

ECOLAB INC.  
Form 10-Q  
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from                      to

Commission File No. 1-9328

ECOLAB INC.

Edgar Filing: ECOLAB INC. - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware	41-0231510
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Ecolab Place, St. Paul, Minnesota 55102

(Address of principal executive offices)(Zip Code)

1-800-232-6522

(Registrant's telephone number, including area code)

(Not applicable)

(Former name, former address and former fiscal year,  
if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Edgar Filing: ECOLAB INC. - Form 10-Q

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2017.

289,381,301 shares of common stock, par value \$1.00 per share.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(millions, except per share amounts)	Second Quarter Ended		Six Months Ended	
	June 30 2017	2016	June 30 2017	2016
Net sales	\$ 3,462.7	\$ 3,317.2	\$ 6,624.3	\$ 6,414.6
Operating expenses				
Cost of sales (including special charges (a))	1,871.6	1,785.2	3,563.1	3,416.6
Selling, general and administrative expenses	1,115.3	1,093.3	2,205.9	2,181.5
Special (gains) and charges	36.8	26.2	43.0	32.5
Operating income	439.0	412.5	812.3	784.0
Interest expense, net	59.6	65.3	122.1	131.4
Income before income taxes	379.4	347.2	690.2	652.6
Provision for income taxes	81.3	83.6	135.3	157.0
Net income including noncontrolling interest	298.1	263.6	554.9	495.6
Net income attributable to noncontrolling interest	1.5	5.2	4.8	6.4
Net income attributable to Ecolab	\$ 296.6	\$ 258.4	\$ 550.1	\$ 489.2
Earnings attributable to Ecolab per common share				
Basic	\$ 1.02	\$ 0.88	\$ 1.90	\$ 1.67
Diluted	\$ 1.01	\$ 0.87	\$ 1.87	\$ 1.64
Dividends declared per common share	\$ 0.370	\$ 0.350	\$ 0.740	\$ 0.700
Weighted-average common shares outstanding				
Basic	289.8	292.4	290.2	293.4
Diluted	294.1	296.5	294.6	297.5

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

(a) Cost of sales includes special charges of \$24.4 and \$61.9 in the second quarter of 2017 and 2016, respectively, and \$25.9 and \$61.9 in the first six months of 2017 and 2016, respectively.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(millions)	Second Quarter Ended		Six Months Ended	
	June 30 2017	2016	June 30 2017	2016
Net income including noncontrolling interest	\$ 298.1	\$ 263.6	\$ 554.9	\$ 495.6
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments				
Foreign currency translation	44.0	77.8	125.2	(18.5)
Loss on net investment hedges	(55.6)	(12.9)	(52.8)	(27.9)
	(11.6)	64.9	72.4	(46.4)
Derivatives and hedging instruments	0.9	(20.2)	(8.3)	(30.7)
Pension and postretirement benefits				
Amortization of net actuarial loss and prior service costs				
included in				
net periodic pension and postretirement costs	3.6	5.5	6.9	11.1
	3.6	5.5	6.9	11.1
Subtotal	(7.1)	50.2	71.0	(66.0)
Total comprehensive income, including noncontrolling interest	291.0	313.8	625.9	429.6
Comprehensive income attributable to noncontrolling interest	2.3	5.2	6.8	9.8
Comprehensive income attributable to Ecolab	\$ 288.7	\$ 308.6	\$ 619.1	\$ 419.8

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

## CONSOLIDATED BALANCE SHEET

(unaudited)

(millions, except shares and per share amounts)	June 30 2017	December 31 2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 260.7	\$ 327.4
Accounts receivable, net	2,446.8	2,341.2
Inventories	1,469.8	1,319.4
Other current assets	354.8	291.4
Total current assets	4,532.1	4,279.4
Property, plant and equipment, net	3,497.4	3,365.0
Goodwill	7,003.8	6,383.0
Other intangible assets, net	4,061.6	3,817.8
Other assets	428.5	485.0
Total assets	\$ 19,523.4	\$ 18,330.2
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
Short-term debt	\$ 1,770.6	\$ 541.3
Accounts payable	1,123.6	983.2
Compensation and benefits	445.4	516.3
Income taxes	53.0	87.4
Other current liabilities	925.8	891.2
Total current liabilities	4,318.4	3,019.4
Long-term debt	5,909.3	6,145.7
Postretirement health care and pension benefits	1,040.1	1,019.2
Deferred income taxes	1,028.7	970.2
Other liabilities	238.2	204.8
Total liabilities	12,534.7	11,359.3
Equity (a)		
Common stock	354.1	352.6
Additional paid-in capital	5,375.5	5,270.8
Retained earnings	7,312.6	6,975.0
Accumulated other comprehensive loss	(1,643.9)	(1,712.9)
Treasury stock	(4,478.6)	(3,984.4)
Total Ecolab shareholders' equity	6,919.7	6,901.1
Noncontrolling interest	69.0	69.8
Total equity	6,988.7	6,970.9
Total liabilities and equity	\$ 19,523.4	\$ 18,330.2

(a) Common stock, 800.0 million shares authorized, \$1.00 par value per share, 289.4 million shares outstanding at June 30, 2017 and 291.8 million shares outstanding at December 31, 2016. Shares outstanding are net of treasury stock.

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

4

---



## CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(millions)	Six Months Ended	
	June 30 2017	2016
<b>OPERATING ACTIVITIES</b>		
Net income including noncontrolling interest	\$ 554.9	\$ 495.6
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	286.3	276.0
Amortization	150.9	145.3
Deferred income taxes	(14.1)	(28.8)
Share-based compensation expense	57.5	53.6
Excess tax benefits from share-based payment arrangements	-	(19.6)
Pension and postretirement plan contributions	(37.0)	(192.0)
Pension and postretirement plan expense	17.3	28.6
Restructuring charges, net of cash paid	20.3	(27.1)
Asset charges and write-downs	-	50.9
Other, net	12.6	12.7
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	16.0	62.5
Inventories	(95.8)	40.6
Other assets	(9.6)	19.7
Accounts payable	84.0	(79.2)
Other liabilities	(183.6)	36.0
Cash provided by operating activities	859.7	874.8
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(340.2)	(303.7)
Capitalized software expenditures	(38.0)	(22.2)
Property and other assets sold	2.5	11.4
Acquisitions and investments in affiliates, net of cash acquired	(826.5)	(9.4)
Deposit into acquisition related escrow	(1.7)	-
Restricted cash activity	53.8	-
Cash used for investing activities	(1,150.1)	(323.9)
<b>FINANCING ACTIVITIES</b>		
Net issuances (repayments) of commercial paper and notes payable	909.8	(342.4)
Long-term debt borrowings	-	793.8
Long-term debt repayments	(5.3)	(130.0)
Reacquired shares	(501.1)	(637.9)
Dividends paid	(222.9)	(217.6)
Exercise of employee stock options	54.6	40.7
Excess tax benefits from share-based payment arrangements	-	19.6
Acquisition related liabilities and contingent consideration	(8.2)	(3.4)
Other, net	(0.9)	-

Edgar Filing: ECOLAB INC. - Form 10-Q

Cash provided by (used for) financing activities	226.0	(477.2)
Effect of exchange rate changes on cash and cash equivalents	(2.3)	0.9
Increase (decrease) in cash and cash equivalents	(66.7)	74.6
Cash and cash equivalents, beginning of period	327.4	92.8
Cash and cash equivalents, end of period	\$ 260.7	\$ 167.4

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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information for the second quarter and six months ended June 30, 2017 and 2016 reflect, in the opinion of company management, all adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income (loss) and cash flows of Ecolab Inc. ("Ecolab" or "the Company") for the interim periods presented. Any adjustments consist of normal recurring items.

The financial results for any interim period are not necessarily indicative of results for the full year. The consolidated balance sheet data as of December 31, 2016 was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto incorporated in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

During the first quarter of 2017, the Company adopted the accounting guidance issued in March 2016 that amends certain aspects of share-based compensation for employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classifications on the Consolidated Statement of Cash Flows. Under the new guidance, all excess tax benefits or deficiencies are to be recognized prospectively as discrete income tax items on the Consolidated Statement of Income, while previous guidance required realized excess tax benefits or deficiencies to be recognized in additional paid-in capital. The Company recorded \$10.8 million and \$26.8 million of excess tax benefits during the second quarter and first six months of 2017, respectively. The extent of excess tax benefits is subject to variation in stock price and stock option exercises. Adoption of the accounting standard also eliminated the requirement that excess tax benefits be realized before they can be recognized, and as a result, the Company recorded a \$1.9 million cumulative-effect adjustment for previously unrecognized excess tax benefits.

The Company's adoption also resulted in associated excess tax benefits being classified as an operating activity in the statement of cash flows prospectively beginning January 1, 2017 with no changes to the prior year. Based on the adoption methodology applied, employee taxes paid remain classified as a financing activity on the statement of cash flows, and the statement of cash flows classification of prior periods has not changed. With regards to forfeitures, the new guidance allows companies either to continue to estimate the number of awards that will be forfeited or to account for forfeitures as they occur. The Company has elected to continue to estimate the number of awards that will be forfeited based on an estimate of the number of outstanding awards expected to vest.

With respect to the unaudited financial information of the Company for the second quarter and six months ended June 30, 2017 and 2016 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. Their separate report dated August 3, 2017 appearing herein states that they did not audit and they do not express an opinion on that unaudited

financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (the "Act"), for their report on the unaudited financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

## 2. SPECIAL (GAINS) AND CHARGES

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

(millions)	Second Quarter		Six Months Ended	
	Ended June 30 2017	2016	June 30 2017	2016
Cost of sales				
Restructuring activities	2.2	0.9	2.2	0.9
Acquisition and integration costs	11.1	-	12.6	-
Energy related charges	-	51.0	-	51.0
Other	11.1	10.0	11.1	10.0
Subtotal	24.4	61.9	25.9	61.9
Special (gains) and charges				
Restructuring activities	30.8	(2.1)	30.5	0.9
Acquisition and integration costs	4.6	1.0	10.9	3.3
Energy related charges	-	12.6	-	12.6
Venezuela related gain	(5.3)	(7.8)	(5.3)	(7.8)
Other	6.7	22.5	6.9	23.5
Subtotal	36.8	26.2	43.0	32.5
				\$
Total special (gains) and charges	\$ 61.2	\$ 88.1	\$ 68.9	94.4

For segment reporting purposes, special (gains) and charges are not allocated to reportable segments, which is consistent with the Company's internal management reporting.

## Restructuring activities

The Company's restructuring activities are associated with plans to enhance its efficiency and effectiveness and sharpen its competitiveness. Restructuring plans include net costs associated with significant actions involving employee-related severance charges, contract termination costs and asset write-downs and disposals. Employee termination costs are largely based on policies and severance plans, and include personnel reductions and related costs for severance, benefits and outplacement services. These charges are reflected in the quarter when the actions are probable and the amounts are estimable, which typically is when management approves the actions. Contract termination costs include charges to terminate leases prior to the end of their respective terms and other contract

terminations. Asset write-downs and disposals include leasehold improvement write-downs, other asset write-downs associated with combining operations and disposal of assets. Restructuring activities have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income. Restructuring liabilities have been classified as a component of both other current and other noncurrent liabilities on the Consolidated Balance Sheet.

During the second quarter of 2017, the Company commenced restructuring and other cost-saving actions in order to streamline its operations. These actions include a reduction of the Company's global workforce by approximately 530 positions, as well as asset disposals and lease terminations. As a result of these actions, the Company expects to incur \$40 to \$45 million (\$30 to \$35 million after tax) of restructuring charges. During the second quarter of 2017, the Company recorded restructuring charges of \$33.0 million (\$25.0 million after tax) related primarily to employee termination costs. The remaining charges are expected to be recognized during the second half of 2017. As of June 30, 2017, the restructuring liability balance related to these actions was \$28.4 million. The Company anticipates that the majority of the pretax charges will represent net cash expenditures which are expected to be paid over a period of a few months to several quarters and will be funded from operating activities. Cash payments during the second quarter of 2017 were minimal.

Net restructuring gains and charges related to the Company's Energy and Combined restructuring plans during 2017 were minimal. During the second quarter and first six months of 2016, net restructuring activities included net restructuring gains of \$1.2 million (\$1.9 million after tax) and net restructuring charges of \$1.8 million (\$0.1 million gain after tax), respectively. The restructuring liability balance was \$28.4 million and \$39.6 million as of June 30, 2017 and December 31, 2016, respectively. The reduction in liability was driven primarily by severance and other cash payments. The remaining accrual is expected to be paid over a period of a few months to several quarters and continues to be funded from operating activities.

#### Acquisition and integration related costs

Acquisition and integration costs reported in cost of sales on the Consolidated Statement of Income include \$11.1 million (\$7.0 million after tax) and \$12.6 million (\$8.0 million after tax) during the second quarter and first six months of 2017, respectively, related primarily to recognition of accelerated rent expense upon the closure of Swisher Hygiene Inc. ("Swisher") plants and disposal of excess inventory. The second quarter and first six months of 2017 also include amounts related to recognition of fair value step-up in the Laboratoires Anios ("Anios") inventory.

Acquisition and integration costs reported in special (gains) and charges on the Consolidated Statement of Income include \$4.6 million (\$3.0 million after tax) and \$10.9 million (\$7.3 million after tax) of acquisition costs, advisory and legal fees, and integration charges for the Anios and Swisher acquisitions during the second quarter and first six months of 2017, respectively.

During the second quarter and first six months of 2016, the Company incurred acquisition and integration charges of \$1.0 million (\$0.7 million after tax) and \$3.3 million (\$2.1 million after tax), respectively. Further information related to the Company's acquisitions is included in Note 3.

#### Energy related charges

Oil industry activity remained depressed during 2016 when compared with 2014 levels, resulting from continued excess oil supply pressures, which have negatively impacted exploration and production investments in the energy industry, particularly in North America. As a result of the conditions in place during 2016, and their corresponding impact on the Company's business outlook, the Company recorded total charges of \$63.6 million (\$42.9 million after tax) during the second quarter and first six months of 2016, comprised of inventory write downs and related disposal costs, fixed asset charges, headcount reductions and other charges. No such charges were incurred in 2017.

The inventory write-downs and related disposal costs of \$31.1 million include adjustments due to the significant decline in activity and related prices of certain specific-use and other products, coupled with declines in replacement costs, as well as estimated costs to dispose the respective excess inventory. The fixed asset charges of \$18.2 million resulted from the write-down of certain assets related to the reduction in certain aspects of our North American Global Energy segment, as well as abandonment of certain projects under construction. The carrying value of the corresponding fixed assets was reduced to zero. The employee termination costs of \$12.8 million include a reduction in the Global Energy segment's global workforce to better align its workforce with anticipated activity levels in the near term. As of the end of the second quarter of 2017, the Company had \$4.3 million of corresponding severance remaining to be paid, which is expected to be paid in the next several months and be funded from operating activities.

The charges discussed above have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income.

#### Venezuela related gain

Effective as of the end of the fourth quarter of 2015, the Company deconsolidated its Venezuelan subsidiaries. During the second quarter of 2017 and 2016, the Company recorded gains of \$5.3 million (\$3.3 million after tax) and \$7.8 million (\$4.9 million after tax), respectively, resulting from U.S. dollar cash recoveries of intercompany receivables written off at the time of deconsolidation.

## Other

During the second quarter and first six months of 2017, the Company recorded charges of \$17.8 million (\$14.4 million after tax) and \$18.0 million (\$14.5 million after tax), respectively, related to a Global Energy vendor contract termination and litigation related charges. These charges have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income.

During the second quarter and first six months of 2016, the Company recorded a charge of \$10.0 million (\$6.3 million after tax) related to a fixed asset impairment and related inventory charges. The fixed asset impairment corresponds to additional charges of certain U.S. production equipment and buildings, resulting from further lower production, initially impaired during the fourth quarter of 2015. This charge has been included as a component of cost of sales on the Consolidated Statement of Income.

Additionally, during the second quarter and first six months of 2016, the Company recorded charges of \$22.5 million (\$13.9 million after tax) and \$23.5 million (\$15.1 million after tax), respectively, primarily consisting of litigation related charges. These charges have been included as a component of special (gains) and charges on the Consolidated Statement of Income.

## 3. ACQUISITIONS AND DISPOSITIONS

### Acquisitions

The Company makes acquisitions that align with its strategic business objectives. The assets and liabilities of the acquired entities have been recorded as of the acquisition date, at their respective fair values, and are included in the Consolidated Balance Sheet and results of the Company from the date of acquisition. The purchase price allocation is based on estimates of the fair value of assets acquired and liabilities assumed. The aggregate purchase price of acquisitions has been reduced for any cash or cash equivalents acquired with the acquisition. Acquisitions during the first six months of 2017 and 2016 were not material to the Company's consolidated financial statements; therefore, pro forma financial information is not presented.

### Anios Acquisition



On February 1, 2017, the Company acquired Anios for total consideration of \$798.3 million in cash, including satisfaction of outstanding debt. Anios is a leading European manufacturer and marketer of hygiene and disinfection products for the healthcare, food service, and food and beverage processing industries. Anios provides an innovative product line that expands the solutions the Company is able to offer while also providing a complementary geographic footprint within the healthcare market. With pre-acquisition annual sales of

8

---

approximately \$245 million, the acquired business became part of the Company's Global Institutional reportable segment during the first quarter of 2017. During 2016, the Company deposited €50 million in an escrow account that was released back to the Company upon closing of the transaction in February 2017. As shown within Note 4, this was recorded as restricted cash within other assets on the Consolidated Balance Sheet as of December 31, 2016.

The Company incurred certain acquisition and integration costs associated with the transaction that were expensed and are reflected in the Consolidated Statement of Income. A total of \$3.4 million (\$2.3 million after tax) of charges were incurred during the second quarter of 2017, of which \$1.6 million (\$1.0 million after tax) were included in cost of sales and are related to recognition of fair value step-up in Anios inventory. A total of \$9.4 million (\$6.5 million after tax) of charges were incurred during the first six months of 2017, of which \$3.1 million (\$2.1 million after tax) were included in cost of sales and are related to recognition of fair value step-up in Anios inventory.

The Anios acquisition has been accounted for using the acquisition method of accounting, which requires, among other things, that most assets acquired and liabilities assumed be recognized at fair value as of the acquisition date. Certain estimated values are not yet finalized and are subject to change. Amounts for certain deferred tax assets and liabilities, environmental reserves, certain tangible and intangible assets, income tax uncertainties, and goodwill remain subject to change, as information necessary to complete the analysis is obtained. The Company expects to finalize these by the filing of the 2017 Form 10-K.

The following table summarizes the preliminary value of Anios assets acquired and liabilities assumed as of the acquisition date.

(millions)	
Tangible assets	\$ 142.7
Identifiable intangible assets:	
Customer relationships	252.0
Trademarks	65.7
Other technology	16.1
Total assets acquired	476.5
Total liabilities assumed	196.3
Goodwill	518.1
Total consideration transferred	798.3
Long-term debt repaid upon close	192.8
Net consideration transferred to sellers	\$ 605.5

Net tangible assets are primarily comprised of accounts receivable of \$66.2 million, property, plant and equipment of \$25.6 million and inventory of \$29.7 million.

Customer relationships, trademarks, and other technology are being amortized over weighted average lives of 20, 17, and 11 years, respectively.

Goodwill of \$518.1 million arising from the acquisition consists largely of the synergies and economies of scale expected through adding complementary geographies and innovative products to the Company's healthcare portfolio. The goodwill was assigned to the Healthcare operating segment within the Global Institutional reportable segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

#### Other Acquisitions

Excluding the Anios acquisition, during the first six months of 2017, the Company paid \$27.9 million for acquisitions, of which \$18.4 million was attributed to certain identifiable intangible assets. The weighted average useful life of these identifiable intangible assets acquired was 12 years. Additionally, there were immaterial purchase price adjustments related to prior year acquisitions.

During the first six months of 2016, the Company paid \$12.8 million for acquisitions, of which \$2.5 million was attributed to certain identifiable intangible assets. The weighted average useful life of these identifiable intangible assets acquired was 5 years. Additionally, there were immaterial purchase price adjustments related to prior year acquisitions.

#### Dispositions

There were no business dispositions during the first six months of 2017 or 2016.

## 4. BALANCE SHEET INFORMATION

(millions)	June 30 2017	December 31 2016
Accounts receivable, net		
Accounts receivable	\$ 2,517.2	\$ 2,408.8
Allowance for doubtful accounts	(70.4)	(67.6)
Total	\$ 2,446.8	\$ 2,341.2
Inventories		
Finished goods	\$ 986.5	\$ 860.0
Raw materials and parts	447.6	408.4
Inventories at FIFO cost	1,434.1	1,268.4
FIFO cost to LIFO cost difference	35.7	51.0
Total	\$ 1,469.8	\$ 1,319.4
Other current assets		
Prepaid assets	\$ 132.6	\$ 98.3
Taxes receivable	131.6	105.0
Derivative assets	44.2	46.3
Other	46.4	41.8
Total	\$ 354.8	\$ 291.4
Property, plant and equipment, net		
Land	\$ 216.6	\$ 211.0
Buildings and leasehold improvements	1,122.6	1,121.2
Machinery and equipment	2,159.0	2,035.8
Merchandising and customer equipment	2,327.3	2,199.4
Capitalized software	570.1	531.1
Construction in progress	390.9	344.1
	6,786.5	6,442.6
Accumulated depreciation	(3,289.1)	(3,077.6)
Total	\$ 3,497.4	\$ 3,365.0
Other intangible assets, net		
Intangible assets not subject to amortization		
Trade names	\$ 1,230.0	\$ 1,230.0
Intangible assets subject to amortization		
Customer relationships	\$ 3,519.5	\$ 3,206.1
Trademarks	374.2	303.3
Patents	454.9	446.5
Other technology	228.0	210.5
	4,576.6	4,166.4
Accumulated amortization		
Customer relationships	(1,275.6)	(1,148.2)
Trademarks	(137.6)	(125.2)
Patents	(171.6)	(157.3)
Other technology	(160.2)	(147.9)

Edgar Filing: ECOLAB INC. - Form 10-Q

	(1,745.0)	(1,578.6)
Net intangible assets subject to amortization	2,831.6	2,587.8
Total	\$ 4,061.6	\$ 3,817.8
Other assets		
Deferred income taxes	\$ 102.0	\$ 92.3
Pension	32.9	27.2
Derivative assets	1.3	21.5
Restricted cash	-	53.0
Other	292.3	291.0
Total	\$ 428.5	\$ 485.0

(millions)	June 30 2017	December 31 2016
Other current liabilities		
Discounts and rebates	\$ 309.6	\$ 275.2
Dividends payable	107.2	108.0
Interest payable	48.2	37.3
Taxes payable, other than income	108.1	103.7
Derivative liabilities	36.6	24.6
Restructuring	51.7	30.5
Other	264.4	311.9
Total	\$ 925.8	\$ 891.2
Accumulated other comprehensive loss		
Unrealized loss on derivative financial instruments, net of tax	\$ (16.8)	\$ (8.5)
Unrecognized pension and postretirement benefit expense, net of tax	(518.4)	(511.4)
Cumulative translation, net of tax	(1,108.7)	(1,193.0)
Total	\$ (1,643.9)	\$ (1,712.9)

## 5. DEBT AND INTEREST

### Short-term Debt

The following table provides the components of the Company's short-term debt obligations as of June 30, 2017 and December 31, 2016.

(millions)	June 30 2017	December 31 2016
Short-term debt		
Commercial paper	\$ 918.0	\$ -
Notes payable	41.8	29.9
Long-term debt, current maturities	810.8	511.4
Total	\$ 1,770.6	\$ 541.3

## Line of Credit

As of June 30, 2017, the Company had in place a \$2.0 billion multi-year credit facility which expires in December 2019. The credit facility has been established with a diverse syndicate of banks and supports the Company's U.S. and Euro commercial paper programs. There were no borrowings under the Company's credit facility as of either June 30, 2017 or December 31, 2016.

## Commercial Paper

The Company's commercial paper program is used as a potential source of liquidity and consists of a \$2.0 billion U.S. commercial paper program and a \$2.0 billion Euro commercial paper program. The maximum aggregate amount of commercial paper that may be issued by the Company under its commercial paper programs may not exceed \$2.0 billion.

As of June 30, 2017, the Company had \$581.0 million and \$337.0 million (€300 million) of commercial paper outstanding under its U.S. and Euro programs, respectively. As of December 31, 2016, the Company had no commercial paper outstanding under either program.

## Long-term Debt

The following table provides the components of the Company's long-term debt obligations, including current maturities, as of June 30, 2017 and December 31, 2016.

(millions)	Maturity by Year	June 30 2017	December 31 2016
Long-term debt			
Public notes (2017 principal amount)			
Five year 2012 senior notes (\$500 million)	2017	\$ 499.1	\$ 498.9
Three year 2015 senior notes (\$300 million)	2018	299.1	298.9
Three year 2016 senior notes (\$400 million)	2019	396.4	395.9
Five year 2015 senior notes (\$300 million)	2020	298.8	298.6
Ten year 2011 senior notes (\$1.25 billion)	2021	1,245.3	1,244.8
Seven year 2016 senior notes (\$400 million)	2023	397.3	397.0
Seven year 2016 senior notes (€575 million)	2024	637.6	608.4
Ten year 2015 senior notes (€575 million)	2025	640.7	604.3
Ten year 2016 senior notes (\$750 million)	2026	742.5	742.1
Thirty year 2011 senior notes (\$750 million)	2041	739.0	738.7
Thirty year 2016 senior notes (\$250 million)	2046	245.9	245.9
Private notes (2017 principal amount)			
Series A private placement senior notes (\$250 million)	2018	248.9	248.9
Series B private placement senior notes (\$250 million)	2023	249.3	249.2
Capital lease obligations		5.1	5.2
Other		75.1	80.3
Total debt		6,720.1	6,657.1
Long-term debt, current maturities		(810.8)	(511.4)
Total long-term debt		\$ 5,909.3	\$ 6,145.7

## Public Notes

The Company's public notes may be redeemed by the Company at its option at redemption prices that include accrued and unpaid interest and a make-whole premium. Upon the occurrence of a change of control accompanied by a downgrade of the public notes below investment grade rating, within a specified time period, the Company would be required to offer to repurchase the public notes at a price equal to 101% of the aggregate principal amount thereof, plus any accrued and unpaid interest to the date of repurchase. The public notes are senior unsecured and unsubordinated obligations of the Company and rank equally with all other senior and unsubordinated indebtedness of the Company.

## Private Notes



The Company's private notes may be redeemed by the Company at its option at redemption prices that include accrued and unpaid interest and a make-whole premium. Upon the occurrence of specified changes of control involving the Company, the Company would be required to offer to repurchase the private notes at a price equal to 100% of the aggregate principal amount thereof, plus any accrued and unpaid interest to the date of repurchase. Additionally, the Company would be required to make a similar offer to repurchase the private notes upon the occurrence of specified merger events or asset sales involving the Company, when accompanied by a downgrade of the private notes below investment grade rating, within a specified time period. The private notes are unsecured senior obligations of the Company and rank equal in right of payment with all other senior indebtedness of the Company. The private notes shall be unconditionally guaranteed by subsidiaries of the Company in certain circumstances, as described in the note purchase agreement as amended.

#### Covenants

The Company is in compliance with its debt covenants as of June 30, 2017.

#### Net Interest Expense

Interest expense and interest income recognized during the second quarter and the first six months of 2017 and 2016 were as follows:

(millions)	Second Quarter Ended		Six Months Ended	
	June 30 2017	2016	June 30 2017	2016
Interest expense	\$ 63.7	\$ 71.5	\$ 130.3	\$ 140.4
Interest income	(4.1)	(6.2)	(8.2)	(9.0)
Interest expense, net	\$ 59.6	\$ 65.3	\$ 122.1	\$ 131.4



## 6. GOODWILL AND OTHER INTANGIBLE ASSETS

## Goodwill

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

During the second quarter of 2017, the Company completed its annual assessment for goodwill impairment across its eleven reporting units through a quantitative analysis, utilizing a discounted cash flow approach, which incorporates assumptions regarding future growth rates, terminal values, and discount rates. The two-step quantitative process involved comparing the estimated fair value of each reporting unit to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not to be impaired, and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test would be performed to measure the amount of impairment loss to be recorded, if any. The Company's goodwill impairment assessment for 2017 indicated the estimated fair value of each of its reporting units exceeded its carrying amount by a significant margin.

If circumstances change significantly, the Company would also test a reporting unit's goodwill for impairment during interim periods between its annual tests. There has been no impairment of goodwill in any of the years presented.

The changes in the carrying amount of goodwill for each of the Company's reportable segments during the six months ended June 30, 2017 were as follows:

(millions)	Global Industrial	Global Institutional	Global Energy	Other	Total
December 31, 2016	\$ 2,522.3	\$ 653.4	\$ 3,093.6	\$ 113.7	\$ 6,383.0
Reclassifications (a)	62.7	(62.7)	-	-	-
December 31, 2016 revised	\$ 2,585.0	\$ 590.7	\$ 3,093.6	\$ 113.7	\$ 6,383.0
Current year business combinations (b)	4.1	518.1	-	-	522.2
Prior year business combinations (c)	-	-	0.3	-	0.3
Effect of foreign currency translation	36.9	15.8	44.0	1.6	98.3
June 30, 2017	\$ 2,626.0	\$ 1,124.6	\$ 3,137.9	\$ 115.3	\$ 7,003.8

(a) Relates to establishment of the Life Sciences reporting unit, and goodwill being allocated to Life Sciences based on fair value allocation of goodwill. The Life Sciences reporting unit is included in the Industrial reportable segment and is comprised of operations previously recorded in the Food & Beverage and Healthcare reporting

units, which are aggregated and reported in the Global Industrial and Global Institutional reportable segments, respectively. See Note 14 for further information.

- (b) Represents goodwill associated with current year acquisitions. Of the goodwill acquired, the Company expects \$4.1 million of the goodwill related to businesses acquired to be tax deductible.
- (c) Represents purchase price allocation adjustments for 2016 acquisitions deemed preliminary as of December 31, 2016.

#### Other Intangible Assets

The Nalco trade name is the Company's principal indefinite life intangible asset. During the second quarter of 2017, the Company completed its annual test for indefinite life intangible asset impairment using a relief from royalty method of assessment, which incorporates assumptions regarding future sales projections and discount rates. Based on this testing, the estimated fair value of the asset exceeded its carrying value by a significant margin; therefore, no adjustment to the \$1.2 billion carrying value of this asset was necessary. There has been no impairment of the Nalco trade name intangible asset since it was acquired.

The Company's intangible assets subject to amortization primarily include customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections and other acceptable valuation methods. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Total amortization expense related to other intangible assets during the second quarter of 2017 and 2016 was \$77.1 million and \$72.7 million, respectively. Total amortization expense related to other intangible assets during the first six months of 2017 and 2016 was \$150.9 million and \$145.3 million, respectively. Estimated amortization for the remaining six month period of 2017 related to other amortizable intangible assets is expected to be approximately \$157 million.

## 7. FAIR VALUE MEASUREMENTS

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, accounts payable, commercial paper, notes payable, foreign currency forward contracts, interest rate swap agreements and long-term debt.

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

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

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

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

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

(millions)	June 30, 2017			
	Carrying Amount	Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets				
Foreign currency forward contracts	\$ 68.8	\$ -	\$ 68.8	\$ -

Edgar Filing: ECOLAB INC. - Form 10-Q

Liabilities				
Foreign currency forward contracts	83.3	-	83.3	-
Interest rate swap agreements	3.9	-	3.9	-

	December 31, 2016			
(millions)	Carrying	Fair Value Measurements		
		Level		Level
	Amount	1	Level 2	3
Assets				
Foreign currency forward contracts	\$ 93.4	\$ -	\$ 93.4	\$ -
Liabilities				
Foreign currency forward contracts	46.7	-	46.7	-
Interest rate swap agreements	3.5	-	3.5	-

The carrying value of foreign currency forward contracts is at fair value, which is determined based on foreign currency exchange rates as of the balance sheet date, and is classified within Level 2. The carrying value of interest rate swap contracts is at fair value, which is determined based on current interest rates and forward interest rates as of the balance sheet date and is classified within Level 2. For purposes of fair value disclosure above, derivative values are presented gross. See further discussion of gross versus net presentation of the Company's derivatives within Note 8.

The carrying values of accounts receivable, accounts payable, cash and cash equivalents, restricted cash, commercial paper and notes payable approximate fair value because of their short maturities, and as such are classified within Level 1.

The fair value of long-term debt is based on quoted market prices for the same or similar debt instruments classified as Level 2. The carrying amount and the estimated fair value of long-term debt, including current maturities, held by the Company were:

	June 30		December 31	
(millions)	2017		2016	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
Long-term debt, including current maturities	\$ 6,720.1	\$ 7,115.9	\$ 6,657.1	\$ 6,963.9



## 8. DERIVATIVES AND HEDGING TRANSACTIONS

The Company uses foreign currency forward contracts, interest rate swap agreements and foreign currency debt to manage risks associated with foreign currency exchange rates, interest rates and net investments in foreign operations. The Company does not hold derivative financial instruments of a speculative nature or for trading purposes. The Company records derivatives as assets and liabilities on the balance sheet at fair value. Changes in fair value are recognized immediately in earnings unless the derivative qualifies and is designated as a hedge. Cash flows from derivatives are classified in the statement of cash flows in the same category as the cash flows from the items subject to designated hedge or undesignated (economic) hedge relationships. The Company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings.

The Company is exposed to credit risk in the event of nonperformance of counterparties for foreign currency forward exchange contracts and interest rate swap agreements. The Company monitors its exposure to credit risk by using credit approvals and credit limits and by selecting major global banks and financial institutions as counterparties. The Company does not anticipate nonperformance by any of these counterparties, and therefore, recording a valuation allowance against the Company's derivative balance is not considered necessary.

## Derivative Positions Summary

Certain of the Company's derivative transactions are subject to master netting arrangements that allow the Company to net settle contracts with the same counterparties. These arrangements generally do not call for collateral and as of the applicable dates presented in the following table no cash collateral had been received or pledged related to the underlying derivatives.

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

The following table summarizes the gross fair value and the net value of the Company's outstanding derivatives.

(millions)	Asset Derivatives		Liability Derivatives	
	June 30 2017	December 31 2016	June 30 2017	December 31 2016
Derivatives designated as hedging instruments				
Foreign currency forward contracts	\$ 21.8	\$ 73.4	\$ 16.8	\$ 19.8
Interest rate swap agreements	-	-	3.9	3.5



Derivatives not designated as hedging instruments				
Foreign currency forward contracts	47.0	20.0	66.5	26.9
Gross value of derivatives	68.8	93.4	87.2	50.2
Gross amounts offset in the Consolidated Balance Sheet				
Sheet	(23.3)	(25.7)	(23.3)	(25.7)
Net value of derivatives	\$ 45.5	\$ 67.7	\$ 63.9	\$ 24.5

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

(millions)	Notional Values	
	June 30 2017	December 31 2016
Foreign currency forward contracts (a)	\$ 5,288	\$ 4,317
Interest rate agreements	\$ 1,450	\$ 1,450

(a) Includes net investment hedge forward contracts of €40 million and €0 million as of June 30, 2017 and December 31, 2016, respectively.

#### Cash Flow Hedges

The Company utilizes foreign currency forward contracts to hedge the effect of foreign currency exchange rate fluctuations on forecasted foreign currency transactions, including inventory purchases and intercompany royalty, management fee and other payments. These forward contracts are designated as cash flow hedges. The effective portions of the changes in fair value of these contracts are recorded in accumulated other comprehensive income ("AOCI") until the hedged items affect earnings, at which time the gain or loss is reclassified into the same line item in the Consolidated Statement of Income as the underlying exposure being hedged. Cash flow hedged transactions impacting AOCI are forecasted to occur within the next two years.

The Company occasionally enters into treasury lock and forward starting interest rate swap agreements to manage interest rate exposure. During 2016, 2015, and 2014 the Company entered into and subsequently closed a series of treasury lock and forward starting interest rate swap agreements, in conjunction with its public debt issuances. The agreements were designated and effective as cash flow

hedges of the expected interest payments related to the anticipated future debt issuances. Amounts recorded in AOCI are recognized as part of interest expense over the remaining life of the notes as the forecasted interest transactions occur.

The effective portion of gains and losses recognized into AOCI and earnings from derivative contracts that qualified as cash flow hedges was as follows:

(millions)		Second Quarter Ended		Six Months Ended	
		June 30 2017	2016	June 30 2017	2016
Unrealized gain (loss) recognized into AOCI					
Foreign currency forward contracts	AOCI (equity)	\$ (28.9)	\$ (23.8)	\$ (44.3)	\$ (27.5)
Interest rate swap agreements	AOCI (equity)	-	(4.6)	-	(12.9)
	Total	(28.9)	(28.4)	(44.3)	(40.4)
Gain (loss) recognized in income					
Foreign currency forward contracts	Cost of sales	(8.3)	8.9	(10.8)	21.6
	SG&A	(23.3)	(9.0)	(22.7)	(19.6)
	Interest expense, net	1.5	1.4	2.9	2.9
	Subtotal	(30.1)	1.3	(30.6)	4.9
Interest rate swap agreements	Interest expense, net	(1.8)	(1.6)	(3.6)	(3.2)
	Total	\$ (31.9)	\$ (0.3)	\$ (34.2)	\$ 1.7

Gains and losses recognized in income related to the ineffective portion of the Company's cash flow hedges were insignificant during the first six months of 2017 and 2016.

#### Fair Value Hedges

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

In January 2016, the Company entered into an interest rate swap agreement that converted its \$400 million 2.00% debt from a fixed interest rate to a floating interest rate. In January 2015, the Company entered into interest rate swap agreements that converted its \$300 million 1.55% debt and its \$250 million 3.69% debt from fixed interest rates to floating interest rates. In May 2014, the Company entered into an interest rate swap agreement that converted its \$500 million 1.45% debt from a fixed rate to a floating interest rate.

The interest rate swaps referenced above were designated as fair value hedges.

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

(millions)		Second Quarter		Six Months Ended	
		Ended June 30 2017	2016	June 30 2017	2016
Gain (loss) on derivative recognized income					
Interest rate swap	Interest expense, net	\$ 1.3	\$ 3.0	\$ (0.4)	\$ 13.7
Gain (loss) on hedged item recognized income					
Interest rate swap	Interest expense, net	\$ (1.3)	\$ (3.0)	\$ 0.4	\$ (13.7)

## Net Investment Hedges

The Company designates its outstanding €1,150 million (\$1,292 million at the end of the second quarter of 2017) senior notes (“euronotes”) and €200 million (\$225 million at the end of the second quarter of 2017) Euro commercial paper and related accrued interest as hedges of existing foreign currency exposures related to investments the Company has in certain euro denominated functional currency subsidiaries.

The revaluation gains and losses on the euronotes and Euro commercial paper, which are designated and effective as hedges of the Company’s net investments, have been included as a component of the cumulative translation adjustment account and were as follows:

(millions)	Second Quarter Ended		Six Months Ended	
	June 30	June 30	June 30	June 30
	2017	2016	2017	2016
Revaluation gains (losses), net of tax	\$ (55.6)	\$ (12.9)	\$ (52.8)	\$ (27.9)

## Derivatives Not Designated as Hedging Instruments

The Company also uses foreign currency forward contracts to offset its exposure to the change in value of certain foreign currency denominated assets and liabilities held at foreign subsidiaries, primarily receivables and payables, which are remeasured at the end of each period. Although the contracts are effective economic hedges, they are not designated as accounting hedges. Therefore, changes in the value of these derivatives are recognized immediately in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities.

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

(millions)		Second Quarter Ended		Six Months Ended	
		June 30	June 30	June 30	June 30
		2017	2016	2017	2016
Gain (loss) recognized in income					
Foreign currency forward					
contracts	SG&A	\$ (50.8)	\$ 17.3	\$ (43.8)	\$ (15.3)
	Interest expense, net	2.4	(2.6)	2.5	(3.1)
	Total	\$ (48.4)	\$ 14.7	\$ (41.3)	\$ (18.4)

The amounts recognized in SG&A above offset the earnings impact of the related foreign currency denominated assets and liabilities. The amounts recognized in interest expense above represent the component of the hedging gains (losses) attributable to the difference between the spot and forward rates of the hedges as a result of interest rate differentials. The losses recognized in 2017 primarily relate to movements in the Euro rates.

## 9. OTHER COMPREHENSIVE INCOME (LOSS) INFORMATION

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

The following tables provide other comprehensive income information related to the Company's derivatives and hedging instruments and pension and postretirement benefits. See Note 8 for additional information related to the Company's derivatives and hedging transactions. See Note 13 for additional information related to the Company's pension and postretirement benefits activity.

(millions)	Second Quarter Ended		Six Months Ended	
	June 30 2017	2016	June 30 2017	2016
<b>Derivative and Hedging Instruments</b>				
Unrealized gains (losses) on derivative & hedging instruments				
Amount recognized in AOCI	\$ (28.9)	\$ (28.4)	\$ (44.3)	\$ (40.4)
(Gains) losses reclassified from AOCI into income				
Cost of sales	8.3	(8.9)	10.8	(21.6)
SG&A	23.3	9.0	22.7	19.6
Interest expense, net	0.3	0.2	0.7	0.3
	31.9	0.3	34.2	(1.7)
Other activity	0.4	(0.8)	0.5	-
Tax impact	(2.5)	8.7	1.3	11.4
Net of tax	\$ 0.9	\$ (20.2)	\$ (8.3)	\$ (30.7)
<b>Pension and Postretirement Benefits</b>				
Amount reclassified from AOCI into income				
Actuarial losses	11.0	10.9	22.0	21.8
Prior service costs	(5.9)	(2.0)	(12.0)	(4.0)
	5.1	8.9	10.0	17.8
Tax impact	(1.5)	(3.4)	(3.1)	(6.7)
Net of tax	\$ 3.6	\$ 5.5	\$ 6.9	\$ 11.1

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

	Second Quarter		Six Months Ended	
	Ended June 30 2017	2016	June 30 2017	2016
(millions)				
Derivative losses (gains) reclassified from AOCI into income, net of tax	\$ 24.5	\$ (0.1)	\$ 25.5	\$ (1.4)
Pension and postretirement benefits net actuarial losses and prior services costs reclassified from AOCI into income, net of tax	\$ 3.6	\$ 5.5	\$ 6.9	\$ 11.1

## 10. SHAREHOLDERS' EQUITY

### Share Repurchase Authorization

In February 2015, the Company's Board of Directors authorized the repurchase of up to 20 million shares of its common stock, including shares to be repurchased under Rule 10b5-1. As of June 30, 2017, 13,000,171 shares remained to be repurchased under the Company's repurchase authorization. The Company intends to repurchase all shares under its authorization, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.

### Accelerated Stock Repurchase ("ASR") Agreements

In February 2017, the Company entered into an ASR agreement to repurchase \$300 million of its common stock and received 2,077,224 shares of its common stock, which was approximately 85% of the total number of shares the Company expected to be repurchased under the ASR, based on the price of the Company's common stock at that time. In connection with the final settlement of the ASR agreement in June 2017, the Company received an additional 286,620 shares of common stock.

In February 2016, the Company entered into an ASR agreement to repurchase \$300 million of its common stock and received 2,459,490 shares of its common stock, which was approximately 85% of the total number of shares the Company expected to be repurchased under the ASR, based on the price of the Company's common stock at that time. Upon final settlement of the ASR agreement in May 2016, the Company received an additional 232,012 shares of common stock.

The final per share purchase price and the total number of shares to be repurchased under both 2017 and 2016 ASR agreements generally were based on the volume-weighted average price of the Company's common stock during the term of the agreements.

All shares acquired under the ASR agreements were recorded as treasury stock.



During their respective open periods in 2017 and 2016, neither of the ASRs was dilutive to the Company's earnings per share calculations, nor did they trigger the two-class earnings per share methodology. Additionally, the unsettled portion of ASRs during their respective open periods met the criteria to be accounted for as a forward contract indexed to the Company's stock and qualified as equity transactions.

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

#### Share Repurchases

During the first six months of 2017, the Company reacquired 3,957,832 shares of its common stock, of which 3,772,355 related to share repurchases through open market or private purchases, including the February 2017 ASR discussed above, and 185,477 related to shares withheld for taxes on the exercise of stock options and the vesting of stock awards and units.

During 2016, the Company reacquired 6,483,198 shares of its common stock, of which 6,126,033 related to share repurchases through open market or private purchases, including the February 2016 ASR discussed above, and 357,165 related to shares withheld for taxes on the exercise of stock options and the vesting of stock awards and units.

## 11. EARNINGS ATTRIBUTABLE TO ECOLAB PER COMMON SHARE (“EPS”)

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

The computations of the basic and diluted EPS amounts were as follows:

(millions, except per share)	Second Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income attributable to Ecolab	\$ 296.6	\$ 258.4	\$ 550.1	\$ 489.2
Weighted-average common shares outstanding				
Basic	289.8	292.4	290.2	293.4
Effect of dilutive stock options and units	4.3	4.1	4.4	4.1
Diluted	294.1	296.5	294.6	297.5
Basic EPS	\$ 1.02	\$ 0.88	\$ 1.90	\$ 1.67
Diluted EPS	\$ 1.01	\$ 0.87	\$ 1.87	\$ 1.64
Anti-dilutive securities excluded from the computation of EPS	2.0	2.1	3.6	2.1

The Company’s diluted EPS for 2017 was impacted by the adoption of the new accounting guidance issued in March 2016 that amends the calculation of diluted EPS for share-based payments to exclude excess tax benefits or deficiencies from assumed proceeds during application of the treasury stock method.

## 12. INCOME TAXES

The Company’s tax rate was 21.4% and 24.1% for the second quarter of 2017 and 2016, respectively and 19.6% and 24.1% for the first six months of 2017 and 2016, respectively. The change in the Company’s tax rate for the second quarter and first six months of 2017 compared to second quarter and first six months of 2016 was primarily driven by the recognition of \$10.8 million and \$26.8 million, respectively of excess tax benefits related to employee share-based

payments (resulting from the adoption of a new accounting standard as discussed in Note 1) and, to a lesser extent, global tax planning strategies.

The Company recognized net benefits related to discrete tax items of \$9.7 million and \$32.5 million during the second quarter and first six months of 2017, respectively, primarily driven by the \$10.8 million and \$26.8 million of share-based compensation excess tax benefits noted above. The remaining discrete tax benefits were primarily related to the release of reserves for uncertain tax positions due to the expiration of statute of limitations in non-U.S. jurisdictions.

The Company recognized net expenses related to discrete tax items of \$3.9 million during the second quarter of 2016 and net benefits related to discrete tax items of \$0.9 million during the first six months of 2016. Second quarter net expense was driven by individually immaterial items, including adjustments to deferred tax asset and liability positions. First quarter 2016 net benefits were driven primarily by the release of reserves for uncertain tax positions due to the expiration of statute of limitations in non-U.S. jurisdictions.

## 13. PENSION AND POSTRETIREMENT PLANS

The Company has a non-contributory qualified defined benefit pension plan covering the majority of its U.S. employees. The Company also has U.S. non-contributory non-qualified defined benefit plans, which provide for benefits to employees in excess of limits permitted under its U.S. pension plans. Various international subsidiaries also have defined benefit pension plans. The Company provides postretirement health care benefits to certain U.S. employees and retirees.

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

(millions)	U.S. Pension		International Pension		U.S. Postretirement Health Care	
	2017	2016	2017	2016	2017	2016
Service cost	\$ 17.5	\$ 16.8	\$ 7.6	\$ 7.0	\$ 0.7	\$ 0.8
Interest cost on benefit obligation	20.9	20.4	6.9	8.1	1.5	2.0
Expected return on plan assets	(37.4)	(35.9)	(13.7)	(13.5)	(0.1)	(0.2)
Recognition of net actuarial (gain) loss	7.2	7.7	4.5	3.6	(0.6)	(0.4)
Amortization of prior service cost (benefit)	(1.7)	(1.7)	(0.2)	(0.2)	(4.2)	(0.1)
Total expense	\$ 6.5	\$ 7.3	\$ 5.1	\$ 5.0	\$ (2.7)	\$ 2.1

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

(millions)	U.S. Pension		International Pension		U.S. Postretirement Health Care	
	2017	2016	2017	2016	2017	2016
Service cost	\$ 35.1	\$ 33.5	\$ 15.1	\$ 13.9	\$ 1.3	\$ 1.5
Interest cost on benefit obligation	41.7	40.8	13.8	16.2	2.9	4.1
Expected return on plan assets	(74.9)	(71.8)	(27.4)	(27.0)	(0.3)	(0.4)
Recognition of net actuarial (gain) loss	14.3	15.4	8.9	7.2	(1.2)	(0.8)
Amortization of prior service cost (benefit)	(3.4)	(3.5)	(0.3)	(0.4)	(8.3)	(0.1)
Total expense	\$ 12.8	\$ 14.4	\$ 10.1	\$ 9.9	\$ (5.6)	\$ 4.3

As of June 30, 2017, the Company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans. During the first six months of 2017, the Company made payments of \$4 million to its U.S. non-contributory non-qualified defined benefit plans and estimates it will make additional payments of approximately \$3 million to such plans during the remainder of 2017.

The Company contributed \$25 million to its international pension benefit plans during the first six months of 2017. The Company estimates it will contribute approximately an additional \$17 million to such plans during the remainder of 2017.

During the first six months of 2017, the Company made payments of \$8 million to its U.S. postretirement health care benefit plans and estimates it will make additional payments of approximately \$8 million to such plans during the remainder of 2017.

The Company's U.S. postretirement health care costs decreased in 2017 relative to the costs incurred in the comparable period of the prior year as a result of moving the U.S. postretirement healthcare plans to a Retiree Exchange approach for post-65 retiree medical coverage beginning in 2018 and the merger of Nalco U.S. postretirement health care plan with the Ecolab U.S. postretirement plan.

## 14. OPERATING SEGMENTS

The Company's organizational structure consists of global business unit and global regional leadership teams. The Company's operating segments follow its commercial and product-based activities and are based on engagement in business activities, availability of discrete financial information and review of operating results by the Chief Operating Decision Maker at the identified operating segment level.

The Company's operating segments that share similar economic characteristics and future prospects, nature of the products and production processes, end-use markets, channels of distribution and regulatory environment have been aggregated into three reportable segments: Global Industrial, Global Institutional and Global Energy. The Company's operating segments that do not meet the quantitative criteria to be separately reported have been combined into the Other segment. The Company provides similar information for the Other segment as the Company considers the information regarding its underlying operating segments as useful in understanding its consolidated results.

### Comparability of Reportable Segments

The Company evaluates the performance of its non-U.S. dollar functional currency international operations based on fixed currency exchange rates, which eliminate the impact of exchange rate fluctuations on its international operations. Fixed currency amounts are updated annually at the beginning of each year based on translation into U.S. dollars at foreign currency exchange rates established by management, with all periods presented using such rates. Fixed currency rates are generally based on existing market rates at the time they are established. The "Fixed Currency Rate Change" column shown in the following table reflects the impact on previously reported values related to fixed currency exchange rates established by management at the beginning of 2017.

Effective in the first quarter of 2017, the Company established the Life Sciences operating segment, to align with the strategy for growth in the pharmaceutical and personal care manufacturing operations. Life Sciences is comprised of operations previously recorded in the Food & Beverage and Healthcare operating segments and has been aggregated into the Global Industrial reportable segment. The Company also made immaterial changes to its reportable segments, including the movement of certain customers and cost allocations between reportable segments. These changes are presented in "Segment Change" column of the table below.

The impact of the preceding changes on previously reported full year 2016 reportable segment net sales and operating income is summarized as follows:

Edgar Filing: ECOLAB INC. - Form 10-Q

(millions)	December 31, 2016			
	Values at 2016 Rates	Fixed Currency Rate Change	Segment Change	Values at 2017 Rates
Net Sales				
Global Industrial	\$ 4,617.1	\$ 6.9	\$ 63.2	\$ 4,687.2
Global Institutional	4,495.6	7.7	(63.2)	4,440.1
Global Energy	3,035.8	40.0	-	3,075.8
Other	806.5	(4.8)	-	801.7
Subtotal at fixed currency rates	12,955.0	49.8	-	13,004.8
Effect of foreign currency translation	197.8	(49.8)	-	148.0
Consolidated reported GAAP net sales	\$ 13,152.8	\$ -	\$ -	\$ 13,152.8
Operating Income				
Global Industrial	\$ 703.0	\$ (0.9)	\$ 17.9	\$ 720.0
Global Institutional	966.7	3.0	(19.2)	950.5
Global Energy	337.1	7.9	1.7	346.7
Other	148.1	(2.5)	(0.4)	145.2
Corporate	(272.1)	(0.5)	-	(272.6)
Subtotal at fixed currency rates	1,882.8	7.0	-	1,889.8
Effect of foreign currency translation	32.2	(7.0)	-	25.2
Consolidated reported GAAP operating income	\$ 1,915.0	\$ -	\$ -	\$ 1,915.0

## Reportable Segment Information

Financial information for each of the Company's reportable segments, including the impact of all preceding segment structure changes, is as follows:

(millions)	Second Quarter Ended		Six Months Ended	
	June 30		June 30	
	2017	2016	2017	2016
Net Sales				
Global Industrial	\$ 1,209.8	\$ 1,170.8	\$ 2,338.4	\$ 2,266.3
Global Institutional	1,221.1	1,128.4	2,299.2	2,165.8
Global Energy	792.4	762.8	1,549.4	1,534.4
Other	215.3	202.2	412.1	388.9
Subtotal at fixed currency rates	3,438.6	3,264.2	6,599.1	6,355.4
Effect of foreign currency translation	24.1	53.0	25.2	59.2
Consolidated reported GAAP net sales	\$ 3,462.7	\$ 3,317.2	\$ 6,624.3	\$ 6,414.6
Operating Income				
Global Industrial	\$ 167.5	\$ 174.5	\$ 294.5	\$ 306.0
Global Institutional	259.8	243.0	451.9	435.7
Global Energy	73.4	79.7	146.4	142.3
Other	37.0	38.2	66.9	67.8
Corporate	(102.6)	(129.8)	(152.0)	(177.9)
Subtotal at fixed currency rates	435.1	405.6	807.7	773.9
Effect of foreign currency translation	3.9	6.9	4.6	10.1
Consolidated reported GAAP operating income	\$ 439.0	\$ 412.5	\$ 812.3	\$ 784.0

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

Consistent with the Company's internal management reporting, Corporate amounts in the table above include amortization specifically from the Nalco merger and special (gains) and charges, as discussed in Note 2, that are not allocated to the Company's reportable segments.

## 15. COMMITMENTS AND CONTINGENCIES



The Company is subject to various claims and contingencies related to, among other things, workers' compensation, general liability (including product liability), automobile claims, health care claims, environmental matters and lawsuits. The Company also has contractual obligations related to lease commitments.

## Insurance

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

## Litigation and Environmental Matters

The Company and certain subsidiaries are party to various lawsuits, claims and environmental actions that have arisen in the ordinary course of business. These include, from time to time, antitrust, commercial, patent infringement, product liability and wage hour lawsuits, as well as possible obligations to investigate and mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other operating or closed facilities. The Company has established accruals for certain lawsuits, claims and environmental matters. The Company currently believes that there is not a reasonably possible risk of material loss in excess of the amounts accrued related to these legal matters. Because litigation is inherently uncertain, and unfavorable rulings or developments could occur, there can be no certainty that the Company may not ultimately incur charges in excess of recorded liabilities. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on the Company's results of operations or cash flows in the period in which they are recorded. The Company currently believes that such future charges related to suits and legal claims, if any, would not have a material adverse effect on the Company's consolidated financial position.

## Environmental Matters

The Company is currently participating in environmental assessments and remediation at approximately 40 locations, excluding recently acquired Anios locations that are currently under review. The majority of these locations are in the U.S. Environmental liabilities have been accrued reflecting management's best estimate of future costs. Potential insurance reimbursements are not anticipated in the Company's accruals for environmental liabilities.

### Matters Related to Deepwater Horizon Incident Response

On April 22, 2010, the deepwater drilling platform, the Deepwater Horizon, operated by a subsidiary of BP plc, sank in the Gulf of Mexico after a catastrophic explosion and fire that began on April 20, 2010. A massive oil spill resulted. Approximately one week following the incident, subsidiaries of BP plc, under the authorization of the responding federal agencies, formally requested Nalco Company, now an indirect subsidiary of Ecolab, to supply large quantities of COREXIT® 9500, a Nalco oil dispersant product listed on the U.S. EPA National Contingency Plan Product Schedule. Nalco Company responded immediately by providing available COREXIT and increasing production to supply the product to BP's subsidiaries for use, as authorized and directed by agencies of the federal government throughout the incident. Prior to the incident, Nalco and its subsidiaries had not provided products or services or otherwise had any involvement with the Deepwater Horizon platform. On July 15, 2010, BP announced that it had capped the leaking well, and the application of dispersants by the responding parties ceased shortly thereafter.

On May 1, 2010, the President appointed retired U.S. Coast Guard Commandant Admiral Thad Allen to serve as the National Incident Commander in charge of the coordination of the response to the incident at the national level. The EPA directed numerous tests of all the dispersants on the National Contingency Plan Product Schedule, including those provided by Nalco Company, "to ensure decisions about ongoing dispersant use in the Gulf of Mexico are grounded in the best available science." Nalco Company cooperated with this testing process and continued to supply COREXIT, as requested by BP and government authorities. The use of dispersants by the responding parties was one tool used by the government and BP to avoid and reduce damage to the Gulf area from the spill.

In connection with its provision of COREXIT, Nalco Company has been named in several lawsuits as described below.

Cases arising out of the Deepwater Horizon accident were administratively transferred for pre-trial purposes to a judge in the United States District Court for the Eastern District of Louisiana with other related cases under In Re: Oil Spill by the Oil Rig "Deepwater Horizon" in the Gulf of Mexico, on April 20, 2010, Case No. 10-md-02179 (E.D. La.) ("MDL 2179"). Nalco Company was named, along with other unaffiliated defendants, in six putative class action complaints related to the Deepwater Horizon oil spill and 21 complaints filed by individuals. Those complaints were consolidated in MDL 2179. The complaints generally allege, among other things, strict liability and negligence relating to the use of our Corexit dispersant in connection with the Deepwater Horizon oil spill.

Pursuant to orders issued by the Court in MDL 2179, the claims were consolidated in several master complaints, including one naming Nalco Company and others who responded to the Gulf Oil Spill (known as the “B3 Master Complaint”). On May 18, 2012, Nalco filed a motion for summary judgment against the claims in the B3 Master Complaint, on the grounds that: (i) Plaintiffs’ claims are preempted by the comprehensive oil spill response scheme set forth in the Clean Water Act and National Contingency Plan; and (ii) Nalco is entitled to derivative immunity from suit. On November 28, 2012, the Court granted Nalco’s motion and dismissed with prejudice the claims in the “B3” Master Complaint asserted against Nalco. The Court held that such claims were preempted by the Clean Water Act and National Contingency Plan. Because claims in the “B3” Master Complaint remained pending against other defendants, the Court’s decision was not a “final judgment” for purposes of appeal. Under Federal Rule of Appellate Procedure 4(a), plaintiffs will have 30 days after entry of final judgment to appeal the Court’s decision.

In December 2012 and January 2013, the MDL 2179 court issued final orders approving two settlements between BP and Plaintiffs’ Class Counsel: (1) a proposed Medical Benefits Class Action Settlement; and (2) a proposed Economic and Property Damages Class Action Settlement. Pursuant to the proposed settlements, class members agree to release claims against BP and other released parties, including Nalco Company and its related entities.

Nalco Company, the incident defendants and the other responder defendants have been named as first party defendants by Transocean Deepwater Drilling, Inc. and its affiliates (the “Transocean Entities”) (In re the Complaint and Petition of Triton Asset Leasing GmbH, et al, MDL No. 2179, Civil Action 10-2771). In April and May 2011, the Transocean Entities, Cameron International Corporation, Halliburton Energy Services, Inc., M-I L.L.C., Weatherford U.S., L.P. and Weatherford International, Inc. (collectively, the “Cross Claimants”) filed cross claims in MDL 2179 against Nalco Company and other unaffiliated cross defendants. The Cross Claimants generally allege, among other things, that if they are found liable for damages resulting from the Deepwater Horizon explosion, oil spill and/or spill response, they are entitled to indemnity or contribution from the cross defendants.

In April and June 2011, in support of its defense of the claims against it, Nalco Company filed counterclaims against the Cross Claimants. In its counterclaims, Nalco Company generally alleges that if it is found liable for damages resulting from the Deepwater Horizon explosion, oil spill and/or spill response, it is entitled to contribution or indemnity from the Cross Claimants.

In May 2016, Nalco was named in nine additional complaints filed by individuals alleging, among other things, business and economic loss resulting from the Deepwater Horizon oil spill. In April 2017, Nalco was named in two additional complaints filed by individuals seeking, among other things, business and economic loss resulting from the Deepwater Horizon oil spill. The plaintiffs in these lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys’ fees and costs. These actions have been consolidated in the MDL and the Company expects they will be dismissed pursuant to the Court’s November 28, 2012 order granting Nalco’s motion for summary judgment.

On February 22, 2017, the Court dismissed the “B3” Master Complaint and ordered that Plaintiffs who had previously filed a claim that fell within the scope of the “B3” Master Complaint and who had “opted out” of and not released their claims under the Medical Benefits Class Action Settlement either: (1) complete a sworn statement indicating, among other things, that they opted out of the Medical Benefits Class Action Settlement (to be completed by Plaintiffs who previously filed an individual complaint); or (2) file an individual lawsuit attaching the sworn statement as an exhibit, by a deadline date set by the Court. The Court will then determine which “B3” Plaintiffs are entitled to pursue their claims and the procedures for addressing those claims.

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

## 16. NEW ACCOUNTING PRONOUNCEMENTS

Standard	Date of Issuance	Description	Required Date of Adoption	Effect on the Financial Statements
Standards that are not yet adopted:				
ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and the Net Periodic Postretirement Benefit Cost	March 2017	Amends the requirements related to income statement presentation of the components of net periodic benefit costs. New requirements include (1) disaggregate the current-service-cost component from the other components of net benefit cost (the “other components”) and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is	January 1, 2018	Upon adoption of the standard, the Company will record only the service cost component with compensation cost in Cost of Sales and Selling, General, and Administrative costs. The other components of net period benefit cost will be presented below operating income. The Company will adopt the standard January 1, 2018. The Company is currently evaluating the impact of adoption.

presented.

ASU 2017-05 - Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	February 2017	Clarifies the scope of guidance on nonfinancial asset derecognition (ASC 610-20) including the accounting for partial sales of nonfinancial assets. The ASU defines "in-substance nonfinancial asset". Also clarifies the derecognition of all businesses should be accounted for in accordance with derecognition and deconsolidation guidance in 810-10.	January 1, 2018	The Company is currently evaluating the impact of adoption.
ASU 2017-04 - Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	January 2017	Simplifies subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill.	January 1, 2020	The ASU must be applied on a prospective basis upon adoption. The Company is currently evaluating the impact of adoption.
ASU 2017-01--Business Combinations (Topic 805): Clarifying the Definition of a Business	January 2017	Clarifies the definition of a business and provides guidance on whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.	January 1, 2018	The Company is currently evaluating the impact of adoption.
ASU 2016-18 - Statement of Cash Flows (Topic 230): Restricted Cash	November 2016	Clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows.	January 1, 2018	Presentation impact only related to restricted cash. The Company does not expect the updated guidance to have a significant impact on future financial statements.
ASU 2016-16 - Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	October 2016	Simplifies the guidance on the accounting for the income tax consequences of intra-entity transfers of assets other than inventory (e.g. intellectual property).	January 1, 2018	The Company is currently evaluating the impact of adoption.

ASU 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	August 2016	The guidance's objective is to reduce diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flow.	January 1, 2018	Presentation impact only related to eight specific cash flow items. The Company is currently evaluating the impact of adoption.
---	----------------	---	--------------------	--

Edgar Filing: ECOLAB INC. - Form 10-Q

ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	June 2016	Addresses the recognition, measurement, presentation and disclosure of credit losses on trade and reinsurance receivables, loans, debt securities, net investments in leases, off-balance-sheet credit exposures and certain other instruments. Amends guidance on reporting credit losses from an incurred model to an expected model for assets held at amortized cost, such as accounts receivable, loans and held-to-maturity debt securities. Additional disclosures will also be required.	January 1, 2020	Adoption of the standard will change how the allowance for trade and other receivables is calculated. The Company is currently evaluating the impact of adoption.
ASU 2016-02 - Leases (Topic 842)	February 2016	Introduces the recognition of lease assets and lease liabilities by lessors for those leases classified as operating leases under previous guidance.	January 1, 2019	See additional information regarding the impact of this guidance on the Company's financials at the bottom of this table in note (a).
Revenue Recognition ASUs: 2014-09 - Revenue from Contracts with Customers 2015-14 - Deferral of the Effective Date 2016-08 - Principal Versus Agent Considerations 2016-10 - Identifying Performance Obligations and Licensing 2016-11 - Revenue Recognition and Derivatives and Hedging 2016-12 - Narrow-Scope Improvements & Practical Expedients 2016-20--Technical Corrections and Improvements	Various	Recognition standard contains principles for entities to apply to determine the measurement of revenue and timing of when the revenue is recognized. The underlying principle of the updated guidance will have entities recognize revenue to depict the transfer of goods or services to customers at an amount that is expected to be received in exchange for those goods or services.	January 1, 2018	See additional information regarding the impact of this guidance on the Company's financials at the bottom of this table in note (b).

- (a) As part of implementing the new standard, the Company is in process of reviewing current accounting policies and assessing the practical expedients allowed under the new accounting guidance. In addition, the project team has started to compile and evaluate various leases. The Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption and is currently evaluating other impacts on the consolidated financial statements. The standard requires a modified retrospective transition to be applied at the beginning of the earliest comparative period presented in the year of adoption.
- (b) The Company's approach to implementing the new standard includes performing a detailed review of key contracts representative of its different businesses, and comparing historical accounting policies and practices to the new standard. The Company's focus on the identification and evaluation of performance obligations within certain contracts has identified additional performance obligations within contracts which relate to providing services to customers. These additional performance obligations, when aggregated with the service revenue that is currently reported, represent more than 10% of consolidated net sales. Upon adoption of the new standard, service revenues are expected to be reported separately from product revenues. Additionally, the Company anticipates certain costs currently classified in Selling, General, and Administrative expenses will be reclassified as Cost of Sales as they are tied to satisfaction of a service performance obligation. In addition to expanded disclosures associated with the new standard, the Company is continuing the assessment of the impact on the consolidated financial statements. The guidance permits two methods of adoption, retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company currently anticipates utilizing the full retrospective method of adoption on January 1, 2018, which is dependent upon the completion of the analysis of information necessary to restate prior period financial statements.



Edgar Filing: ECOLAB INC. - Form 10-Q

Standard	Date of Issuance	Description	Date of Adoption	Effect on the Financial Statements
Standards that were adopted:				
ASU 2015-11 - Inventory (Topic 330): Simplifying the Measurement of Inventory	July 2015	The amendment requires entities to measure inventory under the FIFO or average cost methods at the lower of cost or net realizable value.	January 1, 2017	The adoption of the guidance did not have a material impact on the Company's financial statements.
ASU 2016-01 - Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	January 2016	The amendment revises accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments.	January 1, 2017	The adoption of the guidance did not have a material impact on the Company's financial statements.
ASU 2016-05 - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	March 2016	The amendment clarifies language related to hedge accounting criteria that a change in the counterparty is not in and of itself considered a termination of the derivative or critical term of the hedging relationship.	January 1, 2017	The adoption of the guidance did not have a material impact on the Company's financial statements.
ASU 2016-07 - Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting	March 2016	Simplifies the transition to equity method accounting for entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence.	January 1, 2017	The adoption of the guidance did not have a material impact on the Company's financial statements.
ASU 2016-09 - Compensation—Stock Compensation (Topic	March 2016	The amendment includes provisions intended to simplify various aspects related to how share-based payments	January 1, 2017	The Company included appropriate

718); Improvements to Employee Share-Based Payment Accounting		are accounted for and presented in the financial statements.		disclosures within this 10-Q to adhere to this new ASU.
ASU 2017-03 - Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323)	January 2017	Amends the disclosure requirements associated with certain recently issued Accounting Standards and how they will have an impact on the Financial Statements of a registrant when such standards are adopted in a future period. It applies to ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606); ASU No. 2016-02, Leases (Topic 842); and ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and any subsequent amendments to these ASU's.	Effective Immediately	The Company included appropriate disclosure requirements within this 10-Q to adhere to this new ASU.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Ecolab Inc.:

We have reviewed the accompanying consolidated balance sheet of Ecolab Inc. and its subsidiaries as of June 30, 2017, and the related consolidated statements of income and comprehensive income for the six-month periods ended June 30, 2017 and 2016 and the consolidated statement of cash flows for the six-month periods ended June 30, 2017 and 2016. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income and equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 24, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2016, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Minneapolis, Minnesota  
August 3, 2017



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management discussion and analysis ("MD&A") provides information that we believe is useful in understanding our operating results, cash flows and financial condition. We provide quantitative information about the material sales drivers including the impact of changes in volume and pricing and the effect of acquisitions and changes in foreign currency at the corporate and segment level. We also provide quantitative information regarding special (gains) and charges, discrete tax items and other significant factors we believe are useful for understanding our results. Such quantitative drivers are supported by comments meant to be qualitative in nature. Qualitative factors are generally ordered based on estimated significance.

The MD&A should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Form 10-Q, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2016. This discussion contains various "Non-GAAP Financial Measures" and also contains various "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. We refer readers to the statements entitled "Non-GAAP Financial Measures" and "Forward-Looking Statements" located at the end of Part I of this report.

### Comparability of Results

#### Fixed Currency Foreign Exchange Rates

Management evaluates the sales and operating income performance of our non-U.S. dollar functional currency international operations based on fixed currency exchange rates, which eliminate the impact of exchange rate fluctuations on our international operations. Fixed currency amounts are updated annually at the beginning of each year based on translation into U.S. dollars at foreign currency exchange rates established by management, with all periods presented using such rates. Fixed currency exchange rates are generally based on existing market rates at the time they are established.

### Comparability of Reportable Segments

Effective in the first quarter of 2017, in order to align with the strategy for growth specifically in the pharmaceutical and personal care manufacturing operations, we established the Life Sciences operating segment. Life Sciences is comprised of customers and accounts that were previously included in our Food & Beverage and Healthcare operating segments, which were related to manufacturing in the following industries: pharmaceutical, animal health and medicine, biologic products, cosmetics and medical device. The Life Sciences operating segment is included in our

Global Industrial reportable segment. All comparisons and discussion throughout the MD&A are based on the new operating segment structure effective in the first quarter of 2017.

### Impact of Acquisitions and Divestitures

Acquisition adjusted growth rates exclude the results of our acquired businesses from the first twelve months post acquisition, exclude the results of our divested businesses from the twelve months prior to divestiture, and exclude sales to our deconsolidated Venezuelan subsidiaries from both the current period and comparable period of the prior year.

## OVERVIEW OF THE SECOND QUARTER ENDED JUNE 30, 2017

### Sales Performance

When comparing second quarter 2017 against second quarter 2016, sales performance was as follows:

- Reported net sales increased 4% to \$3,463 million, fixed currency and acquisition adjusted fixed currency sales increased 5% and 4%, respectively.
- Fixed currency sales for our Global Industrial segment increased 3% to \$1,210 million, led by Water.
- Fixed currency sales for our Global Institutional segment increased 8% to \$1,221 million, acquisition adjusted fixed currency sales increased 3%, led by growth in Specialty and Healthcare.
- Fixed currency sales for our Global Energy segment increased 4% to \$792 million, acquisition adjusted fixed currency sales increased 5%, as strong growth in well stimulation business and modest gains in the downstream business were offset by a decline in our production business.
- Fixed currency sales for our Other segment sales increased 6% to \$215 million, driven by sales growth in Pest Elimination.

## Financial Performance

When comparing second quarter 2017 against second quarter 2016, financial performance was as follows:

- Reported operating income increased 6% to \$439 million. Excluding the impact of special (gains) and charges from both 2017 and 2016 reported results, adjusted operating income was flat and our adjusted fixed currency operating income increased 1%. Acquisition adjusted fixed currency operating income decreased 1%.
- Net income attributable to Ecolab increased 15% to \$297 million. Excluding the impact of special (gains) and charges and discrete tax items from both 2017 and 2016 reported results, our adjusted net income attributable to Ecolab increased 4%.
- Diluted EPS of \$1.01 increased 16%. Excluding the impact of special (gains) and charges and discrete tax items from both 2017 and 2016 reported results, adjusted diluted EPS increased 5% to \$1.13 in the second quarter of 2017.
- Our reported tax rate was 21.4% during the second quarter of 2017, compared to 24.1% during the second quarter of 2016. Excluding the tax rate impact of special (gains) and charges and discrete tax items from both 2017 and 2016 results, our adjusted tax rate was 24.2% and 25.5% during the second quarter of 2017 and 2016, respectively.

## RESULTS OF OPERATIONS

## Net Sales

(millions)	Second Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
Reported GAAP net sales	\$ 3,462.7	\$ 3,317.2	4 %	\$ 6,624.3	\$ 6,414.6	3 %
Effect of foreign currency translation	(24.1)	(53.0)		(25.2)	(59.2)	
Non-GAAP fixed currency sales	\$ 3,438.6	\$ 3,264.2	5 %	\$ 6,599.1	\$ 6,355.4	4 %

The percentage components of the period-over-period 2017 sales change are shown below:

(percent)	Second Quarter Ended June 30	Six Months Ended June 30
	2017	2017
Volume	3%	2%
Price changes	1	1
Acquisition adjusted fixed currency sales change	4	3

Acquisitions and divestitures	1	1
Fixed currency sales change	5	4
Foreign currency translation	(1)	(1)
Reported GAAP net sales change	4%	3%

## Cost of Sales (“COS”) and Gross Profit Margin

	Second Quarter Ended June 30				Six Months Ended June 30			
	2017		2016		2017		2016	
(millions/percent)	COS	Gross Margin	COS	Gross Margin	COS	Gross Margin	COS	Gross Margin
Reported GAAP COS and gross margin	\$ 1,871.6	45.9 %	\$ 1,785.2	46.2 %	\$ 3,563.1	46.2 %	\$ 3,416.6	46.7 %
Special (gains) and charges	24.4	0.8	61.9	1.8	25.9	0.4	61.9	1.0
Non-GAAP adjusted COS and gross margin	\$ 1,847.2	46.7 %	\$ 1,723.3	48.0 %	\$ 3,537.2	46.6 %	\$ 3,354.7	47.7 %

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

Our reported gross margin was 45.9% and 46.2% for the second quarter of 2017 and 2016, respectively. Our reported gross margin for the first six months of 2017 and 2016 was 46.2% and 46.7%, respectively.

Excluding the impact of special (gains) and charges within COS, our second quarter 2017 adjusted gross margin was 46.7% and our adjusted gross margin for the first six months of 2017 was 46.6%. These percentages compared against a second quarter 2016 adjusted gross margin of 48.0% and an adjusted gross margin of 47.7% for the first six months of 2016.

Our adjusted gross margin decrease when comparing the second quarter of 2017 against the second quarter of 2016 and the comparable periods for the first six months of 2017 and 2016 was driven primarily by higher delivered product costs, which include an unfavorable currency hedge impact when compared to 2016, which more than offset pricing and cost savings.





## Selling, General and Administrative Expense

Selling, general and administrative (“SG&A”) expenses as a percentage of sales were 32.2% for the second quarter of 2017 compared to 33.0% in 2016. For the six month period, SG&A expenses were 33.3% of sales in 2017 compared to 34.0% in 2016. The decreased SG&A ratio to sales across the periods was driven primarily by sales volume leverage and cost savings, which more than offset investments in the business.

## Special (Gains) and Charges

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

(millions)	Second Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Cost of sales				
Restructuring activities	2.2	0.9	2.2	0.9
Acquisition and integration costs	11.1	-	12.6	-
Energy related charges	-	51.0	-	51.0
Other	11.1	10.0	11.1	10.0
Subtotal	24.4	61.9	25.9	61.9
Special (gains) and charges				
Restructuring activities	30.8	(2.1)	30.5	0.9
Acquisition and integration costs	4.6	1.0	10.9	3.3
Energy related charges	-	12.6	-	12.6
Venezuela related gain	(5.3)	(7.8)	(5.3)	(7.8)
Other	6.7	22.5	6.9	23.5
Subtotal	36.8	26.2	43.0	32.5
Total special (gains) and charges	\$ 61.2	\$ 88.1	\$ 68.9	\$ 94.4

## Restructuring activities

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

During the second quarter of 2017, we commenced restructuring and other cost-saving actions in order to streamline our operations. These actions include a reduction of our global workforce by approximately 530 positions, as well as asset disposals and lease terminations. As a result of these actions, we expect to incur approximately \$40 to \$45 million (\$30 to \$35 million after tax) of restructuring charges. During the second quarter of 2017, we recorded restructuring charges of \$33.0 million (\$25.0 million after tax) or \$0.08 per diluted share, related primarily to employee termination costs. The remaining charges are expected to be recognized during the second half of 2017. As of June 30, 2017, the restructuring liability balance related to these activities was \$28.4 million. We anticipate that the majority of the pretax charges will represent net cash expenditures which are expected to be paid over a period of a few months to several quarters and will be funded from operating activities. Cash payments during the second quarter of 2017 were minimal.

Net restructuring gains and charges related to our Energy and Combined restructuring plans during 2017 were minimal. During the second quarter and first six months of 2016, net restructuring activities included net restructuring gains of \$1.2 million (\$1.9 million after tax) or \$0.01 per diluted share and net restructuring charges of \$1.8 million (\$0.1 million gain after tax) or less than \$0.01 per diluted share, respectively. The restructuring liability balance was \$28.4 million and \$39.6 million as of June 30, 2017 and December 31, 2016, respectively. The reduction in liability was driven primarily by severance and other cash payments. The remaining accrual is expected to be paid over a period of a few months to several quarters and continues to be funded from operating activities.

#### Acquisition and integration related costs

Acquisition and integration costs reported in cost of sales on the Consolidated Statement of Income include \$11.1 million (\$7.0 million after tax) or \$0.02 per diluted share and \$12.6 million (\$8.0 million) or \$0.03 per diluted share during the second quarter and first six months of 2017, respectively, related primarily to recognition of accelerated rent expense upon the closure of Swisher plants and disposal of excess inventory. The second quarter and first six months of 2017 also include amounts related to recognition of fair value step-up in the Anios inventory.

Acquisition and integration costs reported in special (gains) and charges on the Consolidated Statement of Income include \$4.6 million (\$3.0 million after tax) or \$0.01 per diluted share and \$10.9 million (\$7.3 million after tax) or \$0.02 per diluted share of acquisition costs, advisory and legal fees, and integration charges for the Anios and Swisher acquisitions during the second quarter and first six months of 2017, respectively.

During the second quarter and first six months of 2016, we incurred acquisition and integration charges of \$1.0 million (\$0.7 million after tax) or less than \$0.01 per diluted share and \$3.3 million (\$2.1 million after tax) or \$0.01 per diluted share, respectively. Further information related to our acquisitions is included in Note 3.

#### Energy related charges

Oil industry activity remained depressed during 2016 when compared with 2014 levels, resulting from continued excess oil supply pressures, which have negatively impacted exploration and production investments in the energy industry, particularly in North America. As a result of these conditions and their corresponding impact on our business outlook, we recorded total charges of \$63.6 million (\$42.9 million after tax) or \$0.14 per diluted share during the second quarter and first six months of 2016, comprised of inventory write downs and related disposal costs, fixed asset charges, headcount reductions and other charges. No such charges were incurred in 2017.

The inventory write-downs and related disposal costs of \$31.1 million include adjustments due to the significant decline in activity and related prices of certain specific-use and other products, coupled with declines in replacement costs, as well as estimated costs to dispose the respective excess inventory. The fixed asset charges of \$18.2 million resulted from the write-down of certain assets related to the reduction in certain aspects of our North American Global Energy segment, as well as abandonment of certain projects under construction. The carrying value of the corresponding fixed assets was reduced to zero. The employee termination costs of \$12.8 million include a reduction in the Global Energy segment's global workforce to better align its workforce with anticipated activity levels in the near term. As of the end of the second quarter of 2017, we had \$4.3 million of corresponding severance remaining to be paid, which is expected to be paid in the next several months and be funded from operating activities.

The charges discussed above have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income.

#### Venezuela related gain

Effective as of the end of the fourth quarter of 2015, we deconsolidated our Venezuelan subsidiaries. During the second quarter of 2017 and 2016, we recorded gains of \$5.3 million (\$3.3 million after tax) or \$0.01 per diluted share and \$7.8 million (\$4.9 million after tax) or \$0.02 per diluted share, respectively, resulting from U.S. dollar cash recoveries of intercompany receivables written off at the time of deconsolidation.

#### Other

During the second quarter and first six months of 2017, we recorded charges of \$17.8 million (\$14.4 million after tax) or \$0.04 per diluted share and \$18.0 million (\$14.5 million after tax) or \$0.04 per diluted share, respectively, related to a Global Energy vendor contract termination and litigation related charges. These charges have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income.

During the second quarter and first six months of 2016, we recorded a charge of \$10.0 million (\$6.3 million after tax) or \$0.02 per diluted share related to a fixed asset impairment and related inventory charges. The fixed asset impairment corresponds to additional charges of certain U.S. production equipment and buildings, resulting from further lower production, initially impaired during the fourth quarter of 2015. This charge has been included as a component of cost of sales on the Consolidated Statement of Income.

Additionally, during the second quarter and first six months of 2016, we recorded charges of \$22.5 million (\$13.9 million after tax) or \$0.05 per diluted share and \$23.5 million (\$15.1 million after tax) or \$0.05 per diluted share, respectively, primarily consisting of litigation related charges. These charges have been included as a component of special (gains) and charges on the Consolidated Statement of Income.

## Operating Income and Operating Income Margin

(millions)	Second Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
Reported GAAP operating income	\$ 439.0	\$ 412.5	6 %	\$ 812.3	\$ 784.0	4 %
Special (gains) and charges	61.2	88.1		68.9	94.4	
Non-GAAP adjusted operating income	500.2	500.6	(0)	881.2	878.4	0
Effect of foreign currency translation	(3.9)	(6.9)		(4.6)	(10.1)	
Non-GAAP adjusted fixed currency operating income	\$ 496.3	\$ 493.7	1 %	\$ 876.6	\$ 868.3	1 %

  

(percent)	Second Quarter Ended June 30				Six Months Ended June 30			
	2017		2016		2017		2016	
Reported GAAP operating income margin	12.7	%	12.4	%	12.3	%	12.2	%
Non-GAAP adjusted operating income margin	14.4	%	15.1	%	13.3	%	13.7	%
Non-GAAP adjusted fixed currency operating income margin	14.4	%	15.1	%	13.3	%	13.7	%

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

Reported operating income increased 6% and 4% in the second quarter and the first six months of 2017, respectively, versus the comparable periods of 2016. Excluding the impact of special (gains) and charges from 2017 and 2016 reported results, our adjusted operating income was flat in both the second quarter and the first six months of 2017.

Foreign currency had a negative impact on operating income growth, as adjusted fixed currency operating income increased 1% in both in the second quarter and the first six months of 2017, when compared against the second quarter and first six months of 2016. The net impact of acquisitions and divestitures added approximately 2 and 1 percentage point, respectively, to our second quarter and first six months of 2017 adjusted fixed currency operating income growth rates.

Our second quarter and first six months of 2017 adjusted fixed currency operating income increase was driven by pricing, volume growth and cost savings in our Global Institutional, Global Industrial and Other segments, which more than offset higher delivered product costs, which includes unfavorable currency hedge impact when compared to

2016, and investments in the business.

### Interest Expense, Net

Net interest expense was \$59.6 million and \$65.3 million in the second quarter of 2017 and 2016, respectively. Net interest expense in the first six months of 2017 and 2016 was \$122.1 million and \$131.4 million, respectively. The decrease in net interest expense when comparing 2017 against 2016 was driven primarily by lower weighted average interest rates on outstanding debt and a change in the mix of currencies used in our hedging portfolio.

### Provision for Income Taxes

The following table provides a summary of our tax rate:

	Second Quarter		Six Months Ended	
	Ended June 30		June 30	
(percent)	2017	2016	2017	2016
Reported GAAP tax rate	21.4 %	24.1 %	19.6 %	24.1 %
Tax rate impact of:				
Special gains and charges	0.6	2.3	0.6	1.4
Discrete tax items	2.2	(0.9)	4.3	0.1
Non-GAAP adjusted tax rate	24.2 %	25.5 %	24.5 %	25.6 %

Our reported tax rate for 2017 and 2016 includes the tax rate impact of special gains and charges and discrete tax items, which have impacted the comparability of our historical reported tax rates, as amounts included in our special gains and charges are derived from tax jurisdictions with rates that vary from our overall non-GAAP adjusted tax rate, and discrete tax items are not necessarily consistent across periods. The tax impact of special gains and charges and discrete tax items will likely continue to impact comparability of our reported tax rate in the future.

Our second quarter 2017 reported tax expense included \$15.6 million of net tax benefits on special gains and charges and net benefits of \$9.7 million associated with discrete tax items. For the first six months of 2017, our reported tax expense included \$18.1 million of net tax benefits on special gains and charges and net benefits of \$32.5 million associated with discrete tax items.

Our second quarter and first six months of 2017 reported tax expenses were lower than the comparable periods of 2016 primarily due to \$10.8 million and \$26.8 million of excess tax benefits recorded in the second quarter and first six months of 2017, respectively, resulting from the adoption of accounting changes regarding the treatment of tax benefits on share-based compensation. The extent of excess tax benefits is subject to variation in stock price and stock option exercises. We expect excess tax benefits to impact the rate by approximately 1% to 3% for the full year of 2017.

The remaining discrete tax benefits in 2017 were driven primarily by the release of reserves for uncertain tax positions due to the expiration of statute of limitations in non-U.S. jurisdictions. The corresponding impact of these items on the reported tax rate is shown in the previous table.

Our second quarter 2016 reported tax expense included \$31.1 million of net tax benefits on special gains and charges and net expense of \$3.9 million associated with discrete tax items. For the first six months of 2016, our reported tax expense included \$33.0 million of net tax benefits on special gains and charges and net benefits of \$0.9 million associated with discrete tax items. The corresponding impact of these items on the reported tax rate is shown in the previous table.

Second quarter 2016 discrete tax items net expense was driven by individually immaterial items, including adjustments to deferred tax asset and liability positions. First quarter 2016 discrete tax items net benefits were driven primarily by the release of reserves for uncertain tax positions due to the expiration of statute of limitations in non-U.S. jurisdictions.

The decrease in the 2017 adjusted tax rate compared to 2016 was primarily driven by global tax planning strategies.

#### Net Income Attributable to Ecolab

(millions)	Second Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
Reported GAAP net income attributable to Ecolab	\$ 296.6	\$ 258.4	15 %	\$ 550.1	\$ 489.2	12 %
Adjustments:						
Special (gains) and charges, after tax	45.6	57.0		50.8	61.4	
Discrete tax net expense (benefit)	(9.7)	3.9		(32.5)	(0.9)	
Non-GAAP adjusted net income attributable to Ecolab	\$ 332.5	\$ 319.3	4 %	\$ 568.4	\$ 549.7	3 %



## Diluted EPS

(dollars)	Second Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
Reported GAAP diluted EPS	\$ 1.01	\$ 0.87	16 %	\$ 1.87	\$ 1.64	14 %
Adjustments:						
Special (gains) and charges	0.16	0.19		0.17	0.21	
Discrete tax net expense (benefit)	(0.03)	0.01		(0.11)	(0.00)	
Non-GAAP adjusted diluted EPS	\$ 1.13	\$ 1.08	5 %	\$ 1.93	\$ 1.85	4 %

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

Currency translation had minimal impact on diluted EPS for both the second quarter and first six months of 2017, when compared to the second quarter and first six months of 2016.

## SEGMENT PERFORMANCE

Fixed currency sales and operating income for the second quarter and first six months of 2017 and 2016 for each of our reportable segments were as follows:

Net Sales (millions)	Second Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
	\$	\$		\$		
Global Industrial	1,209.8	1,170.8	3 %	2,338.4	\$ 2,266.3	3 %
Global Institutional	1,221.1	1,128.4	8	2,299.2	2,165.8	6
Global Energy	792.4	762.8	4	1,549.4	1,534.4	1
Other	215.3	202.2	6	412.1	388.9	6
Subtotal at fixed currency	3,438.6	3,264.2	5	6,599.1	6,355.4	4
Effect of foreign currency translation	24.1	53.0		25.2	59.2	
Consolidated reported GAAP net sales	\$ 3,462.7	\$ 3,317.2	4 %	\$ 6,624.3	\$ 6,414.6	3 %
Operating Income (millions)	Second Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
Global Industrial	\$ 167.5	\$ 174.5	(4) %	\$ 294.5	\$ 306.0	(4) %
Global Institutional	259.8	243.0	7	451.9	435.7	4
Global Energy	73.4	79.7	(8)	146.4	142.3	3
Other	37.0	38.2	(3)	66.9	67.8	(1)
Corporate	(102.6)	(129.8)		(152.0)	(177.9)	
Subtotal at fixed currency	435.1	405.6	7	807.7	773.9	4
Effect of foreign currency translation	3.9	6.9		4.6	10.1	
Consolidated reported GAAP operating income	\$ 439.0	\$ 412.5	6 %	\$ 812.3	\$ 784.0	4 %

Unless otherwise noted, the following segment performance commentary compares the second quarter and first six months of 2017 against the second quarter and first six months of 2016.

## Global Industrial

	Second Quarter Ended		Six Months Ended					
	June 30		June 30					
	2017	2016	2017	2016				
Sales at fixed currency (millions)	\$ 1,209.8	\$ 1,170.8	\$ 2,338.4	\$ 2,266.3				
Sales at public currency (millions)	1,223.0	1,196.7	2,352.5	2,297.4				
Volume	2	%	2	%				
Price changes	1	%	1	%				
Acquisition adjusted fixed currency sales change	3	%	3	%				
Acquisitions and divestitures	1	%	0	%				
Fixed currency sales change	3	%	3	%				
Foreign currency translation	(1)	%	(1)	%				
Public currency sales change	2	%	2	%				
Operating income at fixed currency (millions)	\$ 167.5	\$ 174.5	\$ 294.5	\$ 306.0				
Operating income at public currency (millions)	170.1	178.5	297.5	311.9				
Fixed currency operating income change	(4)	%	(4)	%				
Fixed currency operating income margin	13.8	%	14.9	%	12.6	%	13.5	%
Acquisition adjusted fixed currency operating income change	(4)	%	(4)	%				
Acquisition adjusted fixed currency operating income margin	13.9	%	14.9	%	12.6	%	13.5	%
Public currency operating income change	(5)	%	(5)	%				

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

## Net Sales

Fixed currency sales for Global Industrial increased in the second quarter and first six months of 2017, benefitting from volume gains and pricing. At a regional level, both the second quarter and first six months sales showed good growth in Asia Pacific, North America and Latin America.

At an operating segment level, Water fixed currency sales increased 4% (3% acquisition adjusted) in the second quarter of 2017 and 3% (2% acquisition adjusted) in the first six months of 2017. Good growth in light industry sales led by innovative technology and service offerings. Heavy industry also recorded minimal growth. Mining sales were relatively stable as new business wins were offset by the impact of prior mine closures. Food & Beverage fixed currency sales increased 3% in the second quarter of 2017 and 3% in the first six months of 2017, benefitting from corporate account share gains and pricing, which more than offset generally flat industry trends. Growth was led by the food, beverage and brew markets. Paper fixed currency sales increased 2% in the second quarter of 2017 and 3% in the first six months of 2017, benefitting from strong sales efforts and business wins, which more than offset challenging market conditions in China and Europe. Textile Care fixed currency sales increased 2% in the second quarter of 2017 and 3% in the first six months of 2017, benefitting from new customer accounts in Europe. Life Sciences fixed currency sales increased 5% in the second quarter of 2017 and 7% in the first six months of 2017. Good growth from business wins and pricing execution, led by strong sales of cleaning and disinfection programs in the pharmaceutical market and better program penetration in the personal care market.

#### Operating Income

Fixed currency operating income and fixed currency operating income margins for Global Industrial decreased in both the second quarter and first six months of 2017. Acquisitions had minimal impact on both the fixed currency operating income growth and fixed currency operating income margins.

Acquisition adjusted fixed currency operating income margins decreased 1.0 and 0.9 percentage points during the second quarter and first six months of 2017, respectively, negatively impacted by approximately 2.5 and 1.9 percentage points for the respective periods, related to higher delivered product costs, which includes an unfavorable currency hedge impact, and investments in business. Favorable impact of sales volume gains and pricing added approximately 1.2 and 0.7 percentage points during the second quarter and first six months of 2017, respectively.

## Global Institutional

	Second Quarter Ended		Six Months Ended					
	June 30		June 30					
	2017	2016	2017	2016				
Sales at fixed currency (millions)	\$ 1,221.1	\$ 1,128.4	\$ 2,299.2	\$ 2,165.8				
Sales at public currency (millions)	1,226.1	1,144.3	2,303.4	2,185.3				
Volume	2	%	2	%				
Price changes	1	%	1	%				
Acquisition adjusted fixed currency sales change	3	%	3	%				
Acquisitions and divestitures	5	%	3	%				
Fixed currency sales change	8	%	6	%				
Foreign currency translation	(1)	%	(1)	%				
Public currency sales change	7	%	5	%				
Operating income at fixed currency (millions)	\$ 259.8	\$ 243.0	\$ 451.9	\$ 435.7				
Operating income at public currency (millions)	260.1	245.2	452.2	438.6				
Fixed currency operating income change	7	%	4	%				
Fixed currency operating income margin	21.3	%	21.5	%	19.7	%	20.1	%
Acquisition adjusted fixed currency operating income change	3	%	1	%				
Acquisition adjusted fixed currency operating income margin	21.6	%	21.7	%	19.8	%	20.3	%
Public currency operating income change	6	%	3	%				

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

## Net Sales

Fixed currency sales for Global Institutional increased in the second quarter and first six months of 2017, driven by volume growth, acquisitions and pricing gains. At a regional level, both the second quarter and first six months sales increase was led by good growth in Latin America and North America.

At an operating segment level, Institutional fixed currency sales increased 1% in both the second quarter of 2017 and first six months of 2017. Acquisition adjusted fixed currency sales increased 2% in both the second quarter and first six months of 2017, respectively, when adjusting for the divestiture of the restroom cleaning business initially acquired through the Swisher transaction. Global lodging demand continued to show modest growth while global full service restaurant industry foot traffic remained soft, particularly in North America. Specialty fixed currency sales 10% in the second quarter of 2017 and 7% in the first six months of 2017, led primarily by new account wins and growth in global quick service accounts, leveraging generally modest industry trends. New business gains remain strong, driven by increased service coverage, new product innovations, additional customer solutions and a continued focus among our customers on food safety. In addition, the timing of some existing customer shipments benefited the second quarter. Healthcare fixed currency sales increased 52% in the second quarter of 2017 and 37% in the first six months of 2017. Fixed currency sales increased 5% in both the second quarter and first six months of 2017, respectively, when adjusted for the Anios acquisition. Strong growth for Healthcare in North America and Europe reflected the continued focus on our value proposition, leading to customer gains and product penetration.

### Operating Income

Fixed currency operating income for our Global Institutional segment increased in both the second quarter and first six months of 2017. Fixed currency operating income margins decreased in both the second quarter and first six months of 2017. Acquisitions had a positive impact on fixed currency operating income growth and minimal impact on fixed currency operating income margins.

Acquisition adjusted fixed currency operating income margins decreased by 0.1 percentage points and 0.5 percentage points during the second quarter and first six months of 2017, respectively, negatively impacted by approximately 1.7 and 1.8 percentage points for the respective periods, related to innovation and customer investments and higher delivered product costs, which includes an unfavorable currency hedge impact. Sales volume and pricing gains favorably impacted acquisition adjusted fixed currency operating income margins by adding approximately 1.4 percentage points in both the second quarter and first six months of 2017.

## Global Energy

	Second Quarter Ended		Six Months Ended					
	June 30		June 30					
	2017	2016	2017	2016				
Sales at fixed currency (millions)	\$ 792.4	\$ 762.8	\$ 1,549.4	\$ 1,534.4				
Sales at public currency (millions)	797.4	771.1	1,555.3	1,538.4				
Volume	6	%	3	%				
Price changes	(1)	%	(1)	%				
Acquisition adjusted fixed currency sales change	5	%	2	%				
Acquisitions and divestitures	(1)	%	(1)	%				
Fixed currency sales change	4	%	1	%				
Foreign currency translation	(0)	%	0	%				
Public currency sales change	3	%	1	%				
Operating income at fixed currency (millions)	\$ 73.4	\$ 79.7	\$ 146.4	\$ 142.3				
Operating income at public currency (millions)	74.4	80.3	147.6	143.1				
Fixed currency operating income change	(8)	%	3	%				
Fixed currency operating income margin	9.3	%	10.4	%	9.4	%	9.3	%
Acquisition adjusted fixed currency operating income change	(4)	%	7	%				
Acquisition adjusted fixed currency operating income margin	9.2	%	10.0	%	9.3	%	8.9	%
Public currency operating income change	(7)	%	3	%				

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

## Net Sales

Fixed currency sales for Global Energy had a strong growth in the well stimulation business, while the production business showed a modest decline, impacted by continued lower price and customer product usage. Sales in our downstream rose modestly. Regionally, North America showed improvement, while our international regions showed some decline.

## Operating Income

Fixed currency operating income and fixed currency operating income margins for Global Energy decreased during the second quarter and increased during the first six months of 2017. Acquisitions had a negative impact on the fixed currency operating income and minimal impact on the fixed currency operating income margins during the second quarter and first six months of 2017.

Acquisition adjusted fixed currency operating income margins for our Global Energy segment decreased 0.8 percentage points and increased 0.4 percentage points in the second quarter and first six months of 2017, respectively. Higher delivered product costs, which includes an unfavorable currency hedge impact when compared to the first six months of 2016, a rebuild of compensation reductions made in 2016 and reduced pricing negatively impacted margins by approximately 1.9 and 1.6 percentage points in the second quarter and first six months of 2017. Cost reduction actions favorably impacted the margins by approximately 1.1 and 2.5 percentage points for the respective periods.



## Other

	Second Quarter Ended		Six Months Ended					
	June 30		June 30					
	2017	2016	2017	2016				
Sales at fixed currency (millions)	\$ 215.3	\$ 202.2	\$ 412.1	\$ 388.9				
Sales at public currency (millions)	216.2	205.1	413.1	393.5				
Volume	5	%	4	%				
Price changes	2	%	2	%				
Acquisition adjusted fixed currency sales change	6	%	6	%				
Acquisitions and divestitures	0	%	(0)	%				
Fixed currency sales change	6	%	6	%				
Foreign currency translation	(1)	%	(1)	%				
Public currency sales change	5	%	5	%				
Operating income at fixed currency (millions)	\$ 37.0	\$ 38.2	\$ 66.9	\$ 67.8				
Operating income at public currency (millions)	37.1	38.9	67.1	69.0				
Fixed currency operating income change	(3)	%	(1)	%				
Fixed currency operating income margin	17.2	%	18.9	%	16.2	%	17.4	%
Acquisition adjusted fixed currency operating income change	(3)	%	(1)	%				
Acquisition adjusted fixed currency operating income margin	17.2	%	18.9	%	16.2	%	17.4	%
Public currency operating income change	(5)	%	(3)	%				

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

## Net Sales

Fixed currency sales for Other increased in both the second quarter and first six months of 2017, driven by both volume and pricing gains. At a regional level, both the second quarter and first six months sales results showed good growth in North America.

At an operating segment level, Pest Elimination fixed currency sales increased 8% and 7% in the second quarter and first six months of 2017, respectively. Sales to food retail, hospitality, restaurant, and food processing customers led the growth. Equipment Care sales increased 2% and 3% in the second quarter and first six months of 2017,

respectively. Slower new account acquisition impacted results.

#### Operating Income

Fixed currency operating income margins for Other segment decreased 1.7 and 1.2 percentage points during the second quarter and first six months of 2017. Field investments negatively impacted comparable margins by approximately 2.8 and 2.5 percentage points for the respective periods, which more than offset the favorable impact of sales volume and pricing increases which added approximately 1.1 and 1.3 percentage points.

#### Corporate

Consistent with our internal management reporting, Corporate amounts in the table on page 35 include intangible asset amortization specifically from the Nalco merger and special (gains) and charges that are not allocated to our reportable segments. Items included within special (gains) and charges are shown in the table on page 31.

## FINANCIAL POSITION, CASH FLOWS AND LIQUIDITY

## Financial Position

Total assets were \$19.5 billion and \$18.3 billion as of June 30, 2017 and December 31, 2016, respectively. The increase in assets was driven primarily by the impact of the Anios acquisition. Total liabilities were \$12.5 billion as of June 30, 2017 and \$11.4 billion as of December 31, 2016. Total debt was \$7.7 billion as of June 30, 2017 and \$6.7 billion as of December 31, 2016.

Our net debt to earnings before interest, taxes, depreciation and amortization (“EBITDA”) and net debt to adjusted EBITDA are shown in the following table. EBITDA and adjusted EBITDA are non-GAAP measures, which are discussed further in the “Non-GAAP Financial Measures” section of this MD&A.

The inputs to EBITDA reflect the trailing twelve months of activity for the period presented.

	2017	2016
(ratio)		
Net debt to EBITDA	2.6	2.8
Net debt to adjusted EBITDA	2.6	2.3
(millions)		
Total debt	\$ 7,679.9	\$ 6,846.9
Cash	260.7	167.4
Net debt	\$ 7,419.2	\$ 6,679.5
Net income including non-controlling interest	\$ 1,306.4	\$ 968.6
Provision for income taxes	381.6	299.9
Interest expense, net	255.3	251.3
Depreciation	579.4	549.7
Amortization	291.6	295.4
EBITDA	2,814.3	2,364.9
Special (gains) and charges impacting EBITDA	80.0	504.8
Adjusted EBITDA	\$ 2,894.3	\$ 2,869.7

## Cash Flows

## Operating Activities

(millions)	Six Months Ended		Change
	June 30		
	2017	2016	
Cash provided by operating activities	\$ 859.7	\$ 874.8	\$ (15.1)

Year-over-year comparability was negatively impacted primarily by a decrease in comparable pension contributions offset by an increase in comparable income tax payments and changes in working capital (accounts receivable, inventory and accounts payable) metrics. We continue to generate strong cash flow from operations which has allowed us to fund our ongoing operations, debt repayments, investments in the business, acquisitions and pension obligations, and return cash to shareholders through share repurchases and dividend payments.

## Investing Activities

(millions)	Six Months Ended		Change
	June 30		
	2017	2016	
Cash used for investing activities	\$ 1,150.1	\$ (323.9)	\$ 1,474.0

Year-over-year comparability in our investing activities was impacted primarily by the Anios acquisition in the first quarter of 2017. See Note 3 for further information. We also continue to make investments in our business, including capital expenditures.

## Financing Activities

(millions)	Six Months Ended		
	June 30		
	2017	2016	Change
Cash provided by (used for) financing activities	\$ 226.0	\$ (477.2)	\$ 703.2

During the first six months of 2017, we had net issuances of commercial paper and notes payable of \$910 million. We repurchased \$501 million of shares, including \$300 million shares through an ASR program initiated in February 2017. Refer to Note 10 for further discussion on our ASRs. We also distributed \$223 million of dividends.

During the first six months of 2016, we issued \$400 million 2.00% and \$400 million 3.25% senior notes and repaid the remaining \$125 million of our term loan borrowings. We had net repayments of commercial paper and notes payable of \$340 million. We repurchased \$638 million of shares, including \$300 million shares through an ASR program initiated in February 2016, and distributed \$218 million of dividends.

## Liquidity and Capital Resources

We currently expect to fund all of the cash requirements which are reasonably foreseeable for the next twelve months, including scheduled debt repayments, new investments in the business, share repurchases, dividend payments, possible business acquisitions and pension and postretirement contributions with cash from operating activities and additional short-term and/or long-term borrowings. We continue to expect our operating cash flow to remain strong.

As of June 30, 2017, we had \$260.7 million of cash and cash equivalents on hand, of which \$254.7 million was held outside of the U.S.

As of June 30, 2017, we had in place a \$2.0 billion multi-year credit facility which expires in December 2019. The credit facility has been established with a diverse syndicate of banks and supports our \$2.0 billion U.S. commercial paper program and our \$2.0 billion Euro commercial paper program. The maximum aggregate amount of commercial paper that may be issued under our U.S. commercial paper program and our Euro commercial paper program may not exceed \$2.0 billion. At the end of the second quarter of 2017, we had \$581 million and \$337 million (€300 million) in outstanding U.S. and Euro commercial paper, respectively with an average annual interest rate of 0.9%. As of June 30, 2017, both programs were rated A-2 by Standard & Poor's and P-2 by Moody's.

Our long-term debt issuance and repayment activity through the first six months of 2016 is discussed in the Cash Flows – Financing Activities section of this MD&A.

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

As of June 30, 2017, Standard & Poor's and Moody's rated our long-term credit at A- (stable outlook) and Baa1 (stable outlook), respectively.

The schedule of contractual obligations included in the Financial Position and Liquidity section of our Form 10-K for the year ended December 31, 2016 disclosed total notes payable and long-term debt due within one year of \$0.5 billion. As of June 30, 2017, the total notes payable and long-term debt due within one year increased to \$1.8 billion. The increase primarily reflected commercial paper borrowings during the first six months of 2017.

Our gross liability for uncertain tax positions was \$78 million as of June 30, 2017 and \$76 million as of December 31, 2016. We are not able to reasonably estimate the amount by which the liability will increase or decrease over time; however, at this time, we do not expect significant payments related to these obligations within the next year.

## GLOBAL ECONOMIC ENVIRONMENT

### Energy Markets

Approximately 23% of our sales are generated from our Global Energy segment, the results of which, as noted further below, are subject to volatility in the oil and gas commodity markets.

Oil industry activity has been gradually recovering from 2016's lows during the first six months of 2017, with strong gains in drilling activity over the past year and recovering capital expenditure trends in 2017.

Global demand for oil and overall energy consumption has shown modest growth over this period. Oil prices have risen from their lows in early 2016.

Our global footprint and broad business portfolio within the Global Energy segment, as well as our strong execution capabilities are expected to provide the required resilience to outperform in the current market. As such, we continue to remain confident in the long-term growth prospects of the segment.

As petroleum derived materials are key inputs to many of our chemical products, lower oil prices will continue to provide benefits across our segments in the form of lower raw material costs.

#### Global Economies

Approximately half of our sales are outside of the U.S. Our international operations subject us to changes in economic conditions and foreign currency exchange rates as well as political uncertainty in some countries which could impact future operating results.

#### Brexit

On March 29, 2017, the United Kingdom (“U.K.”) government gave formal notice to the European Union (“EU”) to begin the process of negotiating the U.K.’s exit (“Brexit”) from the EU. The effects of Brexit will depend on any agreements the U.K. makes to retain access to the EU markets either during a transitional period or more permanently. The negotiations might also impact various tax reliefs and exemptions that apply to transactions between the U.K. and EU. In the longer term, any impact from Brexit on our U.K. operations will depend, in part, on the outcome of tariff, trade, regulatory, and other negotiations. We will continue to monitor the status of tax law changes and tax treaty negotiations at the U.K. and EU.

For the six months ended June 30, 2017, net sales of our U.K. operations were approximately 2% of our consolidated net sales.

#### NEW ACCOUNTING PRONOUNCEMENTS

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

#### NON-GAAP FINANCIAL MEASURES



This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operation” in Item 2, contains financial measures that have not been calculated in accordance with accounting principles generally accepted in the U.S. (GAAP). These non-GAAP measures include:

- Fixed currency sales
- Acquisition adjusted fixed currency sales
- Adjusted cost of sales
- Adjusted gross margin
- Fixed currency operating income
- Fixed currency operating income margin
- Adjusted operating income
- Adjusted operating income margin
- Adjusted fixed currency operating income
- Adjusted fixed currency operating income margin
- Acquisition adjusted fixed currency operating income
- Acquisition adjusted fixed currency operating income margin
- EBITDA
- Adjusted EBITDA
- Adjusted tax rate
  - Adjusted net income attributable to Ecolab
- Adjusted diluted EPS

We provide these measures as additional information regarding our operating results. We use these non-GAAP measures internally to evaluate our performance and in making financial and operational decisions, including with respect to incentive compensation. We believe that our presentation of these measures provides investors with greater transparency with respect to our results of operations and that these measures are useful for period-to-period comparison of results.

Our non-GAAP financial measures for cost of sales, gross margin and operating income exclude the impact of special (gains) and charges, and our non-GAAP measures for tax rate, net income attributable to Ecolab and diluted EPS further exclude the impact of discrete tax items. We include items within special (gains) and charges and discrete tax items that we believe can significantly affect the period-over-period assessment of operating results and not necessarily reflect costs and/or income associated with historical trends and future results. After tax special (gains) and charges are derived by applying the applicable local jurisdictional tax rate to the corresponding pre-tax special (gains) and charges.

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

We evaluate the performance of our international operations based on fixed currency rates of foreign exchange, which eliminate the translation impact of exchange rate fluctuations on our international results. Fixed currency amounts included in this Form 10-Q are based on translation into U.S. dollars at the fixed foreign currency exchange rates established by management at the beginning of 2017.

Acquisition adjusted growth rates exclude the results of our acquired businesses from the first twelve months post acquisition, exclude the results of our divested businesses from the twelve months prior to divestiture, and exclude sales to our deconsolidated Venezuelan subsidiaries from both the current period and comparable period of the prior year.

These non-GAAP measures are not in accordance with, or an alternative to U.S. GAAP, and may be different from non-GAAP measures used by other companies. Investors should not rely on any single financial measure when evaluating our business. We recommend that investors view these measures in conjunction with the U.S. GAAP measures included in this MD&A and we have provided reconciliations of reported U.S. GAAP amounts to the non-GAAP amounts.

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning our payments and contributions to pension and postretirement health care benefit plans; tax deductibility of goodwill; amortization expense; share repurchases; the impact of new accounting pronouncements; the impact of lawsuits, claims and environmental matters; payments related to uncertain tax positions; timing of hedged transactions; timing and funding of restructuring cash expenditures; tax rate impact of special gains and charges and discrete tax items; excess tax benefits; timing and funding of restructuring cash expenditures; tax rate impact of special gains and charges and discrete tax items; excess tax benefits; borrowing capacity; impact of oil price fluctuations regarding sales, performance compared to market and future prospects; global foreign currency markets; global credit or market risk; future cash flow; cash requirements and sources of funding; nonperformance of financial counterparties; and doing business in Iran.

Without limiting the foregoing, words or phrases such as “will likely result,” “are expected to,” “will continue,” “is anticipated,” “we believe,” “we expect,” “estimate,” “project” (including the negative or variations thereof) or similar terminology, generally identify forward-looking statements. Forward-looking statements may also represent challenging goals for us. These statements, which represent our expectations or beliefs concerning various future events, are based on current expectations that involve a number of risks and uncertainties that could cause actual results to differ materially from those of such forward-looking statements. In particular, the ultimate results of any restructuring and business improvement actions, including cost synergies, depend on a number of factors, including the development of final plans, the impact of local regulatory requirements regarding employee terminations, the time necessary to develop and implement the restructuring and other business improvement initiatives and the level of success achieved through such actions in improving competitiveness, efficiency and effectiveness. We caution that undue reliance should not be placed on such forward-looking statements, which speak only as of the date made.

Some of the factors which could cause results to differ from those expressed in any forward-looking statements are set forth under Item 1A, entitled Risk Factors, of our Form 10-K for the year ended December 31, 2016, and include the vitality of the markets we serve including the impact of oil price fluctuations on the markets served by our Global Energy segment; the impact of economic factors such as the worldwide economy, capital flows, interest rates, foreign currency risk and reduced sales and earnings in our international operations resulting from the weakening of local currencies versus the U.S. dollar; our ability to attract and retain high caliber management talent to lead our business; our ability to execute key business initiatives; potential information technology infrastructure failures or breaches in data security; exposure to global economic, political and legal risks related to our international operations including with respect to our operations in Russia; the costs and effects of complying with laws and regulations, including those relating to the environment and to the manufacture, storage, distribution, sale and use of our products; the occurrence of litigation or claims, including related to the Deepwater Horizon oil spill; our ability to develop competitive advantages through innovation; difficulty in procuring raw materials or fluctuations in raw material costs; our substantial indebtedness; our ability to acquire complementary businesses and to effectively integrate such businesses; restraints on pricing flexibility due to contractual obligations; pressure on operations from consolidation of customers, vendors or competitors; public health epidemics; potential losses arising from the impairment of goodwill or other assets; potential loss of deferred tax assets; changes in tax law and unanticipated tax liabilities; potential chemical spill or release; potential class action lawsuits; the loss or insolvency of a major customer or distributor; acts of war or terrorism; natural or man-made disasters; water shortages; severe weather conditions; and other uncertainties or risks reported from time to time in our reports to the SEC. There can be no assurances that our earnings levels will meet investors’ expectations. Except as may be required under applicable law, we do not undertake, and expressly disclaim, any duty to update our Forward-Looking Statements.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We use foreign currency forward contracts, interest rate swap agreements and foreign currency debt to manage risks associated with foreign currency exchange rates, interest rates and net investments in our foreign operations. We do not hold derivative financial instruments of a speculative nature or for trading purposes. For a more detailed discussion of derivative instruments, refer to Note 8, entitled “Derivatives and Hedging Transactions”, of the consolidated financial statements located under Part I, Item 1 of this quarterly report on Form 10-Q.

### Item 4. Controls and Procedures

As of June 30, 2017, we carried out an evaluation, under the supervision and with the participation of our management, including the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chairman of the Board and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective.

During the period January 1 through June 30, 2017, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

As previously reported, the Texas Commission on Environmental Quality (“TCEQ”) issued a Notice of Enforcement and Notice of Violation related to Ecolab’s facility in Fresno, TX on August 29, 2014, alleging violations of the facility’s air permits and various state and federal air laws, which was followed by the issuance of a draft consent decree to Ecolab on June 24, 2015. The Company subsequently signed an Agreed Order on May 2, 2016, which became effective upon approval by the TCEQ on May 4, 2017. The total administrative penalty imposed by the TCEQ

under the Agreed Order was approximately \$1.06 million. Of that amount, approximately \$425,000 was paid by the company simultaneously with its execution of the Agreed Order in May 2016, approximately \$425,000 was conditionally offset by the company's completion of three supplemental environmental projects, which it completed in May 2017, and approximately \$210,000 was deferred and will be waived contingent upon the company's compliance with the terms of the Agreed Order, which requires the company's completion of a number of technical requirements, including revisions to two permits.

Note 15, entitled "Commitments and Contingencies" located under Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

#### Item 1A. Risk Factors

In our report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on February 24, 2017, we identify under Item 1A important factors which could affect our financial performance and could cause our actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this Form 10-Q. See the section entitled Forward-Looking Statements located on page 43 of this Form 10-Q. We may also refer to such disclosure to identify factors that may cause results to differ from those expressed in other forward-looking statements made in oral presentations, including telephone conferences and/or webcasts open to the public.

The discussion below, which appeared in our report on Form 10-Q for the quarterly period ended March 31, 2017, provides updates and additions to the risk factors and should be read together with the full list of risk factors set forth in the aforementioned Form 10-K. There have been no further changes to our risk factors from those disclosed in the aforementioned reports.

Our business depends on our ability to comply with laws and governmental regulations, and we may be adversely affected by changes in laws and regulations.

Our business is subject to numerous laws and regulations relating to the environment, including evolving climate change standards, and to the manufacture, storage, distribution, sale and use of our products as well as to the conduct of our business generally, including employment and labor laws. Compliance with these laws and regulations exposes us to potential financial liability and increases our operating costs. Regulation of our products and operations continues to increase with more stringent standards, causing increased costs of operations and potential for liability if a violation occurs. The potential cost to us relating to environmental and product registration laws and regulations is uncertain due to factors such as the unknown magnitude and type of possible contamination and clean-up costs, the complexity and evolving nature of laws and regulations, and the timing and expense of compliance. Changes to current laws (including tax laws), regulations and policies could impose new restrictions, costs or prohibitions on our

current practices which would adversely affect our consolidated results of operations, financial position or cash flows.

Our subsidiaries are defendants in pending lawsuits alleging negligence and injury resulting from the use of our COREXIT dispersant in response to the Deepwater Horizon oil spill, which could expose us to monetary damages or settlement costs.

Our subsidiaries were named as defendants in pending lawsuits alleging negligence and injury resulting from the use of our COREXIT dispersant in response to the Deepwater Horizon oil spill, which could expose us to monetary damages or settlement costs. On April 22, 2010, the deepwater drilling platform, the Deepwater Horizon, operated by a subsidiary of BP plc, sank in the Gulf of Mexico after a catastrophic explosion and fire that began on April 20, 2010. A massive oil spill resulted. Approximately one week following the incident, subsidiaries of BP plc, under the authorization of the responding federal agencies, formally requested our indirect subsidiary, Nalco Company, to supply large quantities of COREXIT 9500, a Nalco oil dispersant product listed on the U.S. EPA National Contingency Plan Product Schedule. Nalco Company responded immediately by providing available COREXIT and increasing production to supply the product to BP's subsidiaries for use, as authorized and directed by agencies of the federal government.

Nalco Company and certain affiliates (collectively "Nalco") were named as a defendant in a series of class action and individual plaintiff lawsuits arising from this event. The plaintiffs in these matters claimed damages under products liability, tort and other theories. Nalco was also named as a third party defendant in certain matters. Nalco was indemnified in these matters by another of the defendants.

These cases were administratively transferred to a judge in the United States District Court for the Eastern District of Louisiana with other related cases under In Re: Oil Spill by the Oil Rig "Deepwater Horizon" in the Gulf of Mexico, on April 20, 2010, Case No. 10-md-02179 (E.D. La.) (the "MDL").

Nalco Company, the incident defendants and the other responder defendants have been named as third party defendants by Transocean Deepwater Drilling, Inc. and its affiliates (the "Transocean Entities") (In re the Complaint and Petition of Triton Asset Leasing GmbH, et al, MDL No. 2179, Civil Action 10-2771). In April and May 2011, the Transocean Entities, Cameron International Corporation, Halliburton Energy Services, Inc., M-I L.L.C., Weatherford U.S., L.P. and Weatherford International, Inc. (collectively, the "Cross Claimants") filed cross claims in MDL 2179 against Nalco Company and other unaffiliated cross defendants. The Cross Claimants generally allege, among other things, that if they are found liable for damages resulting from the Deepwater Horizon explosion, oil spill and/or spill response, they are entitled to indemnity or contribution from the cross defendants.

On November 28, 2012, the Federal Court in the MDL entered an order dismissing all claims against Nalco. Because claims remained pending against other defendants, the Court's decision was not a "final judgment" for purposes of appeal. Plaintiffs will have 30 days after entry of final judgment to appeal the Court's decision. We cannot predict whether there will be an appeal of the dismissal, the involvement we might have in these matters in the future or the potential for future litigation. However, if an appeal by plaintiffs in these lawsuits is brought and won, these suits could have a material adverse effect on our consolidated results of operations, financial position or cash flows.

In December 2012 and January 2013, the MDL court issued final orders approving two settlements between BP and Plaintiffs' Class Counsel: (1) a proposed Medical Benefits Class Action Settlement; and (2) a proposed Economic and Property Damages Class Action Settlement. Pursuant to the proposed settlements, class members agree to release claims against BP and other released parties, including Nalco Company and its related entities.

Nalco was named in nine additional complaints in May 2016, and two additional complaints in April 2017, filed by individuals alleging, among other things, business and economic loss resulting from the Deepwater Horizon oil spill. The plaintiffs in these lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys' fees and costs. These actions have been consolidated in the MDL and we expect they will be dismissed pursuant to the Court's November 28, 2012 order granting Nalco's motion for summary judgment.

On February 22, 2017, the Federal Court in the MDL ordered that plaintiffs who had previously filed a claim and who had "opted out" of and not released their claims under the Medical Benefits Class Action Settlement either: (1) complete a sworn statement indicating, among other things, that they opted out of the Medical Benefits Class Action Settlement (to be completed by plaintiffs who previously filed an individual complaint); or (2) file an individual lawsuit attaching the sworn statement as an exhibit, by a deadline date set by the Court. The Court will then determine which plaintiffs are entitled to pursue their claims and the procedures for addressing those claims.

Nalco continues to sell the COREXIT oil dispersant product and could be exposed to future lawsuits from the use of such product. We cannot predict the potential for future litigation with respect to such sales. However, if one or more of such lawsuits are brought and won, these suits could have a material adverse impact on our financial results.



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

## (c) Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased(1)	(b) Average price paid per share(2)	(c) Number of shares purchased as part of publicly announced plans or programs(3)	(d) Maximum number of shares that may yet be purchased under the plans or programs(3)
April 1-30, 2017	11,428	127.0622	-	14,222,229
May 1-31, 2017	623,491	127.3714	605,559	13,616,670
June 1-30, 2017	624,831	132.7605	616,499	13,000,171
Total	1,259,750	130.0416	1,222,058	13,000,171

- (1) Includes 37,692 shares reacquired from employees and/or directors as swaps for the cost of stock options, or shares surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.
- (2) The average price paid per share includes brokerage commissions associated with publicly announced plan purchases plus the value of such other reacquired shares.
- (3) As announced on February 24, 2015, our Board of Directors authorized the repurchase of up to 20,000,000 shares. Subject to market conditions, we expect to repurchase all shares under the open authorizations, for which no expiration date has been established, in open market or privately negotiated transactions, including pursuant to Rule 10b5-1 and accelerated share repurchase programs.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

#### Item 5. Other Information

##### Iran Threat Reduction and Syria Human Rights Act of 2012

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, the Company is required to disclose in its periodic reports if it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with entities or individuals designated pursuant to certain Executive Orders. Disclosure is required even where the activities are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and even if the activities are not covered or prohibited by U.S. law. In connection with the easing of certain sanctions by the United States against Iran in January 2016 and in compliance with the economic sanctions regulations administered by U.S. Treasury's Office of Foreign Assets Control (OFAC) and U.S. export control laws, a wholly-owned non-U.S. subsidiary of the Company completed the following sales related to businesses in our Energy operating segment pursuant to and in compliance with the terms and conditions of OFAC's General License H: sales of products used for process and water treatment applications in (i) upstream oil and gas production and (ii) petrochemical plants totaling \$321,071 during the subsidiary's second quarter ended May 31, 2017, and additional sales of such products totaling \$379,000 during June 2017, were made to a distributor in Dubai and two distributors in Iran. Our non-U.S. subsidiary intends to continue doing business in Iran under General License H in compliance with U.S. economic sanctions and export control laws, which sales may require additional disclosure pursuant to the abovementioned statute.

Item 6. Exhibits

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

(10.1a) Amended and Restated Dealer Agreement dated 9 June 2017 between Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V. (as Issuers), Ecolab Inc. (as Guarantor in respect of the notes issued by Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V.), Credit Suisse Securities (Europe) Limited (as Arranger), and Citibank Europe plc, UK Branch and Credit Suisse Securities (Europe) Limited (as Dealers).

(10.1b) Amended and Restated Note Agency Agreement dated 9 June 2017 between Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V. (as Issuers), Ecolab Inc. (as Guarantor in respect of the notes issued by Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V.), and Citibank, N.A., London Branch (as Issuer and Paying Agent).

(10.1c) Deed of Covenant made on 9 June 2017 by Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V. (as Issuers).

(10.1d) Deed of Guarantee made on 9 June 2017 by Ecolab Inc.

(10.2) Amendment No. 6 to the Ecolab Executive Death Benefits Plan, effective June 23, 2017 (incorporated by reference to Exhibit 10.1(vii) of Ecolab's Form 8-K filed on June 23, 2017). (File No. 001-9328).

(15.1) Letter regarding unaudited interim financial information.

(31.1) Rule 13a - 14(a) CEO Certification.

(31.2) Rule 13a - 14(a) CFO Certification.

(32.1) Section 1350 CEO and CFO Certifications.

(101.1)Interactive Data File.

47

---

SIGNATURE

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

ECOLAB INC.

Date: August 3, 2017 By: /s/ Bruno Lavandier  
Bruno Lavandier  
Senior Vice President and Corporate Controller  
(duly authorized officer and  
Chief Accounting Officer)

EXHIBIT INDEX

Exhibit	Document	Method of Filing
No. (10.1a)	Amended and Restated Dealer Agreement dated 9 June 2017 between Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V. (as Issuers), Ecolab Inc. (as Guarantor in respect of the notes issued by Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V.), Credit Suisse Securities (Europe) Limited (as Arranger), and Citibank Europe plc, UK Branch and Credit Suisse Securities (Europe) Limited (as Dealers).	Filed herewith electronically.

(10.1b)

Edgar Filing: ECOLAB INC. - Form 10-Q

	<p>Amended and Restated Note Agency Agreement dated 9 June 2017 between Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V. (as Issuers), Ecolab Inc. (as Guarantor in respect of the notes issued by Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V.), and Citibank, N.A., London Branch (as Issuer and Paying Agent).</p>	<p>Filed herewith electronically.</p>
(10.1c)	<p>Deed of Covenant made on 9 June 2017 by Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l., Ecolab NL 10 B.V. and Ecolab NL 11 B.V. (as Issuers).</p>	<p>Filed herewith electronically.</p>
(10.1d)	<p>Deed of Guarantee made on 9 June 2017 by</p>	<p>Filed herewith electronically.</p>

Edgar Filing: ECOLAB INC. - Form 10-Q

Ecolab Inc.

(10.2)	Amendment No. 6 to the Ecolab Executive Death Benefits Plan, effective June 23, 2017 (incorporated by reference to Exhibit 10.1(vii) of Ecolab's Form 8-K filed on June 23, 2017). (File No. 001-9328).	Incorporated by reference to Exhibit 10.1(vii) of Ecolab's Form 8-K dated June 23, 2017
(15.1)	Letter regarding unaudited interim financial information.	Filed herewith electronically.
(31.1)	Rule 13a - 14(a) CEO Certification.	Filed herewith electronically.
(31.2)	Rule 13a - 14(a) CFO Certification.	Filed herewith electronically.
(32.1)	Section 1350 CEO and CFO Certifications.	Filed herewith electronically.
(101.1)	Interactive Data File.	Filed herewith electronically.