct contribution loss reported in the first half of 2007, which was mainly attributable to variations in revenue recognition adjustments.

Liquidity and Capital Resources

Operating activities. Historically, our main source of liquidity has been our cash flow generated by operating activities. For the six months ended June 30, 2008, cash provided by operating activities was \$133.7 million, an increase of \$63.0 million over the same period last year. Slightly more than half of the improvement was attributable to a reduction in cash used for working capital, with the remainder mainly due to lower pension funding requirements.

Investing activities. Cash used for investing activities was \$75.9 million for the six months ended June 30, 2008, which was mostly the result of net property additions of \$61.9 million and business acquisitions of \$9.1 million.

Cash used for investing activities was \$48.6 million for the six months ended June 30, 2007. This was mostly the result of net property additions of \$47.6 million.

Financing activities. A net decrease in borrowings of \$58.8 million, purchases of treasury stock of \$21.7 million, and cash dividends of \$9.9 million accounted for most of the \$94.3 million of net cash used for financing activities for the six months ended June 30, 2008.

Net cash provided by financing activities totaled \$7.4 million during the six months ended June 30, 2007, which was mostly attributable to a \$48.8 million increase in borrowings against our receivables facility, partly offset by \$35.8 million of term loan repayments and the payment of \$5.0 million of common stock dividends.

Our liquidity requirements are significant, primarily due to debt service requirements as well as research and development and capital investment. As of June 30, 2008, we had \$240.0 million of borrowing capacity available under a revolving credit facility (excluding \$21.5 million of outstanding standby letters of credit), subject to certain conditions. We believe that our financial position and financing structure will provide flexibility in worldwide financing activities and permit us to respond to changing conditions in credit markets.

Senior credit facilities. Our revolving credit facility is part of our senior credit facilities that were entered into on November 4, 2003. Our senior credit facilities initially included a \$300 million term loan A facility (including an 88.0 million tranche) maturing on November 4, 2009 and a \$1,300 million term loan B facility maturing on November 4, 2010. Borrowings under the senior credit facilities bear interest at a floating base rate plus an applicable margin. The applicable margin for borrowings under the revolving credit facility and the term loan A facility range

from 1.00% to 1.50% with respect to base rate borrowings and 2.00% to 2.50% with respect to LIBOR or Eurocurrency borrowings depending on our leverage ratio as defined by the facilities. The applicable margin for borrowings under the term loan B facility is 0.75% with respect to base rate borrowings and 1.75% with respect to

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

LIBOR or Eurocurrency borrowings. The applicable margin for borrowings under the term loan B facility is not subject to adjustment.

In addition to paying interest on outstanding principal under the senior credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments at a rate equal to 0.50%. We also pay customary letter of credit fees.

The term loan A facility was scheduled to amortize each year in quarterly amounts at a rate of 5% per annum in year one, 10% per annum in year two, 15% per annum in year three, 20% per annum in year four and 25% per annum in each of years five and six.

The term loan B facility was scheduled to amortize each year in an amount equal to 1% per annum in equal quarterly installments for the first six years and nine months, with the remaining amount payable on November 4, 2010.

At June 30, 2008, the outstanding balance of the term loan A and term loan B facilities was \$39.5 million and \$887.0 million, respectively.

Principal amounts outstanding under the revolving credit facility will be due and payable in full at maturity on November 4, 2009. At June 30, 2008, we had \$10.0 million of borrowings outstanding under the revolving credit facility.

The senior credit facilities contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability and our subsidiaries' ability, including Nalco Company, to sell assets, incur additional indebtedness or issue preferred stock, repay other indebtedness, pay dividends and distributions or repurchase certain capital stock, create liens on assets, make investments, loans or advances, make certain acquisitions, engage in mergers or consolidations, enter into sale and leaseback transactions, engage in certain transactions with affiliates, amend certain material agreements governing our indebtedness, change the business conducted by us and our subsidiaries (including Nalco Company) and enter into hedging agreements. In addition, the senior credit facilities require Nalco Company to maintain the following financial covenants: a maximum total leverage ratio, a minimum interest coverage ratio and a maximum capital expenditures limitation. We were in compliance with all covenants at June 30, 2008.

Senior discount notes, senior notes and senior subordinated notes. In November 2003, Nalco Company issued \$665 million aggregate principal amount of 7³/₄% U.S. dollar-denominated senior notes due 2011, 200 million aggregate principal amount of 7³/₄% euro-denominated senior notes due 2011, \$465 million aggregate principal amount of 8⁷/₈% U.S. dollar-denominated senior subordinated notes due 2013 and 200 million aggregate principal amount of 9% euro-denominated senior subordinated notes due 2013.

On January 21, 2004, our subsidiaries, Nalco Finance Holdings LLC and Nalco Finance Holdings Inc., issued \$694.0 million aggregate principal amount at maturity of 9.0% senior discount notes due 2014. Prior to February 1, 2009, interest will accrue on the notes in the form of an increase in the accreted value of such notes. The accreted value of each note will increase from the date of issuance until February 1, 2009 at a rate of 9.0% per annum, reflecting the accrual of non-cash interest, such that the accreted value will equal the principal amount at maturity on February 1, 2009. Cash interest payments on the notes will be due and payable beginning in 2009. Our primary source of liquidity for such payments will be cash flow generated from the operations of subsidiaries, including Nalco Holdings LLC and Nalco Company. However, the terms of Nalco Company's senior credit agreement limit the amount of dividends and other transfers by Nalco Holdings LLC and our other subsidiaries to the issuers of the senior discount

notes. In addition, the terms of certain of the indentures governing the existing senior notes and senior subordinated notes of Nalco Company significantly restrict Nalco Company and our other subsidiaries from paying dividends, making distributions and otherwise transferring assets to the issuers. The ability of Nalco Company to make such payments is governed by

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

a formula based on its consolidated net income. In addition, as a condition to making such payments to the issuers based on such formula, Nalco Holdings LLC must have an Adjusted EBITDA to interest expense ratio of at least 2.0 to 1 after giving effect to any such payments. Notwithstanding such restrictions, such indentures permit an aggregate of \$50.0 million of such payments to be made whether or not there is availability under the formula or the conditions to its use are met.

In December 2004, Nalco Finance Holdings LLC and Nalco Finance Holdings Inc. redeemed a portion of the senior discount notes with an accreted value of \$162.3 million using proceeds from the initial public offering of common stock of Nalco Holding Company. The issuers paid a \$14.6 million premium to redeem the notes. After the partial redemption, the aggregate principal amount at maturity of the notes declined to \$460.8 million from \$694.0 million.

The indentures governing the senior discount notes, the senior notes and senior subordinated notes limit our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness;
- pay dividends on or make other distributions or repurchase certain capital stock;
- make certain investments;
- enter into certain types of transactions with affiliates;
- limit dividends or other payments by our restricted subsidiaries;
- use assets as security in other transactions; and
- sell certain assets or merge with or into other companies.

Subject to certain exceptions, the indentures governing the senior discount notes, the senior notes and senior subordinated notes permit our restricted subsidiaries and us to incur additional indebtedness, including secured indebtedness.

Covenant compliance. The breach of covenants in our senior credit agreement that are tied to ratios based on Adjusted EBITDA could result in a default under that agreement and the lenders could elect to declare all amounts borrowed due and payable. Any such acceleration would also result in a default under our indentures. Additionally, under our debt agreements, our ability to engage in activities such as incurring additional indebtedness, making investments and paying dividends is also tied to ratios based on Adjusted EBITDA.

Adjusted EBITDA is used to determine our compliance with many of the covenants contained in the indentures governing the notes and in our senior credit agreement.

Adjusted EBITDA is defined as EBITDA further adjusted to exclude unusual items and other adjustments permitted in calculating covenant compliance under the indentures and our senior credit facility. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors to demonstrate compliance with our financing covenants.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

Adjusted EBITDA is calculated as follows:

(dollars in millions)	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Net earnings	\$ 44.2	\$ 41.8	\$ 73.4	\$ 61.4
Interest, net	62.7	66.3	127.5	132.0
Income tax provision	9.0	13.7	22.5	28.4
Depreciation	35.4	32.2	69.9	64.0
Amortization	15.9	15.4	29.5	30.6
EBITDA	\$ 167.2	\$ 169.4	\$ 322.8	\$ 316.4
Non-cash charges (1)	5.7	4.0	14.9	13.5
Business optimization expenses (2)	1.4	2.3	2.4	2.3
Unusual items (3)	3.3	5.7	5.6	9.3
Other adjustments (4)	(1.9)	(1.5)	(4.4)	(3.6)
Adjusted EBITDA	\$ 175.7	\$ 179.9	\$ 341.3	\$ 337.9

(1) Non-cash charges are further detailed on the following table:

(dollars in millions)	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Profit sharing and 401(k) expense funded by Suez	\$ 6.7	\$ 6.5	\$ 14.9	\$ 13.2
Other	(1.0)	(2.5)		0.3
Non-cash charges	\$ 5.7	\$ 4.0	\$ 14.9	\$ 13.5

Profit Sharing and 401(k) Expense Funded by Suez

In conjunction with the Acquisition, defined as the November 2003 acquisition of Ondeo Nalco Group, comprised of Nalco Company and Nalco International SAS Subsidiaries, by our subsidiary, Nalco Holdings LLC, from Suez S.A. (Suez), we entered into an agreement with Suez whereby Suez will reimburse us for certain profit-sharing and 401(k) matching contributions made by us to the Profit-Sharing Trust.

Other

Other non-cash charges include the non-cash impact on earnings of our equity investments and minority interests. Non-cash charges also includes the non-cash portion of rent expense under the sublease that we entered into with Suez in conjunction with the Acquisition.

- (2) Business optimization expenses include costs associated with the redesign and optimization of work processes. See Note 7 to Item 1 for more information.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)**

(3) Unusual items are further detailed on the following table:

(dollars in millions)	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Loss (gain) on sales, net of expenses	\$ 0.1	\$ 1.1	\$ 0.9	\$ 1.3
Other unusual items	3.2	4.6	4.7	8.0
Unusual items	\$ 3.3	\$ 5.7	\$ 5.6	\$ 9.3

(4) We are required to make adjustments to EBITDA for franchise taxes and 401(k) matching contributions.

Our covenant levels and ratios for the four quarters ended June 30, 2008 are as follows:

	June 30, 2008 Required	Actual
Senior credit facility (1)		
Minimum Adjusted EBITDA to cash interest ratio	1.85x	3.45x
Maximum net debt to Adjusted EBITDA ratio	5.25x	3.83x
Indentures (2)		
Minimum Adjusted EBITDA to fixed charge ratio required to incur additional debt pursuant to ratio provisions	2.00x	2.95x

(1) During 2008, our senior credit facility requires us to maintain an Adjusted EBITDA to cash interest ratio at a minimum of 1.85x and a net debt to Adjusted EBITDA ratio at a maximum of 5.25x, in each case for the most recent four quarter period. Failure to satisfy these ratio requirements would constitute a default under the senior credit agreement. If our lenders failed to waive any such default, our repayment obligations under the senior credit agreement could be accelerated, which would also constitute a default under our indentures.

(2) Our ability to incur additional debt and make certain restricted payments under our indentures, subject to specified exceptions, is tied to an Adjusted EBITDA to fixed charge ratio of at least 2.0 to 1, except that we may incur certain debt and make certain restricted payments and certain permitted investments without regard to the ratio, such as up to an aggregate principal amount of \$1,950 million (including \$926.5 million that was outstanding under our term loan facilities as of June 30, 2008) and investments in similar business and other investments equal to 6% of Nalco Holding Company consolidated assets.

Local lines of credit. Certain of our non-U.S. subsidiaries have lines of credit to support local requirements. As of June 30, 2008, the aggregate outstanding balance under these local lines of credit was approximately \$57.0 million.

Certain of these lines of credit are equally and ratably secured with obligations under our senior credit facilities.

Receivables facility. Nalco Company entered into a three-year receivables facility on June 22, 2007 that provides up to \$160 million in funding from a commercial paper conduit sponsored by Bank of America, N.A., one of the lenders under Nalco Company's senior credit facilities, based on availability of eligible receivables and satisfaction of other customary conditions.

Availability of funding under the receivables facility in a given month depends primarily upon the outstanding trade accounts receivable balance at the end of the previous month. Aggregate availability is determined by using a formula that reduces the gross receivables balance by factors that take into account historical default and dilution rates, excessive concentrations and average days outstanding and

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

the costs of the facility. As of June 30, 2008, we had \$137.0 million of outstanding borrowings under this facility, based on the amount of receivables eligible for financing as of May 31, 2008.

This facility is treated as a general financing agreement resulting in the borrowings and related receivables being shown as liabilities and assets, respectively, on our consolidated balance sheet and the costs associated with the receivables facility being recorded as interest expense.

Recent Accounting Pronouncements

See Note 3 to the condensed consolidated financial statements, included in Part I, Item 1, for information on recent accounting pronouncements.

Safe Harbor Statement Under Private Securities Litigation Reform Act of 1995

This Quarterly Report for the fiscal quarter ended June 30, 2008 (the "Quarterly Report") includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, business trends and other information that is not historical information. When used in this Quarterly Report, the words estimates, expects, anticipates, projects, plans, intends, believes, forecasts, conditional verbs, such as will, should, could or may, and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management's examination of historical operating trends and data are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs and projections will be achieved.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Additionally, important factors could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report. As stated elsewhere in this Quarterly Report, such risks, uncertainties and other important factors include, among others:

our substantial leverage;

limitations on flexibility in operating our business contained in our debt agreements;

increases in interest rates as a result of our variable rate indebtedness;

pricing pressure from our customers;

our ability to respond to the changing needs of a particular industry and develop new offerings;

technological change and innovation;

risks associated with our non-U.S. operations;

fluctuations in currency exchange rates;

high competition in the markets in which we operate;

adverse changes to environmental, health and safety regulations;

operating hazards in our production facilities;

inability to achieve expected cost savings;

difficulties in securing the raw materials we use;

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

significant increases in the costs of raw materials we use and our ability to pass any future raw material price increases through to our customers;

our significant pension benefit obligations and the current underfunding of our pension plans;

our ability to realize the full value of our intangible assets;

our ability to attract and retain skilled employees, particularly research scientists, technical sales professionals and engineers; and

our ability to protect our intellectual property rights.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements. For further information regarding risk factors, please refer to Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2007.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report. We undertake no obligation to update or revise forward-looking statements which may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

Use of Non-GAAP Financial Measures

Direct contribution, EBITDA, Adjusted EBITDA and Free Cash Flow are measures used by management to measure operating performance. Adjusted EBITDA is also used to determine our compliance with financial covenants and our ability to engage in certain activities such as incurring additional debt and making certain payments.

Direct contribution is defined as net sales, less cost of product sold, selling and service expenses, marketing expenses, research expenses and capital charges (an internal non-GAAP charge based on trade accounts receivable, inventories and equipment specifically identifiable to each of our operating segments). EBITDA is defined as net earnings plus interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA further adjusted for certain cash and non-cash charges, as permitted under our senior discount note, senior note and senior subordinated note indentures and our senior credit facility. Free Cash Flow is defined as net cash provided by operating activities, less capital expenditures and minority interest charges.

Direct contribution provides investors with the measurement used by our management to evaluate the performance of our segments. We believe EBITDA is useful to the investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We consider the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA appropriate to provide additional information to investors to demonstrate compliance with our financing covenants. We believe Free Cash Flow provides investors with a measure of our ability to generate cash for the optimization of our capital structure.

Direct contribution, EBITDA, Adjusted EBITDA and Free Cash Flow are not recognized terms under U.S. GAAP and do not purport to be alternatives to net earnings as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. Direct contribution is reconciled to consolidated earnings before income taxes and minority interests in Note 11 of our consolidated financial statements included in Part I, Item 1 of this

Quarterly Report. The most direct comparable GAAP financial measures of each non-GAAP financial measure, as well as the reconciliation between each non-GAAP financial measure and the GAAP financial measure, are presented in the discussions of the non-GAAP financial measures above. Because not all companies use identical calculations, our measures may not be comparable to other similarly titled measures of other companies.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our exposures to market risk since December 31, 2007.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period, have concluded that our disclosure controls and procedures were effective as of June 30, 2008.

(b) Changes in internal controls over financial reporting.

There were no changes in our internal controls over financial reporting that occurred during the second quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

On November 27, 2006, the U.K. Health and Safety Executive (HSE) issued a criminal summons charging our U.K. subsidiary with a violation of the Health and Safety at Work Act. The summons was re-issued in the Crown Court of Worcester on July 23, 2007. The charge relates to a Legionella outbreak that is claimed to have originated at cooling towers owned by one of the subsidiary's customers. The Legionella outbreak is believed to have resulted in two fatalities and multiple injuries. The customer, H. P. Bulmer Limited, is also charged. Our subsidiary submitted a guilty plea to a portion of the charge, exposing non-employees to a health risk, on September 3, 2007. Similarly, our subsidiary's customer submitted a guilty plea. On July 1, 2008, the Crown Court issued a penalty of £300,000 (\$0.6 million) and court costs of £50,000 (\$0.1 million) against our subsidiary relating to this violation. An identical penalty was issued against the subsidiary's customer.

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

The table below sets forth information regarding repurchases of our common stock during the three months ended June 30, 2008:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)(2)
April 1, 2008 - April 30, 2008		\$		\$ 175,770,562
May 1, 2008 - May 31, 2008		\$		\$ 175,770,562
June 1, 2008 - June 30, 2008	639,000	\$ 22.20	639,000	\$ 161,585,078
Total	639,000	\$ 22.20	639,000	\$ 161,585,078

(1) On July 31, 2007, our Board of Directors authorized a \$300 million share repurchase program, and gave our management discretion in determining the conditions under which shares may be purchased from time to time. We intend to repurchase all shares under this authorization in open market transactions. There is no set timetable for share repurchases, and the program has no stated expiration date.

(2)

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For the quarter ended June 30, 2008, we expended \$14.1 million in cash for the repurchase of shares. An additional \$8.7 million was reported as a payable on the balance sheet at June 30, 2008 for share repurchases executed in June 2008 and settling in July 2008.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders was held on May 2, 2008. At the meeting, Messrs. Douglas A. Pertz and Daniel S. Sanders were each elected by the shareholders to a term to expire in 2011.

Nominee	For	Withheld
Douglas A. Pertz	103,531,314	14,301,733
Daniel S. Sanders	103,627,760	14,205,287

Messrs. Chase, Fyrwald and Marchese each have terms of office as directors that continued after the 2008 Annual Meeting.

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Item 4. Submission of Matters to a Vote of Security Holders (continued)

The shareholders also ratified the appointment of Ernst & Young LLP as the Independent Registered Public Accounting Firm for 2008:

For	Against	Abstain
117,712,250	117,329	3,468

Item 6. Exhibits

(a) The following are included herein:

Exhibit 10.1	Asset Purchase Agreement by and between Chemetall Corp. and Nalco Company, dated as of July 24, 2008
Exhibit 31.1	Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

The registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NALCO HOLDING COMPANY

/s/ BRADLEY J. BELL
Name: Bradley J. Bell

Title: Executive Vice President and
Chief Financial Officer

Dated: July 31, 2008

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