

ECOLAB INC.  
Form 10-Q  
May 05, 2016

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 March 31, 2016

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.)

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

(Address of principal executive offices)(Zip Code)

1-800-232-6522

(Registrant's telephone number, including area code)

(Not Applicable)

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

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

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

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

Large accelerated filer

Accelerated filer

Edgar Filing: ECOLAB INC. - Form 10-Q

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

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2016.

293,305,223 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)	First Quarter Ended March 31	
	2016	2015
	\$	\$
Net sales	3,097.4	3,297.6
Operating expenses		
Cost of sales (including special charges of \$0.6 in 2015)	1,631.4	1,765.3
Selling, general and administrative expenses	1,088.2	1,136.8
Special (gains) and charges	6.3	7.8
Operating income	371.5	387.7
Interest expense, net	66.1	62.5
Income before income taxes	305.4	325.2
Provision for income taxes	73.4	89.8
Net income including noncontrolling interest	232.0	235.4
Net income attributable to noncontrolling interest	1.2	2.0
	\$	\$
Net income attributable to Ecolab	230.8	233.4
Earnings attributable to Ecolab per common share		
	\$	\$
Basic	0.78	0.78
	\$	\$
Diluted	0.77	0.77
	\$	\$
Dividends declared per common share	0.350	0.330
Weighted-average common shares outstanding		
Basic	294.4	298.2
Diluted	298.3	303.2

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



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(millions)	First Quarter Ended March 31	
	2016	2015
	\$	\$
Net income including noncontrolling interest	232.0	235.4
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments		
Foreign currency translation	(96.3)	(309.4)
Gain (loss) on net investment hedges	(15.0)	57.0
	(111.3)	(252.4)
Derivatives and hedging instruments	(10.5)	7.8
Pension and postretirement benefits		
Amortization of net actuarial loss and prior service costs included in net periodic pension and postretirement costs	5.6	8.0
	5.6	8.0
Subtotal	(116.2)	(236.6)
Total comprehensive income (loss), including noncontrolling interest	115.8	(1.2)
Comprehensive income attributable to noncontrolling interest	4.6	1.0
	\$	\$
Comprehensive income (loss) attributable to Ecolab	111.2	(2.2)

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

## CONSOLIDATED BALANCE SHEET

(unaudited)

(millions, except per share amounts)	March 31 2016	December 31 2015
<b>ASSETS</b>		
Current assets		
	\$	\$
Cash and cash equivalents	268.5	92.8
Accounts receivable, net	2,248.8	2,390.2
Inventories	1,386.1	1,388.2
Deferred income taxes	-	250.0
Other current assets	291.5	326.3
Total current assets	4,194.9	4,447.5
Property, plant and equipment, net	3,227.0	3,228.3
Goodwill	6,474.9	6,490.8
Other intangible assets, net	4,031.1	4,109.2
Other assets	413.9	365.9
	\$	\$
Total assets	18,341.8	18,641.7
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
	\$	\$
Short-term debt	1,756.6	2,205.3
Accounts payable	986.1	1,049.6
Compensation and benefits	435.5	509.0
Income taxes	58.5	52.2
Other current liabilities	922.8	948.3
Total current liabilities	4,159.5	4,764.4
Long-term debt	5,082.8	4,260.2
Postretirement health care and pension benefits	1,112.4	1,117.1
Deferred income taxes	1,106.4	1,281.2
Other liabilities	228.6	238.4
Total liabilities	11,689.7	11,661.3
Equity (a)		
Common stock	351.0	350.3
Additional paid-in capital	5,088.0	5,086.1
Retained earnings	6,288.3	6,160.3
Accumulated other comprehensive loss	(1,536.1)	(1,423.3)
Treasury stock	(3,609.8)	(3,263.5)
Total Ecolab shareholders' equity	6,581.4	6,909.9
Noncontrolling interest	70.7	70.5
Total equity	6,652.1	6,980.4
	\$	\$
Total liabilities and equity	18,341.8	18,641.7

- (a) Common stock, 800.0 million shares authorized, \$1.00 par value per share, 293.3 million shares outstanding at March 31, 2016, 296.0 million shares outstanding at December 31, 2015. Shares outstanding are net of treasury stock.

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



## CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(millions)	First Quarter Ended	
	2016	2015
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net income including noncontrolling interest	232.0	235.4
Adjustments to reconcile net income including noncontrolling interest to cash provided by operating activities:		
Depreciation	139.6	142.1
Amortization	72.6	75.1
Deferred income taxes	41.1	3.2
Share-based compensation expense	29.1	25.3
Excess tax benefits from share-based payment arrangements	(6.7)	(19.7)
Pension and postretirement plan contributions	(24.0)	(21.0)
Pension and postretirement plan expense	14.2	29.3
Restructuring charges, net of cash paid	(13.7)	(9.5)
Other, net	7.5	4.8
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	113.3	(12.4)
Inventories	(1.2)	(83.6)
Other assets	(5.4)	(45.3)
Accounts payable	(58.2)	(170.0)
Other liabilities	(67.7)	(41.2)
Cash provided by operating activities	472.5	112.5
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(140.1)	(166.8)
Capitalized software expenditures	(8.6)	(6.8)
Property and other assets sold	7.3	6.0
Acquisitions and investments in affiliates, net of cash acquired	(9.5)	(10.8)
Release from acquisition related escrow	-	9.4
Cash used for investing activities	(150.9)	(169.0)
<b>FINANCING ACTIVITIES</b>		
Net issuances (repayments) of commercial paper and notes payable	(329.6)	335.7
Long-term debt borrowings	794.1	595.5
Long-term debt repayments	(125.7)	(375.7)
Reacquired shares	(389.9)	(412.6)
Dividends paid	(108.0)	(99.8)
Exercise of employee stock options	9.3	23.0
Excess tax benefits from share-based payment arrangements	6.7	19.7
Acquisition related liabilities and contingent consideration	(2.3)	0.1
Cash provided by (used for) financing activities	(145.4)	85.9

Effect of exchange rate changes on cash and cash equivalents	(0.5)	(1.1)
Increase in cash and cash equivalents	175.7	28.3
Cash and cash equivalents, beginning of period	92.8	209.6
	\$	\$
Cash and cash equivalents, end of period	268.5	237.9

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 first quarter ended March 31, 2016 and 2015 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, 2015 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, 2015.

During the first quarter of 2016, the company early-adopted the accounting guidance issued in November 2015 that requires all deferred tax assets and liabilities to be classified as noncurrent on the Consolidated Balance Sheet, using the prospective application method. Prior periods have not been retrospectively adjusted for adoption of this guidance. Previous guidance required the deferred taxes for each jurisdiction to be presented as a net current asset or liability and net noncurrent asset or liability. As a result of the new guidance, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that only permits offsetting deferred tax assets and liabilities within a single jurisdiction.

With respect to the unaudited financial information of the company for the first quarter ended March 31, 2016 and 2015 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. Their separate report dated May 5, 2016 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (the "Act"), for their report on the unaudited financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

## 2. SPECIAL (GAINS) AND CHARGES

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

(millions)	First Quarter Ended March 31	
	2016	2015
Cost of sales		\$
Restructuring charges	\$ -	0.6
Special (gains) and charges		
Restructuring charges	3.0	2.1
Champion integration costs	-	5.2
Nalco integration costs	-	0.5
Other	3.3	-
Subtotal	6.3	7.8
	\$	\$
Total special (gains) and charges	6.3	8.4

For segment reporting purposes, special (gains) and charges are included in the Corporate segment, which is consistent with the company's internal management reporting.

## Restructuring Charges

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

Restructuring charges have been included as a component of cost of sales and special (gains) and charges on the Consolidated Statement of Income. Amounts included as a component of cost of sales include supply chain related severance and other asset write-downs associated with combining operations. Restructuring liabilities have been classified as a component of both other current and other noncurrent liabilities on the Consolidated Balance Sheet.

### Energy Restructuring Plan

In April 2013, following the completion of the acquisition of privately held Champion Technologies and its related company Corsicana Technologies (collectively “Champion”), the company commenced plans to undertake restructuring and other cost-saving actions to realize its acquisition-related cost synergies as well as streamline and strengthen Ecolab’s position in the global energy market (the “Energy Restructuring Plan”). Actions associated with the acquisition to improve the effectiveness and efficiency of the business included a reduction of the combined business’s global workforce. Actions also included leveraging and simplifying its global supply chain, including the reduction of plant, distribution center and redundant facility locations and product line optimization.

Restructuring charges within the Energy Restructuring Plan were substantially completed during the fourth quarter of 2015. The company recorded \$2.9 million (\$1.7 million after tax) and \$1.0 million (\$0.8 million after tax) during the first quarter of 2016 and 2015, respectively.

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

(millions)	Employee Termination Costs	Asset Disposals	Other	Total
<b>2013 - 2015 Activity</b>				
Recorded expense and accrual	\$ 55.6	\$ 13.2	\$ 15.3	\$ 84.1
Net cash payments	(44.3)	3.9	(2.1)	(42.5)
Non-cash charges	-	(17.1)	-	(17.1)
Effect of foreign currency translation	0.4	-	-	0.4
Restructuring liability, December 31, 2015	11.7	-	13.2	24.9
<b>2016 Activity</b>				
Recorded expense and accrual	(0.4)	-	3.3	2.9
Net cash payments	(2.2)	-	(3.5)	(5.7)
Restructuring liability, March 31, 2016	\$ 9.1	\$ -	\$ 13.0	\$ 22.1

The majority of cash payments under this plan are related to severance, with the current accrual expected to be paid over a period of a few months to several quarters. The company anticipates the remaining cash expenditures will continue to be funded from operating activities.

### Combined Restructuring Plan

In February 2011, the company commenced a comprehensive plan to substantially improve the efficiency and effectiveness of its European business, as well as undertake certain restructuring activities outside of Europe, historically referred to as the “2011 Restructuring Plan”. Additionally, in January 2012, following the merger with Nalco Holding Company (“Nalco”), the company formally commenced plans to undertake restructuring actions related to the reduction of its global workforce and optimization of its supply chain and office facilities, including planned reductions of plant and distribution center locations, historically referred to as the “Merger Restructuring Plan”. During the first quarter of 2013, the company determined that the objectives of the plans discussed above were aligned, and consequently, the previously separate restructuring plans were combined into one plan.

The combined restructuring plan (the “Combined Plan”) combines opportunities and initiatives from both plans and continues to follow the original format of the Merger Restructuring Plan by focusing on global actions related to optimization of the supply chain and office facilities, including reductions of the global workforce, plant and distribution center locations.

Restructuring charges within the Combined Plan were substantially completed during the fourth quarter of 2015. Restructuring charge activity under this plan during the first quarter of 2016 was minimal. During the first quarter of 2015 the company’s restructuring charges within this plan were \$1.7 million (\$0.8 million after tax).

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

(millions)	Employee Termination Costs	Asset Disposals	Other	Total
2011 - 2015 Activity				
Recorded net expense and accrual	\$ 349.7	\$ 6.1	\$ 48.4	\$ 404.2
Net cash payments	(281.3)	16.3	(38.1)	(303.1)
Non-cash net charges	0.6	(22.4)	(4.7)	(26.5)
Effect of foreign currency translation	(9.4)	-	-	(9.4)
Restructuring liability, December 31, 2015	59.6	-	5.6	65.2
2016 Activity				
Recorded accrual adjustment	(0.2)	-	0.3	0.1
Net cash payments	(10.5)	-	(0.6)	(11.1)
Effect of foreign currency translation	0.8	-	-	0.8
Restructuring liability, March 31, 2016	\$ 49.7	\$ -	\$ 5.3	\$ 55.0

The majority of cash payments under this plan are related to severance, with the current accrual expected to be paid over a period of a few months to several quarters. The company anticipates the remaining cash expenditures will continue to be funded from operating activities.

Non-restructuring special (gains) and charges

Champion and Nalco integration costs

Integration related special charges for the Champion acquisition and Nalco merger were completed during the fourth quarter of 2015, and the company did not incur any special charges related to such transactions during the first quarter of 2016. As a result of the Champion acquisition, the company incurred charges of \$5.2 million (\$3.2 million after tax) during the first quarter of 2015. As a result of the Nalco merger, the company incurred charges of \$0.5 million (\$0.5 million after tax) during the first quarter of 2015.

### 3. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Acquisitions during the first three months of 2016 and all of 2015 were not material to the company's consolidated financial statements. The aggregate purchase price of acquisitions has been reduced for any cash or cash equivalents acquired with the acquisitions. Based upon purchase price allocations, the components of the aggregate purchase prices of completed acquisitions and immaterial purchase price adjustments during the first three months of 2016 and 2015 are shown in the following table.

(millions)	First Quarter Ended March 31	
	2016	2015
	\$	\$
Net tangible assets acquired	13.7	1.1
Identifiable intangible assets		
Customer relationships	2.5	0.6
Patents	-	2.5
Trademarks	-	0.1
Other technology	-	0.2
Total intangible assets	2.5	3.4
Goodwill	1.1	6.3
Total aggregate purchase price	17.3	10.8
Acquisition related liabilities and contingent consideration	(5.5)	(0.1)
Net cash paid for acquisitions, including acquisition related liabilities and contingent consideration	\$ 11.8	\$ 10.7

Amounts within the 2016 column of the previous table, including acquisition related liabilities, primarily relate to the purchase of certain assets of Keedak Limited, an oilfield chemical distributor in Nigeria. Amounts within the 2015 column of the previous table primarily relate to the acquisitions of Aseptix Health Sciences NV and Commercial Pest Control Pty Ltd.

The weighted average useful lives of identifiable intangible assets acquired during the first three months of 2016 and 2015, as shown in the previous table, were 5 and 11 years, respectively.



## Dispositions

There were no business disposals during the first quarter of 2016 or 2015.

## 4. BALANCE SHEET INFORMATION

(millions)	March 31 2016	December 31 2015
Accounts receivable, net		
	\$	\$
Accounts receivable	2,330.0	2,465.5
Allowance for doubtful accounts	(81.2)	(75.3)
	\$	\$
Total	2,248.8	2,390.2
Inventories		
	\$	\$
Finished goods	957.4	929.6
Raw materials and parts	423.8	440.9
Inventories at FIFO cost	1,381.2	1,370.5
FIFO cost to LIFO cost difference	4.9	17.7
	\$	\$
Total	1,386.1	1,388.2
Other current assets		
	\$	\$
Prepaid assets	115.2	94.6
Taxes receivable	123.3	137.6
Derivative assets	20.5	58.7
Other current assets	32.5	35.4
	\$	\$
Total	291.5	326.3
Property, plant and equipment, net		
	\$	\$
Land	223.1	223.7
Buildings and improvements	924.2	914.9
Leasehold improvements	81.8	81.1
Machinery and equipment	1,924.4	1,896.7
Merchandising and customer equipment	2,042.6	1,988.1

Edgar Filing: ECOLAB INC. - Form 10-Q

Capitalized software	486.4	479.9
Construction in progress	372.5	371.1
	6,055.0	5,955.5
Accumulated depreciation	(2,828.0)	(2,727.2)
	\$	\$
Total	3,227.0	3,228.3
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	3,224.0	3,232.3
Trademarks	303.4	303.6
Patents	435.7	433.4
Other technology	213.2	213.5
	4,176.3	4,182.8
Accumulated amortization		
Customer relationships	(998.5)	(945.1)
Trademarks	(110.0)	(104.7)
Patents	(136.1)	(129.0)
Other technology	(130.6)	(124.8)
	(1,375.2)	(1,303.6)
Net intangible assets subject to amortization	2,801.1	2,879.2
	\$	\$
Total	4,031.1	4,109.2
Other assets		
	\$	\$
Deferred income taxes	91.1	58.3
Pension	29.6	28.0
Other	293.2	279.6
	\$	\$
Total	413.9	365.9

(millions)	March 31 2016	December 31 2015
Other current liabilities		
	\$	\$
Discounts and rebates	272.0	270.5
Dividends payable	102.9	103.6
Interest payable	74.0	24.2
Taxes payable, other than income	94.2	110.5
Derivative liabilities	18.4	31.5
Restructuring	62.6	73.9
Other	298.7	334.1
	\$	\$
Total	922.8	948.3
Accumulated other comprehensive loss		
	\$	\$
Unrealized gain (loss) on derivative financial instruments, net of tax	(1.5)	9.0
Unrecognized pension and postretirement benefit expense, net of tax	(478.6)	(486.9)
Cumulative translation, net of tax	(1,056.0)	(945.4)
	\$	\$
Total	(1,536.1)	(1,423.3)

## 5. DEBT AND INTEREST

The following table provides the components of the company's short-term debt obligations as of March 31, 2016 and December 31, 2015.

(millions)	March 31 2016	December 31 2015
Short-term debt		
Commercial paper	\$	\$

Edgar Filing: ECOLAB INC. - Form 10-Q

	284.5	605.0
Notes payable	21.6	30.9
Long-term debt, current maturities	1,450.5	1,569.4
	\$	\$
Total	1,756.6	2,205.3

As of March 31, 2016, the company had in place a \$2.0 billion multi-year credit facility which expires in December 2019. The credit facility has been established with a diverse syndicate of banks and supports the company's \$2.0 billion U.S. commercial paper program and the company's \$200 million European commercial paper program. The company's U.S. commercial paper program, as shown in the previous table, had \$285 million and \$605 million outstanding as of March 31, 2016 and December 31, 2015, respectively. The company had no commercial paper outstanding under its European program as of either March 31, 2016 or December 31, 2015.

Edgar Filing: ECOLAB INC. - Form 10-Q

The following table provides the components of the company's long-term debt obligations, including current maturities, as of March 31, 2016 and December 31, 2015.

(millions)	Maturity by Year	March 31 2016	December 31 2015
Long-term debt			
Description / 2016 Principal Amount			
			\$
Term loan (\$0)	2016	\$ -	125.0
Series B private placement senior notes (€175 million)	2016	190.3	184.9
Five year 2011 senior notes (\$1.25 billion)	2016	1,248.3	1,247.3
Five year 2012 senior notes (\$500 million)	2017	500.8	497.9
Three year 2015 senior notes (\$300 million)	2018	299.9	297.8
Series A private placement senior notes (\$250 million)	2018	251.7	248.6
Three year 2016 senior notes (\$400 million)	2019	400.3	-
Five year 2015 senior notes (\$300 million)	2020	298.3	298.1
Ten year 2011 senior notes (\$1.25 billion)	2021	1,244.0	1,243.7
Series B private placement senior notes (\$250 million)	2023	249.1	249.1
Seven year 2016 senior notes (\$400 million)	2023	396.8	-
Ten year 2015 senior notes (€575 million)	2025	619.6	601.8
Thirty year 2011 senior notes (\$750 million)	2041	738.4	738.3
Capital lease obligations		5.3	5.6
Other		90.5	91.5
Total debt		6,533.3	5,829.6
Long-term debt, current maturities		(1,450.5)	(1,569.4)
		\$	\$
Total long-term debt		5,082.8	4,260.2

#### Term Loans

In January 2016, the company repaid the remaining \$125 million of its term loan borrowings.

#### Public Notes

In January 2016, the company issued \$800 million of debt securities consisting of a \$400 million aggregate principal three year fixed rate note with a coupon rate of 2.00% and a \$400 million aggregate principal seven year fixed rate note with a coupon rate of 3.25% ("Public Notes"). The proceeds were used to repay a portion of the company's outstanding commercial paper, repay the remaining term loan balance, and for general corporate purposes.

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

#### Other Debt

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

#### Covenants

The company is in compliance with its debt covenants as of March 31, 2016.

## Net Interest Expense

Interest expense and interest income recognized during the first quarter of 2016 and 2015 were as follows:

(millions)	First Quarter Ended March 31	
	2016	2015
	\$	\$
Interest expense	68.9	65.2
Interest income	(2.8)	(2.7)
	\$	\$
Interest expense, net	66.1	62.5

## 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.

The company tests goodwill for impairment on an annual basis during the second quarter. If circumstances change significantly, the company would also test a reporting unit's goodwill for impairment during interim periods between its annual tests. As a result of the continued challenges in the global energy market, during the first quarter of 2016, the company updated its goodwill impairment assessment for the Global Energy segment, which indicated no impairment. There has been no impairment of goodwill since the adoption of Financial Accounting Standards Board ("FASB") guidance for goodwill and other intangibles on January 1, 2002.

The changes in the carrying amount of goodwill for each of the company's reportable segments during the three months ended March 31, 2016 were as follows:

(millions)	Global Industrial	Global Institutional	Global Energy	Other	Total
	\$	\$	\$	\$	\$
December 31, 2015	2,560.8	662.7	3,151.5	115.8	6,490.8
Current year business combinations (a)	-	-	0.6	-	0.6
Prior year business combinations (b)	0.6	-	(0.1)	-	0.5
Reclassifications (c)	3.5	(0.6)	(2.9)	-	-
Effect of foreign currency translation	(6.7)	(1.7)	(8.3)	(0.3)	(17.0)
	\$	\$	\$	\$	\$
March 31, 2016	2,558.2	660.4	3,140.8	115.5	6,474.9

- (a) For 2016, none of the goodwill related to businesses acquired is expected to be tax deductible.  
(b) Represents purchase price allocation adjustments for 2015 acquisitions deemed preliminary as of December 31, 2015.  
(c) Represents immaterial reclassifications of beginning balances to conform to the current year presentation.

#### Other Intangible Assets

The Nalco trade name is the company's principle indefinite life intangible asset, which is tested for impairment on an annual basis during the second quarter. Based on the ongoing performance of the company's operating units, updating the impairment testing during the first quarter of 2016 was not deemed necessary. There has been no impairment of the Nalco trade name intangible asset since it was acquired.

The company's intangible assets subject to amortization primarily include customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections and other acceptable valuation methods. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Total amortization expense related to other intangible assets during the first quarter ended March 31, 2016 and 2015 was \$72.6 million and \$73.1 million, respectively. Estimated expense for the remaining nine month period of 2016 related to other amortizable intangible assets is expected to be \$220 million.



## 7. FAIR VALUE MEASUREMENTS

The company's financial instruments include cash and cash equivalents, investments held in rabbi trusts, accounts receivable, accounts payable, contingent consideration obligations, commercial paper, notes payable, foreign currency forward contracts, interest rate swap contracts and long-term debt.

Fair value is defined as the 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:

March 31 (millions)	2016			
	Carrying Amount	Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets				
Investments held in rabbi trusts	\$ 1.2	\$ 1.2	\$ -	\$ -

Edgar Filing: ECOLAB INC. - Form 10-Q

Foreign currency forward contracts	77.8	-	77.8	-
Interest rate swap contracts	8.7	-	8.7	-
Contingent consideration	0.3	-	-	0.3
Liabilities				
Foreign currency forward contracts	32.3	-	32.3	-
Interest rate swap contracts	9.2	-	9.2	-
Contingent consideration	15.5	-	-	15.5

December 31 (millions)	2015			
	Carrying Amount	Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets				
	\$	\$		
Investments held in rabbi trusts	2.0	2.0	\$ -	\$ -
Foreign currency forward contracts	111.2	-	111.2	-
Contingent consideration	0.3	-	-	0.3
Liabilities				
Foreign currency forward contracts	35.9	-	35.9	-
Interest rate swap contracts	5.4	-	5.4	-
Contingent consideration	15.9	-	-	15.9

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

Edgar Filing: ECOLAB INC. - Form 10-Q

Contingent consideration obligations are recognized and measured at fair value at the acquisition date. Contingent consideration is classified within level 3 as the underlying fair value is measured based on the probability-weighted present value of the consideration expected to be transferred. The consideration expected to be transferred is based on the company's expectations of various financial measures. The ultimate payment of contingent consideration could deviate from current estimates based on the actual results of these financial measures. Changes in the net fair value of contingent consideration for the three months ended March 31, 2016 were as follows:

(millions)	
	\$
Contingent consideration, December 31, 2015	15.6
Amount recognized at transaction date	-
Losses (gains) recognized in earnings	-
Settlements	-
Foreign currency translation	(0.4)
	\$
Contingent consideration, March 31, 2016	15.2

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

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

(millions)	March 31 2016		December 31 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$	\$	\$	\$
Long-term debt, including current maturities	6,533.3	6,883.1	5,829.6	6,113.6

8. DERIVATIVES AND HEDGING TRANSACTIONS

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

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

#### 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 below 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 and other current liabilities on the Consolidated Balance Sheet.

Edgar Filing: ECOLAB INC. - Form 10-Q

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

(millions)	Asset Derivatives		Liability Derivatives	
	March 31 2016	December 31 2015	March 31 2016	December 31 2015
Derivatives designated as hedging instruments:				
	\$	\$	\$	\$
Foreign currency forward contracts	57.8	70.2	7.0	3.2
Interest rate swap contracts	8.7	-	9.2	5.4
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	20.0	41.0	25.3	32.7
Gross value of derivatives	86.5	111.2	41.5	41.3
Gross amounts offset in the Consolidated Balance Sheet	(23.1)	(9.8)	(23.1)	(9.8)
	\$	\$	\$	\$
Net value of derivatives	63.4	101.4	18.4	31.5

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

(millions)	Notional Values	
	March 31 2016	December 31 2015
	\$	\$
Foreign currency forward contracts	4,000	4,000
	\$	\$
Interest rate swap agreements	1,950	1,675
Net investment hedge contracts (a)	€ 25	€ 25

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

#### 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. All cash flow hedged transactions are forecasted to occur within the next three years.

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

During 2015, the company entered into a series of forward starting interest rate swap agreements to hedge against changes in interest rates that could impact future debt issuances. The agreements were designated and effective as cash flow hedges of the expected interest payments related to the anticipated future debt issuances. Certain agreements were closed in January 2016, in conjunction with the debt issuance discussed in Note 6. During 2014, the company entered into a series of forward starting interest rate swap agreements in connection with both its U.S. public debt issuance completed in January 2015 and its euro public debt issuance completed in July 2015. During 2011, the company entered into and subsequently closed a series of forward starting interest rate swap agreements in connection with the issuance of its private placement debt. During 2006, the company entered into and subsequently closed two forward starting interest rate swap agreements related to the issuance of its senior euro notes.

The 2015, 2014, 2011 and 2006 forward starting interest rate swap agreements were designated and effective as cash flow hedges of the expected interest payments related to the debt issuances. The amounts recorded in AOCI for the respective transactions are recognized as part of interest expense over the remaining life of the notes as the forecasted interest transactions occur.

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

		First Quarter Ended March 31	
		2016	2015
(millions)			
Unrealized gain (loss) recognized into AOCI (effective portion)			
		\$	\$
Foreign currency forward contracts	AOCI (equity)	(3.7)	25.3
Interest rate swap contracts	AOCI (equity)	(8.3)	(14.4)
	Total	(12.0)	10.9
Gain (loss) recognized in income (effective portion)			
Foreign currency forward contracts	Cost of sales	12.7	4.8
	SG&A	(10.6)	0.5
	Interest expense, net	1.5	-
	Total	3.6	5.3
Interest rate swap contracts	Interest expense, net	(1.6)	(1.2)
		\$	\$
	Total	2.0	4.1

Gains and losses recognized in income related to the ineffective portion of the company's cash flow hedges were insignificant during the first three months of 2016 and 2015.

#### Fair Value Hedges

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

In January 2016, the company entered into an interest rate swap agreement that converted its \$400 million 2.00% debt from a fixed rate to a floating rate. The interest rate swap was designated as a fair value hedge.

In January 2015, the company entered into interest rate swap agreements that converted its \$300 million 1.55% debt, its \$250 million 3.69% debt and a portion of its \$1.25 billion 3.00% debt from fixed rates to floating interest rates. The

interest rate swaps were designated as fair value hedges.

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

		First Quarter Ended March 31	
		2016	2015
(millions)			
Gain on derivative recognized income			
		\$	\$
Interest rate swap	Interest expense, net	10.7	1.0
Loss on hedged item recognized income			
		\$	\$
Interest rate swap	Interest expense, net	(10.7)	(1.0)



## Net Investment Hedges

The company designates its outstanding €175 million and €575 million (total of \$816 million as of March 31, 2016) senior notes (“euronotes”) and related accrued interest as a hedge of existing foreign currency exposures related to net investments the company has in certain euro denominated functional currency subsidiaries.

In addition to the euro-denominated debt designated as net investment hedges, the company also occasionally enters into forward contracts to hedge an additional portion of its net investment in euro denominated functional currency subsidiaries.

During 2015, the company entered into forward contracts totaling €490 million, of which €105 million was closed during 2015. Also during 2015, the company de-designated €360 million of the forward contracts opened in 2015, and initiated undesignated hedges for €360 million to offset the impact of the original €360 million forward contracts.

The revaluation gains and losses on the euronotes and of the forward contracts, which are designated and effective as hedges of the company’s net investments, have been included as a component of the cumulative translation adjustment account.

Total revaluation gains and losses related to the euronotes and forward contract recorded as part of shareholders’ equity were as follows:

(millions)	First Quarter Ended March 31	
	2016	2015
Revaluation gains (losses), net of tax	\$ (15.0)	\$ 57.0

## 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)		First Quarter Ended	
		2016	2015
Gain (loss) recognized in income			
Foreign currency forward contracts	SG&A	\$ (32.6)	\$ 4.8
	Interest expense, net	(0.5)	(4.9)
	Total	\$ (33.1)	\$ (0.1)

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.

## 9. OTHER COMPREHENSIVE INCOME 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 recognition of net actuarial losses and amortization of prior service benefits.

(millions)	First Quarter Ended March 31	
	2016	2015
<b>Derivative and Hedging Instruments</b>		
Unrealized gains (losses) on derivative & hedging instruments	\$	\$
Amount recognized in AOCI	(12.0)	10.9
(Gains) losses reclassified from AOCI into income		
Cost of sales	(12.7)	(4.8)
SG&A	10.6	(0.5)
Interest expense, net	0.1	1.2
	(2.0)	(4.1)
Translation and other insignificant activity	0.8	(0.4)
Tax impact	2.7	1.4
	\$	\$
Net of tax	(10.5)	7.8
<b>Pension and Postretirement Benefits</b>		
Amount reclassified from AOCI into income		
Actuarial losses	10.9	14.5
Prior service costs	(2.0)	(1.7)
	8.9	12.8
Tax impact	(3.3)	(4.8)
	\$	\$
Net of tax	5.6	8.0

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

(millions)	First Quarter Ended March 31	
	2016	2015
Derivative (gains) losses reclassified from AOCI into income, net of tax	\$ (1.8)	\$ (3.2)
Pension and postretirement benefits net actuarial losses and prior services costs reclassified from AOCI into income, net of tax	\$ 5.6	\$ 8.0

## 10. SHAREHOLDERS' EQUITY

### Share Repurchases

In August 2011, the Finance Committee of the company's Board of Directors, via delegation by the company's Board of Directors, authorized the repurchase of 10 million common shares, including shares to be repurchased under Rule 10b5-1, which was contingent upon completion of the merger with Nalco. This authorization was completed during the first quarter of 2016. In February 2015, the company's Board of Directors authorized the repurchase of up to 20 million additional shares of its common stock, including shares to be repurchased under Rule 10b5-1. As of March 31, 2016, 19,752,942 shares remained to be repurchased under the company's repurchase authorization. The company intends to repurchase all shares under its authorization, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.

In February 2015, under the existing repurchase authorization discussed above, the company announced a \$1.0 billion share repurchase program, of which \$8 million remains to be repurchased as of March 31, 2016. This program will be completed during the second quarter of 2016.

In February 2015, the company entered into an accelerated stock repurchase (“ASR”) agreement with a financial institution to repurchase \$300 million of its common stock and received 2,066,293 shares of its common stock, which was approximately 80% of the total number of shares the company expected to be repurchased under the ASR, based on the price of the company’s common stock at that time. In connection with the finalization of the ASR agreement in April 2015, the company received an additional 555,511 shares of common stock.

The final per share purchase price and the total number of shares to be repurchased under the February 2015 ASR agreement generally was based on the volume-weighted average price of the company’s common stock during the term of the agreement. Upon final settlement of the February 2015 ASR agreement, under certain circumstances, the financial institution was obligated to deliver additional shares to the company or the company was obligated to deliver additional shares of common stock or make a cash payment, at the company’s election, to the financial institution.

In February 2016, the company entered into an additional 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.

The final per share purchase price and the total number of shares to be repurchased under the February 2016 ASR agreement generally will be based on the volume-weighted average price of the company’s common stock during the term of the agreement. Upon final settlement of the February 2016 ASR agreement, under certain circumstances, the financial institution will be obligated to deliver additional shares to the company or the company will be obligated to deliver additional shares of common stock or make a cash payment, at the company’s election, to the financial institution.

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

The ASRs were not dilutive to the company’s earnings per share calculations as of either March 31, 2016 or 2015. Additionally, neither of the ASR agreements triggered the two-class earnings per share methodology. The unsettled portion of ASRs met the criteria to be accounted for as a forward contract indexed to the company’s stock and qualified as an equity transaction as of both March 31, 2015 and 2016.

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

During the first three months of 2016, the company reacquired 3,297,674 shares of its common stock, of which 3,145,617 related to share repurchases through open market or private purchases, including the February 2016 ASR discussed above, and 152,057 related to shares withheld for taxes on the exercise of stock options and the vesting of

stock awards and units.

During all of 2015, the company reacquired 6,267,699 shares of its common stock through open market and private purchases, including the February 2015 ASR discussed above, and 398,704 of shares withheld for taxes related to the exercise of stock options and the vesting of stock awards and units.

## 11. EARNINGS ATTRIBUTABLE TO ECOLAB PER COMMON SHARE

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

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

	First Quarter Ended March 31	
	2016	2015
(millions, except per share amounts)		
	\$	\$
Net income attributable to Ecolab	230.8	233.4
Weighted-average common shares outstanding		
Basic	294.4	298.2
Effect of dilutive stock options, units and awards	3.9	5.0
Diluted	298.3	303.2
Earnings attributable to Ecolab per common share		
	\$	\$
Basic	0.78	0.78
	\$	\$
Diluted	0.77	0.77
Anti-dilutive securities excluded from the computation of earnings per share	3.6	1.9



## 12. INCOME TAXES

The company's tax rate was 24.0% and 27.6% for the first quarter of 2016 and 2015, respectively. The changes in the company's tax rate for the first quarter 2016 compared to first quarter of 2015 were primarily driven by the tax rate impact of discrete tax items and the permanent enactment of the R&D credit.

The company recognized discrete tax net benefits of \$4.8 million during the first quarter of 2016 and discrete tax net expense of \$2.6 million during the first quarter of 2015.

First quarter 2016 net benefits related to discrete tax items 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.

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

## 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 first quarter ended March 31 are as follows:

(millions)	U.S. Pension		International Pension		U.S. Postretirement Health Care	
	2016	2015	2016	2015	2016	2015
Service cost	\$ 16.8	\$ 19.1	\$ 6.9	\$ 8.5	\$ 0.8	\$ 0.9



Edgar Filing: ECOLAB INC. - Form 10-Q

Interest cost on benefit obligation	20.4	22.8	8.0	10.3	2.0	2.4
Expected return on plan assets	(35.9)	(33.2)	(13.5)	(14.1)	(0.2)	(0.2)
Recognition of net actuarial (gain) loss	7.7	12.1	3.6	4.0	(0.4)	(1.6)
Amortization of prior service cost (benefit)	(1.7)	(1.7)	(0.2)	-	(0.1)	-
	\$	\$	\$	\$	\$	\$
Total expense	7.3	19.1	4.8	8.7	2.1	1.5

As of March 31, 2016, the company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans. During the first three months of 2016, the company made payments of \$4 million to its U.S. non-contributory non-qualified defined benefit plans and estimates that it will make payments of approximately an additional \$10 million to such plans during the remainder of 2016. Subsequent to the end of the first quarter of 2016, the company made a \$150 million voluntary contribution to its non-contributory qualified U.S. pension plan.

The company contributed \$16 million to its international pension benefit plans during the first three months of 2016. The company estimates that it will contribute approximately an additional \$26 million to the international pension benefit plans during the remainder of 2016.

During the first three months of 2016, the company made payments of \$4 million to its U.S. postretirement health care benefit plans and estimates that it will make payments of approximately an additional \$13 million to such plans during the remainder of 2016.

## 14. OPERATING SEGMENTS

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

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

### 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. dollar 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 2016.

Effective as of the end of the fourth quarter of 2015, the company deconsolidated its Venezuelan subsidiaries. Prior to deconsolidation, across the second through fourth quarters of 2015, the Venezuelan bolivar operations within the company's Water, Paper, Food & Beverage, Institutional and Energy operating units were converted from the official exchange rate at the time of 6.3 bolivares to 1 U.S. dollar to the Marginal Currency System ("SIMADI") rate of approximately 200 bolivares to 1 U.S. dollar. To present the company's historical Venezuelan bolivar operations at a consistent conversion rate, the company recasted all of its Venezuelan bolivar results for the 2015 reporting year at the SIMADI conversion rate of approximately 200 bolivares to 1 U.S. dollar. Amounts reported in the "Venezuela Bolivar Impact" column shown in the following table represent the impact of Venezuelan bolivar rate conversion.

Additionally, effective in the first quarter of 2016, the company made immaterial changes to its reportable segments, including the movement of certain customers between reportable segments. These changes are presented in the "Other" column of the following table.

The impact of the preceding changes on previously reported full year 2015 reportable segment net sales and operating income is summarized as follows:

(millions)	December 31, 2015				Values at 2016 Rates
	Values at 2015 Rates	Fixed Currency Rate Change	Venezuela Bolivar Impact	Other	
Net Sales	\$	\$	\$	\$	\$
Global Industrial	4,857.8	(332.8)	(48.4)	8.9	4,485.5
Global Institutional	4,393.2	(170.5)	(3.6)	(8.2)	4,210.9
Global Energy	3,825.7	(253.6)	(100.6)	(0.7)	3,470.8
Other	773.4	(26.3)	-	-	747.1
Subtotal at fixed currency rates	13,850.1	(783.2)	(152.6)	-	12,914.3
Effect of foreign currency translation	(305.0)	783.2	152.6	-	630.8
	\$				\$
Consolidated	13,545.1	\$ -	\$ -	\$ -	13,545.1
Operating Income	\$	\$	\$	\$	\$
Global Industrial	692.7	(48.7)	(19.6)	2.0	626.4
Global Institutional	900.7	(22.8)	(0.3)	(1.0)	876.6
Global Energy	550.7	(44.2)	(40.9)	(0.1)	465.5
Other	132.0	(3.6)	-	(0.9)	127.5
Corporate	(670.8)	7.0	-	-	(663.8)
Subtotal at fixed currency rates	1,605.3	(112.3)	(60.8)	-	1,432.2
Effect of foreign currency translation	(44.0)	112.3	60.8	-	129.1
	\$				\$
Consolidated	1,561.3	\$ -	\$ -	\$ -	1,561.3

## 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)	First Quarter Ended	
	March 31	
	2016	2015
Net Sales		
	\$	\$
Global Industrial	1,079.1	1,037.7
Global Institutional	1,048.7	975.2
Global Energy	760.0	890.8
Other	187.6	172.0
Subtotal at fixed currency rates	3,075.4	3,075.7
Effect of foreign currency translation	22.0	221.9
	\$	\$
Consolidated	3,097.4	3,297.6
Operating Income		
	\$	
Global Industrial	128.7	102.6
Global Institutional	196.1	166.3
Global Energy	60.4	104.2
Other	30.1	23.1
Corporate	(48.0)	(50.6)
Subtotal at fixed currency rates	367.3	345.6
Effect of foreign currency translation	4.2	42.1
	\$	\$
Consolidated	371.5	387.7

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

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

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

## Litigation and Environmental Matters

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

## Environmental Matters

The company is currently participating in environmental assessments and remediation at approximately 40 locations, the majority of which are in the U.S., and environmental liabilities have been accrued reflecting management's best estimate of future costs. Potential insurance reimbursements are not anticipated in the company's accruals for environmental liabilities.

## Matters Related to Wage Hour Claims

The company is a defendant in five pending wage hour lawsuits claiming violations of the Fair Labor Standards Act ("FLSA") or a similar state law. Of these five suits, three have been certified for class action status.

Ross (formerly Icard) v. Ecolab, U.S. District Court — Northern District of California, case no. C 13-05097 PJH, an action under California state law, has been certified for class treatment of California Institutional employees. The Court in Ross recently granted plaintiffs' motion for partial summary judgment, finding that Institutional Route Sales Managers are not exempt from overtime pay under California wage and hour laws. The company appealed this judgment. The court has not determined damages; however the company has established an accrual, which is not material to its results of operations or financial position. This matter has been tentatively settled, subject to court approval.

In Cancilla v. Ecolab, U.S. District Court - Northern District of California, case no. CV 12-03001, the Court conditionally certified a nationwide class of Pest Elimination Service Specialists for alleged FLSA violations. The suit also seeks a purported California sub-class for alleged California wage hour law violations and certifications of classes for state law violations in Washington, Colorado, Maryland, Illinois, Missouri, Wisconsin and North Carolina. The Cancilla lawsuit has been settled. The settlement amount, which was not material to the company's operations or financial position, was paid in the first quarter of 2016.

A third pending suit, Charlot v. Ecolab Inc., U.S. District Court-Eastern District of New York, case no. CV 12-04543, seeks nationwide class certification of Institutional employees for alleged FLSA violations as well as purported state sub-classes in New York, New Jersey, Washington and Pennsylvania alleging violations of state wage hour laws. The Court in Charlot recently granted the company's motion for summary judgment against plaintiffs on the federal FLSA claims. Plaintiffs' claims under state law remain pending and the judgment in favor of Ecolab may be subject to appeal by Plaintiffs.

A fourth pending suit, Schneider v. Ecolab, United States District Court for the Northern District of Illinois, case no. 14 C 01044, seeks certification of a class of Institutional employees for alleged violations of Illinois wage and hour laws.

In a fifth pending suit, *Martino v. Ecolab*, United States District Court for the Northern District of California, case no. 5:14-cv-04358-PSG, an action under California state law, the Court has certified a class of California Institutional Territory Managers alleging violation of state wage and hour laws.

#### 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. After review and testing of a number of dispersants, on September 30, 2010, and on August 2, 2010, the EPA released toxicity data for eight oil dispersants.

The use of dispersants by the responding parties was one tool used by the government and BP to avoid and reduce damage to the Gulf area from the spill. Since the spill occurred, the EPA and other federal agencies have closely monitored conditions in areas where dispersant was applied. Nalco Company has encouraged ongoing monitoring and review of COREXIT and other dispersants and has cooperated fully with the governmental review and approval process. However, in connection with its provision of COREXIT, Nalco Company has been named in several lawsuits as described below.

Cases arising out of the Deepwater Horizon accident were administratively transferred for pre-trial purposes to a judge in the United States District Court for the Eastern District of Louisiana with other related cases under *In Re: Oil Spill by the Oil Rig "Deepwater Horizon" in the Gulf of Mexico, on April 20, 2010, Case No. 10-md-02179 (E.D. La.) ("MDL 2179")*.





## Putative Class Action Litigation

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

## Other Related Claims Pending in MDL 2179

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

Pursuant to orders issued by the court in MDL 2179, the claims were consolidated in several master complaints, including one naming Nalco Company and others who responded to the Gulf Oil Spill (known as the "B3 Master Complaint"). On May 18, 2012, Nalco filed a motion for summary judgment against the claims in the "B3" Master

Complaint, on the grounds that: (i) Plaintiffs' claims are preempted by the comprehensive oil spill response scheme set forth in the Clean Water Act and National Contingency Plan; and (ii) Nalco is entitled to derivative immunity from suit. On November 28, 2012, the Court granted Nalco's motion and dismissed with prejudice the claims in the "B3" Master Complaint asserted against Nalco. The Court held that such claims were preempted by the Clean Water Act and National Contingency Plan. Because claims in the "B3" Master Complaint remain pending against other defendants, the Court's decision is not a "final judgment" for purposes of appeal. Under Federal Rule of Appellate Procedure 4(a), plaintiffs will have 30 days after entry of final judgment to appeal the Court's decision.

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

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

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

Other Related Actions

In March 2011, Nalco Company was named, along with other unaffiliated defendants, in an amended complaint filed by an individual in the Circuit Court of Harrison County, Mississippi, Second Judicial District (Franks v. Sea Tow of South Miss, Inc., et al., Cause No. A2402-10-228 (Circuit Court of Harrison County, Mississippi)). The amended complaint generally asserts, among other things, negligence and strict product liability claims relating to the plaintiff's alleged exposure to chemical dispersants manufactured by Nalco Company. The plaintiff seeks unspecified compensatory damages, medical expenses, and attorneys' fees and costs. Plaintiff's allegations place him within the scope of the MDL 2179 Medical Benefits Class. In approving the Medical Benefits Settlement, the MDL 2179 Court barred Medical Benefits Settlement class members from prosecuting claims of injury from exposure to oil and dispersants related to the Response. As a result of the MDL court's order, on April 11, 2013, the Mississippi court stayed proceedings in the Franks case. The Franks case was dismissed in May 2014.

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

## 16. NEW ACCOUNTING PRONOUNCEMENTS

Standard	Date of Issuance	Description	Date of Adoption	Effect on the Financial Statements
Standards that are not yet adopted:				
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 company is currently evaluating the impact of adoption.
ASU 2016-09 -Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting	March 2016	The amendment includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements.	January 1, 2017	The company is currently evaluating the impact of adoption.
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 company is currently evaluating the impact of adoption.
ASU 2014-09 - Revenue from Contracts with Customers (Topic 606), ASU 2015-14 - Deferral of the Effective Date, ASU 2016-08 - Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net), and ASU 2016-10 - Identifying Performance Obligations and Licensing	August 2015	Recognition standard contains principles for entities to apply to determine the measurement of revenue and timing of when the revenue is recognized. The underlying principle of the updated guidance will have entities recognize revenue to depict the transfer of goods or services to customers at an amount that is expected to be received in exchange for those goods or services.	January 1, 2018	The company is currently evaluating the impact of adoption.

Edgar Filing: ECOLAB INC. - Form 10-Q

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	The company is currently evaluating the impact of adoption.
Standards that were adopted:				
ASU 2015-02 — Consolidation (Topic 810): Amendments to the Consolidation Analysis	February 2015	Certain factors that previously required reporting entities to consolidate a given legal entity have been eliminated, requiring fewer legal entities to be consolidated under the new guidance.	January 1, 2016	The adoption of the guidance did not have a material impact on the company's financial statements.
ASU 2015-05 — Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	April 2015	An entity that is the customer in a cloud computing arrangement that includes a software license should account for the software license element of the arrangement consistent with the acquisition of other software licenses.	January 1, 2016	The adoption of the guidance did not have a material impact on the company's financial statements.
ASU 2015-07 - Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) (a consensus of the Emerging Issues Taskforce)	May 2015	Investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient of ASC 820 should not be categorized in the fair value hierarchy. However, the reporting entity should continue to disclose information on such investments.	January 1, 2016	Presentation impact related to year end 2016 pension plan asset disclosures.
ASU 2015-16 - Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments	September 2015	The amendment requires an acquirer to recognize adjustments identified during the measurement period in the reporting period in which the adjustment amounts are determined and to recognize a cumulative catch-up, if any, in the same period on the income statement as a result of the adjustment, calculated as if the	January 1, 2016	The adoption of the guidance did not have a material impact on the company's financial statements.

accounting had been completed on the acquisition date. The amendment also requires an entity to present separately on the face of the income statement or disclose in the notes the amount of the cumulative adjustment by line item.

ASU 2015-17- Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes	November 2015	The amendment requires that all deferred tax assets and liabilities be classified as non-current in the consolidated balance sheet.	January 1, 2016	As discussed in Note 1, the company early-adopted the updated guidance in the first quarter of 2016, resulting in presentation related changes to its deferred tax assets and liabilities.
---	---------------	---	-----------------	--

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 March 31, 2016, and the related consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2016 and 2015 and the consolidated statement of cash flows for the three-month periods ended March 31, 2016 and 2015. 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, 2015, 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 26, 2016, 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, 2015, 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  
May 5, 2016





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

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

The discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Form 10-Q, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2015. 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. Fixed currency amounts also reflect all Venezuelan bolivar operations, prior to the deconsolidation of our Venezuelan operations, at the SIMADI rate of approximately 200 bolivares to 1 U.S. dollar. Public currency rate data provided within the "Segment Performance" section of this MD&A reflect amounts translated at actual public average rates of exchange prevailing during the corresponding period, and is provided for informational purposes only.

#### Venezuela Activities

Effective as of the end of the fourth quarter of 2015, we deconsolidated our Venezuelan subsidiaries. Prior to deconsolidation, across the second through fourth quarters of 2015, the Venezuelan bolivar operations within our Water, Paper, Food & Beverage, Institutional and Energy operating units were converted from the official exchange rate at the time of 6.3 bolivares to 1 U.S. dollar to the SIMADI rate of approximately 200 bolivares to 1 U.S. dollar. As noted above, within our fixed currency sales and operating results, to present our historical Venezuelan bolivar operations at a consistent conversion rate, we have reflected all Venezuelan bolivar results for the 2015 reporting year at the SIMADI conversion rate of approximately 200 bolivares to 1 U.S. dollar.

#### 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 the Venezuelan result of operations from both the current period and comparable period of the prior year.

### OVERVIEW OF THE FIRST QUARTER ENDED MARCH 31, 2016

#### Sales Performance

- First quarter 2016 sales decreased 6% to \$3,097 million, fixed currency sales were flat, and acquisition adjusted fixed currency sales decreased 2%.
- Fixed currency sales for our Global Industrial segment increased 4% to \$1,079 million when comparing first quarter 2016 against first quarter 2015. Acquisition adjusted fixed currency sales increased 2%, led by growth in Food & Beverage.
- First quarter 2016 Global Institutional segment sales, when measured in fixed rates of currency exchange, increased 8% to \$1,049 million. Acquisition adjusted fixed currency sales increased 4%, led by good Institutional and Specialty sales growth.
- Fixed currency sales for our Global Energy segment decreased 15% to \$760 million when comparing first quarter 2016 against first quarter 2015, as growth in the downstream business was more than offset by a decline in our upstream businesses.
- First quarter 2016 Other segment sales, when measured in fixed rates of currency exchange, increased 9% to \$188 million.

#### Financial Performance

- First quarter 2016 operating income decreased 4% to \$372 million. Excluding the impact of special (gains) and charges from both 2016 and 2015 reported results, first quarter 2016 adjusted operating income decreased 5% and adjusted fixed currency operating income increased 6%. The net impact of acquisitions and divestitures added approximately 1 percentage point to our first quarter of 2016 adjusted fixed currency operating income growth rate.



- First quarter 2016 net income attributable to Ecolab decreased 1% to \$231 million. Excluding the impact of special (gains) and charges and discrete tax items from both 2016 and 2015 reported results, adjusted net income attributable to Ecolab decreased 5%.
- First quarter 2016 diluted earnings per share attributable to Ecolab of \$0.77 was flat compared to first quarter 2015. Excluding the impact of special (gains) and charges and discrete tax items from both 2016 and 2015 reported results, adjusted diluted earnings per share attributable to Ecolab decreased 4%. Currency translation had an unfavorable impact of approximately \$0.11 on diluted earnings per share for the first quarter of 2016 compared to the same period of 2015.
- Our reported tax rate was 24.0% for the first quarter of 2016 compared to 27.6% for the first quarter of 2015. Excluding the tax rate impact of special (gains) and charges and discrete tax items from both 2016 and 2015 results, our adjusted tax rate was 25.7% and 27.1% for the first quarter of 2016 and 2015, respectively.

## RESULTS OF OPERATIONS

### Net Sales

(millions)	First Quarter Ended March 31		Percent Change
	2016	2015	
	\$	\$	
Reported GAAP net sales	3,097.4	3,297.6	(6) %
Effect of foreign currency translation	(22.0)	(221.9)	
	\$	\$	
Non-GAAP fixed currency sales	3,075.4	3,075.7	0 %

As shown in the table above, foreign currency exchange negatively impacted sales growth during the first quarter of 2016. The percentage components of the period-over-period 2016 sales change are shown below:

(percent)	First Quarter Ended March 31 2016
Volume	(2) %
Price changes	0
Acquisition adjusted fixed currency sales change	(2)
Acquisitions and divestitures	2

Fixed currency sales change	0	
Foreign currency translation	(6)	
Reported GAAP net sales change	(6)	%

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

(millions/percent)	First Quarter Ended March 31 2016		2015	
	COS	Gross Margin	COS	Gross Margin
	\$			
Reported GAAP COS and gross margin	1,631.4	47.3 %	\$ 1,765.3	46.5 %
Special (gains) and charges	-	-	0.6	0.0
	\$			
Non-GAAP adjusted COS and gross margin	1,631.4	47.3 %	\$ 1,764.7	46.5 %

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 47.3% and 46.5% for the first quarter of 2016 and 2015, respectively.

Our reported COS included special (gains) and charges of \$0.6 million during the first quarter of 2015. Special (gains) and charges included within COS are shown within the table on page 30, and the corresponding impact to our gross margin is shown in the previous table. As shown, the impact of special (gains) and charges on our gross margin during the first quarter of 2015 was minimal.

Our adjusted gross margin increase when comparing the first quarter of 2016 against the first quarter of 2015 was driven primarily by lower delivered product costs, cost efficiencies and the impact of the decline in Global Energy, which on average has a lower gross margin.

## Selling, General and Administrative Expense

Selling, general and administrative (“SG&A”) expenses as a percentage of sales were 35.1% for the first quarter of 2016 compared to 34.5% in 2015. The increased SG&A ratio to sales across the periods was driven primarily by the impact of the decline in Global Energy, which on average has a lower SG&A ratio.

## Special (Gains) and Charges

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

(millions)	First Quarter Ended March 31	
	2016	2015
Cost of sales		\$
Restructuring charges	\$ -	0.6
Special (gains) and charges		
Restructuring charges	3.0	2.1
Champion integration costs	-	5.2
Nalco integration costs	-	0.5
Other	3.3	-
Subtotal	6.3	7.8
	\$	\$
Total special (gains) and charges	6.3	8.4

## Restructuring charges

## Energy Restructuring Plan

In April 2013, following the completion of the acquisition of Champion we commenced plans to undertake restructuring and other cost-saving actions to realize our acquisition-related cost synergies as well as streamline and strengthen our position in the global energy market (the “Energy Restructuring Plan”). Actions associated with the

acquisition to improve the effectiveness and efficiency of the business include a reduction of the combined business's global workforce. Actions also include leveraging and simplifying our global supply chain, including the reduction of plant, distribution center and redundant facility locations and product line optimization.

Restructuring charges within the Energy Restructuring Plan were substantially completed during the fourth quarter of 2015. We recorded \$2.9 million (\$1.7 million after tax) or \$0.01 per diluted share and \$1.0 million (\$0.8 million after tax) or less than \$0.01 per diluted share during the first quarter of 2016 and 2015, respectively.

Net cash payments under the Energy Restructuring Plan during the first three months of 2016 were \$5.7 million. The majority of cash payments under this plan are related to severance, with the current accrual expected to be paid over a period of a few months to several quarters. We anticipate the remaining cash expenditures will continue to be funded from operating activities.

For the first three months of 2016, the Energy Restructuring Plan has achieved approximately \$10 million in incremental savings as compared to 2015. We anticipate cumulative cost savings from the Energy Restructuring Plan, along with synergies achieved in connection with the acquisition, of \$150 million by the end of 2016.

#### Combined Restructuring Plan

In February 2011, we commenced a comprehensive plan to substantially improve the efficiency and effectiveness of its European business, as well as undertake certain restructuring activities outside of Europe, historically referred to as the "2011 Restructuring Plan". Additionally, in January 2012, following the merger with Nalco, we formally commenced plans to undertake restructuring actions related to the reduction of its global workforce and optimization of its supply chain and office facilities, including planned reductions of plant and distribution center locations, historically referred to as the "Merger Restructuring Plan". During the first quarter of 2013, we determined that the objectives of the plans discussed above were aligned, and consequently, the previously separate restructuring plans were combined into one plan.

The combined restructuring plan (the "Combined Plan") combines opportunities and initiatives from both plans and continues to follow the original format of the Merger Restructuring Plan by focusing on global actions related to optimization of the supply chain and office facilities, including reductions of the global workforce, plant and distribution center locations.

Restructuring charges within the Combined Plan were substantially completed during the fourth quarter of 2015. Restructuring charge activity under this plan during the first quarter of 2016 was minimal. During the first quarter of 2015 our restructuring charges within this plan were \$1.7 million (\$0.8 million after tax) or less than \$0.01 per diluted share.





Net cash payments under the Combined Plan during the first three months of 2016 were \$11.1 million. The majority of cash payments under this plan are related to severance, with the current accrual expected to be paid over a period of a few months to several quarters. We anticipate the remaining cash expenditures will continue to be funded from operating activities.

For the first three months of 2016, the Combined Plan has achieved approximately \$10 million in incremental savings as compared to 2015. We anticipate cumulative cost savings from the Energy Restructuring Plan of \$420 million by the end of 2016.

Restructuring charges have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income. Further details related to our reported restructuring charges are included in Note 2.

Non-restructuring special (gains) and charges

Champion and Nalco integration costs

Integration related special charges for the Champion acquisition and Nalco merger were completed during the fourth quarter of 2015, and we did not incur any special charges related to such transactions during the first quarter of 2016. As a result of the Champion acquisition, we incurred charges of \$5.2 million (\$3.2 million after tax), or \$0.01 per diluted share during the first quarter of 2015. As a result of the Nalco merger, we incurred charges of \$0.5 million (\$0.5 million after tax), or less than \$0.01 per diluted share during the first quarter of 2015.

Operating Income and Operating Income Margin

(millions)	First Quarter Ended		Percent Change 2016
	2016	2015	
Reported GAAP operating income	\$ 371.5	\$ 387.7	(4) %
Special (gains) and charges	6.3	8.4	
Non-GAAP adjusted operating income	377.8	396.1	(5)
Effect of foreign currency translation	(4.2)	(42.1)	
Non-GAAP adjusted fixed currency operating income	\$ 373.6	\$ 354.0	6 %

First Quarter Ended

Edgar Filing: ECOLAB INC. - Form 10-Q

(percent)	March 31	
	2016	2015
Reported GAAP operating income margin	12.0 %	11.8 %
Non-GAAP adjusted operating income margin	12.2 %	12.0 %
Non-GAAP adjusted fixed currency operating income margin	12.1 %	11.5 %

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

Reported operating income decreased 4% in the first quarter of 2016, when compared against first quarter of 2015. Excluding the impact of special (gains) and charges from 2016 and 2015 reported results, our first quarter adjusted operating income decreased 5%. Foreign currency had a negative impact on operating income growth, as adjusted fixed currency operating income increased 6% in the first quarter of 2016 against first quarter of 2015. The net impact of acquisitions and divestitures added approximately 1 percentage point to our first quarter of 2016 adjusted fixed currency operating income growth rate.

The first quarter of 2016 adjusted fixed currency operating income increase and the improving trend in our adjusted fixed currency operating income margin were driven primarily by sales volume increases, pricing gains and lower delivered product costs in our Global Industrial, Global Institutional and Other segments, which more than offset lower Global Energy sales volume and pricing.

#### Interest Expense, Net

Net interest expense was \$66.1 million and \$62.5 million in the first quarter of 2016 and 2015, respectively. The increase in net interest expense when comparing 2016 against 2015 was driven primarily by higher weighted-average interest rates on outstanding debt.

## Provision for Income Taxes

The following table provides a summary of our tax rate:

(percent)	First Quarter Ended March 31	
	2016	2015
Reported GAAP tax rate	24.0%	27.6 %
Tax rate impact of:		
Special gains and charges	0.2	0.2
Discrete tax items	1.5	(0.7)
Non-GAAP adjusted tax rate	25.7%	27.1 %

Our reported tax rate for 2016 and 2015 included the tax rate impact of special gains and charges and discrete tax items. Depending on the nature of our special gains and charges and discrete tax items, our reported tax rate may not be consistent on a period to period basis, as amounts included in our special gains and charges are derived from tax jurisdictions with rates that vary from our overall non-GAAP adjusted tax rate.

Our first quarter 2016 reported tax expense included \$1.9 million of net tax benefits on special gains and charges and net benefits of \$4.8 million associated with discrete tax items. The corresponding impact of these items on the reported tax rate is shown in the previous table.

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.

Our first quarter 2015 reported tax expense included \$3.1 million of net tax benefits on special gains and charges and net expense of \$2.6 million associated with discrete tax items. The corresponding impact of these items to the reported tax rate is shown in the previous table.

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

The decrease in the 2016 adjusted effective tax rate compared to 2015 was due primarily to the permanent enactment of the R&D tax credit during the fourth quarter of 2015 and the impact of global tax planning projects.

## Net Income Attributable to Ecolab

(millions)	First Quarter Ended March 31		Percent Change 2016
	2016	2015	
	\$	\$	
Reported GAAP net income	230.8	233.4	(1) %
Adjustments:			
Special (gains) and charges, after tax	4.4	5.3	
Discrete tax net expense (benefit)	(4.8)	2.6	
	\$	\$	
Non-GAAP adjusted net income	230.4	241.3	(5) %

## Diluted Earnings Per Share Attributable to Ecolab (EPS)

(dollars)	First Quarter Ended March 31		Percent Change 2016
	2016	2015	
	\$	\$	
Reported GAAP diluted EPS	0.77	0.77	0 %
Adjustments:			
Special (gains) and charges	0.01	0.02	
Discrete tax net expense (benefit)	(0.02)	0.01	
	\$	\$	
Non-GAAP adjusted diluted EPS	0.77	0.80	(4) %

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

Currency translation had an unfavorable impact of approximately \$0.11 on diluted earnings per share for the first quarter of 2016, compared to the first quarter of 2015.

## SEGMENT PERFORMANCE

Fixed currency sales and operating income for the first quarter of 2016 and 2015 for each of our reportable segments were as follows:

Net Sales (millions)	First Quarter Ended March 31		Percent Change 2016
	2016	2015	
	\$	\$	
Global Industrial	1,079.1	1,037.7	4 %
Global Institutional	1,048.7	975.2	8
Global Energy	760.0	890.8	(15)
Other	187.6	172.0	9
Subtotal at fixed currency	3,075.4	3,075.7	0
Effect of foreign currency translation	22.0	221.9	
	\$	\$	
Total reported net sales	3,097.4	3,297.6	(6) %

Operating Income (millions)	First Quarter Ended March 31		Percent Change 2016
	2016	2015	
	\$	\$	
Global Industrial	128.7	102.6	25 %
Global Institutional	196.1	166.3	18
Global Energy	60.4	104.2	(42)
Other	30.1	23.1	30
Corporate	(48.0)	(50.6)	
Subtotal at fixed currency	367.3	345.6	6
Effect of foreign currency translation	4.2	42.1	
	\$	\$	
Total reported operating income	371.5	387.7	(4) %

Global Industrial

	First Quarter Ended March 31			
	2016		2015	
Net Sales				
Fixed currency rates				
	\$		\$	
Sales (millions)	1,079.1		1,037.7	
Percentage change	4	%		
Acquisition adjusted percentage change	2	%		
Public currency rates				
	\$		\$	
Sales (millions)	1,088.8		1,127.2	
Percentage change	(3)	%		
Operating Income				
Fixed currency rates				
	\$		\$	
Operating income (millions)	128.7		102.6	
Percentage change	25	%		
Acquisition adjusted percentage change	23	%		
Operating income margin	11.9	%	9.9	%
Public currency rates				
	\$		\$	
Operating income (millions)	130.5		118.4	
Percentage change	10	%		

## Net Sales

Fixed currency sales for our Global Industrial segment increased 4% in the first quarter of 2016 (2% acquisition adjusted) impacted by both volume gains and pricing. At a regional level, the first quarter sales increase was impacted by good growth in Latin America and modest growth in Europe, North America and Asia Pacific.

At an operating unit level, Water fixed currency sales increased 5% (2% acquisition adjusted) in the first quarter of 2016. Growth was led by results in the light and heavy industries, partially offset by a double-digit decline in the mining industry. Food & Beverage fixed currency sales increased 4% in the first quarter of 2016, benefiting from share gains. Growth was led by the dairy, food and beverage markets. Paper fixed currency sales increased 1% in the first quarter of 2016, impacted by global share gains and the impact of new product innovation partially offset by slower market conditions in Greater China. Textile Care fixed currency sales increased 4% in the first quarter of 2016, benefiting from customer penetration in North America and Europe.

## Operating Income

Fixed currency operating income for our Global Industrial segment increased 25% (23% acquisition adjusted) in the first quarter of 2016. The operating income margin at fixed currency increased 2.0 percentage points in the first quarter of 2016. The increase in fixed currency operating income and improved operating margin benefited from sales volume increases, pricing gains, cost savings actions and lower delivered product costs.

## Global Institutional

	First Quarter Ended March 31			
	2016	2015		
Net Sales				
Fixed currency rates				
	\$	\$		
Sales (millions)	1,048.7	975.2		
Percentage change	8	%		
Acquisition adjusted percentage change	4	%		
Public currency rates				
	\$	\$		
Sales (millions)	1,052.9	1,013.1		
Percentage change	4	%		
Operating Income				
Fixed currency rates				
	\$	\$		
Operating income (millions)	196.1	166.3		
Percentage change	18	%		
Acquisition adjusted percentage change	19	%		
Operating income margin	18.7	%	17.1	%

## Public currency rates

	\$	\$
Operating income (millions)	196.7	170.0
Percentage change	16	%

## Net Sales

Fixed currency sales for our Global Institutional segment increased 8% (4% acquisition adjusted) in the first quarter of 2016, impacted by both volume and pricing gains. At a regional level, the first quarter sales increase was led by good growth in North America, Asia Pacific and Middle East / Africa (“MEA”).

At an operating unit level, Institutional fixed currency sales increased 10% (5% acquisition adjusted) in the first quarter of 2016. Our Institutional business continues to outperform the overall market, with results led by new accounts, appropriate pricing and continued demand for our innovative products. Specialty fixed currency sales increased 6% in the first quarter of 2016. Quick service sales growth was strong, impacted by new accounts and product penetration. Sales growth in the food retail business was modest in the quarter, impacted by comparisons against strong first quarter 2015 results. Healthcare fixed currency sales increased 1% in the first quarter of 2016. Growth in our environmental hygiene program was partially offset by a decline in OEM drapes sales.

## Operating Income

Fixed currency operating income for our Global Institutional segment increased 18% (19% acquisition adjusted) for the first quarter of 2016. Our operating income margin at fixed currency increased 1.6 percentage points in the first quarter of 2016. The increase in fixed currency operating income and improved operating margin benefited from sales volume increases, pricing gains and lower delivered product costs, which more than offset investments in the business.



## Global Energy

	First Quarter Ended March 31	
	2016	2015
Net Sales		
Fixed currency rates		
	\$	\$
Sales (millions)	760.0	890.8
Percentage change	(15) %	
Acquisition adjusted percentage change	(15) %	
Public currency rates		
	\$	\$
Sales (millions)	767.3	979.4
Percentage change	(22) %	
Operating Income		
Fixed currency rates		
	\$	\$
Operating income (millions)	60.4	104.2
Percentage change	(42) %	
Acquisition adjusted percentage change	(46) %	
Operating income margin	7.9 %	11.7 %
Public currency rates		
	\$	\$
Operating income (millions)	62.3	128.3
Percentage change	(51) %	

## Net Sales

Fixed currency sales for our Global Energy segment decreased 15% in the first quarter of 2016, negatively impacted by volume reductions and lower pricing. The decrease in fixed currency sales was impacted by a sharp decline in our well stimulation business and continued pressure on our production business, reflecting the continued weak market conditions. Our downstream business showed good sales growth in the quarter. Regionally, international growth was more than offset by soft North America results.

## Operating Income

Fixed currency operating income for our Global Energy segment decreased 42% (46% acquisition adjusted) for the first quarter of 2016. Our operating income margin at fixed currency decreased 3.8 percentage points in the first quarter of 2016. The decrease in fixed currency operating income and operating margin reductions were driven by sales volume declines and lower pricing, which more than offset delivered product cost savings, synergies and cost reduction actions.

## Other

	First Quarter Ended March 31			
	2016		2015	
Net Sales				
Fixed currency rates				
	\$		\$	
Sales (millions)	187.6		172.0	
Percentage change	9	%		
Acquisition adjusted percentage change	9	%		
Public currency rates				
	\$		\$	
Sales (millions)	188.4		177.9	
Percentage change	6	%		
Operating Income				
Fixed currency rates				
	\$		\$	
Operating income (millions)	30.1		23.1	
Percentage change	30	%		
Acquisition adjusted percentage change	30	%		
Operating income margin	16.0	%	13.4	%
Public currency rates				
	\$		\$	
Operating income (millions)	30.2		23.1	
Percentage change	31	%		

## Net Sales

Fixed currency sales for our Other segment increased 9% in the first quarter of 2016, driven by both volume and pricing gains. All regions showed solid first quarter 2016 fixed currency sales growth.

At an operating unit level, Pest Elimination fixed currency sales increased 9% in the first quarter of 2016, impacted by gains in the foodservice, food and beverage markets. Equipment Care sales increased 10% in the first quarter of 2016, driven by increases in both service and parts sales, benefiting from new customer additions.

## Operating Income

Fixed currency operating income for our Other segment increased 30% for the first quarter of 2016. Our operating income margin at fixed currency increased 2.6 percentage points in the first quarter of 2016. Fixed currency operating income results and the corresponding margin improvements were impacted by pricing gains and sales volume increases.

#### Corporate

Consistent with our internal management reporting, the Corporate segment includes intangible asset amortization specifically from the Nalco merger. The Corporate segment also includes special (gains) and charges reported on the Consolidated Statement of Income. Items included within special (gains) and charges are shown in the table on page 30.

## FINANCIAL POSITION AND LIQUIDITY

## Financial Position

Total assets were \$18.3 billion and \$18.6 billion as of March 31, 2016 and December 31, 2015, respectively. The decrease in assets was driven primarily by the impact of additional netting as a result of adopting the accounting guidance related to the presentation of deferred tax assets and liabilities, as discussed in Note 1, the negative impact of foreign currency exchange on the value of our foreign assets translated into U.S. dollars as of March 31, 2016 and the impact of intangible asset amortization.

Total liabilities were \$11.8 billion as of March 31, 2016 and \$11.7 billion as of December 31, 2015. Total debt was \$6.8 billion as of March 31, 2016 and \$6.5 billion as of December 31, 2015.

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

EBITDA and adjusted EBITDA are non-GAAP measures. As shown below, EBITDA is defined as 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. The inputs to EBITDA reflect the trailing twelve months of activity for the period presented.

	First Quarter Ended March 31	
	2016	2015
(ratio)		
Net debt to EBITDA	2.7	2.4
Net debt to adjusted EBITDA	2.3	2.4
(millions)		
Net Debt		
	\$	\$
Total debt	6,839.4	7,182.6
Cash	268.5	237.9
	\$	\$
Net debt	6,570.9	6,944.7
EBITDA		
Net income including non-controlling interest	\$	\$

Edgar Filing: ECOLAB INC. - Form 10-Q

	1,013.8	1,263.1
Provision for income taxes	284.1	474.7
Interest expense, net	247.2	254.0
Depreciation	557.0	563.7
Amortization	297.5	308.7
EBITDA	2,399.6	2,864.2
Special (gains) and charges impacting EBITDA	493.3	55.9
	\$	\$
Adjusted EBITDA	2,892.9	2,920.1

Cash Flows

Operating Activities

(millions)	First Quarter Ended			Dollar Change 2016
	March 31		2016	
	2016	2015		
Cash provided by operating activities	\$ 472.5	\$ 112.5	\$ 360.0	

Year-over-year comparability was positively impacted primarily by improved 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)	First Quarter Ended		Dollar Change 2016
	March 31		
	2016	2015	
	\$	\$	\$
Cash used for investing activities	(150.9)	(169.0)	18.1

We continue to make investments in our business, including capital expenditures. The year-over-year capital expenditure comparability was impacted by the \$20 million payment made in the first quarter of 2015 as a result of acquiring the beneficial interest in the trust owning the leased Naperville facility. See Note 5 for further information regarding this transaction.

Cash paid for acquisitions was consistent comparing the first three months of 2016 against the first three months of 2015. See Note 3 for further information on our business acquisition activity.

## Financing Activities

(millions)	First Quarter Ended		Dollar Change 2016
	March 31		
	2016	2015	
	\$	\$	\$
Cash provided by (used for) financing activities	(145.4)	85.9	(231.3)

Our first quarter 2016 financing activities included the issuance of \$400 million 2.00% and \$400 million 3.25% senior notes and repayment of the remaining \$125 million of our term loan borrowings. Our first quarter 2015 financing activities included the issuance of \$300 million 1.55% and \$300 million 2.25% senior notes, repayment of \$250 million 4.88% senior notes and repayment of \$125 million of term loan borrowings. During the first quarter of 2016, net issuances and repayments of commercial paper and notes payable led to a net decrease of \$330 million, compared to a net increase of \$336 million during the first quarter of 2015.

In February 2015, we announced a \$1.0 billion share repurchase program, of which \$8 million remains to be repurchased as of March 31, 2016. The program will be completed during the second quarter of 2016. During the first quarter of 2016, we repurchased \$390 million shares, including \$300 million shares through an ASR program initiated

in February 2016. During the first quarter of 2015, we repurchased \$413 million shares, including \$300 million shares through an ASR program initiated in February 2015. See Note 10 for further discussion on our ASRs.

## Liquidity and Capital Resources

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

As of March 31, 2016, we had \$268.5 million of cash and cash equivalents on hand, of which \$256.8 million was held outside of the U.S.

As of March 31, 2016 we had a \$2.0 billion multi-year credit facility, which expires in December 2019. The credit facility has been established with a diverse syndicate of banks. There were no borrowings under our credit facility as of March 31, 2016 or December 31, 2015.

The credit facility supports our \$2.0 billion U.S. commercial paper program and \$200 million European commercial paper program. Combined borrowing under these two commercial paper programs may not exceed \$2.0 billion. As of March 31, 2016, we had \$285 million in outstanding U.S. commercial paper, with an average annual interest rate of 0.7%, and no amounts outstanding under our European commercial paper program. As of March 31, 2016, both programs were rated A-2 by Standard & Poor's and P-2 by Moody's.

Our long-term debt issuance and repayment activity 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.

On March 28, 2016, Standard & Poor's raised our long-term credit rating to A- (stable outlook) from BBB+ (positive outlook). As of March 31, 2016, Moody's rated our long-term credit at Baa1 (stable outlook).



The schedule of contractual obligations included in the Financial Position and Liquidity section of our Form 10-K for the year ended December 31, 2015 disclosed total notes payable and long-term debt due within one year of \$2.2 billion. As of March 31, 2016, the total notes payable and long-term debt due within one year decreased to \$1.8 billion. The decrease reflected repayment of commercial paper borrowings and current maturities of long-term debt during the first three months of 2016.

Our gross liability for uncertain tax positions was \$71 million as of March 31, 2016 and \$75 million as of December 31, 2015. 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 25% 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 markets remained depressed during the first three months of 2016, resulting from continued excess supply pressures, which have negatively impacted exploration and production investments, particularly in North America. Additionally, we experienced pricing headwinds in 2016 when compared to 2015. Demand for oil and overall energy consumption has remained consistent.

Lower oil prices continue to negatively impact our 2016 Global Energy segment results. 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 United States. Our international operations subject us to changes in economic conditions and foreign currency exchange rates as well as political uncertainty in some countries which could impact future operating results.

### Global Foreign Currency Markets

The U.S. dollar remained strong against most global currencies during the first quarter of 2016, when compared against year ago levels, impacting our comparative results against 2015. As described in Note 8, we utilize our derivative program to mitigate risks associated with certain foreign currency exposures and our investments in foreign operations.

#### NEW ACCOUNTING PRONOUNCEMENTS

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

#### SUBSEQUENT EVENTS

In April 2016, we made a \$150 million voluntary contribution to our U.S. non-contributory qualified pension plan.

#### NON-GAAP FINANCIAL MEASURES

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

- Fixed currency sales
- Acquisition adjusted fixed currency sales
- Adjusted cost of sales
- Adjusted gross margin
- Fixed currency operating income
- Adjusted operating income
- Adjusted operating income margin
- Adjusted fixed currency operating income
- Adjusted fixed currency operating income margin
- EBITDA
- Adjusted EBITDA
- Adjusted tax rate
- Adjusted net income
- Adjusted diluted earnings per share



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

We include in special (gains) and charges items that are unusual in nature and significant in amount. In order to better allow investors to compare underlying business performance period-to-period, we provide adjusted cost of sales, adjusted gross margin, adjusted operating income, adjusted operating income margin, adjusted fixed currency operating income, adjusted fixed currency operating income margin, adjusted EBITDA, adjusted net income and adjusted diluted earnings per share, which exclude special (gains) and charges and discrete tax items. The exclusion of special (gains) and charges and discrete tax items in such adjusted amounts help provide a better understanding of underlying business performance.

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 operating income. EBITDA and adjusted EBITDA are used as inputs to our net debt to EBITDA and net debt to adjusted EBITDA ratios, which we view as important indicators of our creditworthiness.

The adjusted tax rate measure promotes period-to-period comparability of the underlying effective tax rate because it excludes the tax rate impact of special (gains) and charges and discrete tax items which do not necessarily reflect costs associated with historical trends or expected future results.

We evaluate the performance of our international operations based on fixed currency rates of foreign exchange. Fixed currency sales, acquisition adjusted fixed currency sales, fixed currency operating income and adjusted fixed currency operating income measures eliminate the impact of exchange rate fluctuations on our sales, acquisition adjusted sales, operating income, adjusted operating income and acquisition adjusted operating income, respectively, and promote a better understanding of our underlying sales and operating income trends. Fixed currency amounts are based on translation into U.S. dollars at fixed foreign currency exchange rates established by management at the beginning of 2016. Fixed currency exchange rates are generally based on existing market rates at the time they are established. Fixed currency amounts also reflect all Venezuelan bolivar operations, prior to the deconsolidation of our Venezuelan operations, at the SIMADI rate of approximately 200 bolivares to 1 U.S. dollar.

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 the Venezuelan result of operations 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 Operation” in Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning our restructuring initiatives; contingent consideration obligations; payments and contributions to pension and post-retirement health care benefit plans; tax deductibility of goodwill; amortization expense; share repurchases; the impact of new accounting pronouncements; the impact of lawsuits, claims and environmental matters; payments related to uncertain tax positions; timing of hedged transactions; borrowing capacity; impact of oil price fluctuations including 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; and nonperformance of financial counterparties.

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, 2015, 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; 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 primarily use foreign currency forward contracts, foreign currency debt and interest rate swaps to manage risks generally associated with interest rate and foreign exchange rate volatility and net investments in our foreign operations. We do not hold derivative financial instruments of a speculative nature. For a more detailed discussion of derivative instruments, refer to Note 8, entitled "Derivatives and Hedging Transactions", of the consolidated financial statements located under Part I, Item 1 of this quarterly report on Form 10-Q.

### Item 4. Controls and Procedures

As of March 31, 2016, 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 March 31, 2016, 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.

41

---



## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

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

## Item 1A. Risk Factors

In our report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on February 26, 2016, 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 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.

## 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)
January 1-31, 2016	—	—	—	22,898,559
February 1-29, 2016	2,610,904	104.2848	2,459,490	20,439,069

Edgar Filing: ECOLAB INC. - Form 10-Q

March 1-31, 2016	686,770	108.6502	686,127	19,752,942
Total	3,297,674	105.1939	3,145,617	19,752,942

- (1) Represents 152,057 shares reacquired from employees and/or directors as swaps for the cost of stock options, or shares surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.
- (2) The average price paid per share includes brokerage commissions associated with publicly announced plan purchases plus the value of such other reacquired shares.
- (3) As announced on August 23, 2011, the Finance Committee of our Board of Directors, via delegation by our Board of Directors, authorized the repurchase of up to 10,000,000 shares of Common Stock contingent upon completion of the merger with Nalco. This authorization was completed during the first quarter of 2016. As announced on February 24, 2015, our Board of Directors authorized the repurchase of up to an additional 20,000,000 shares. We also announced on February 24, 2015 a \$1.0 billion share repurchase program under the existing share repurchase authorizations, which will be completed during the second quarter of 2016. 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

Not applicable.



Item 6. Exhibits

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

(15.1) Letter regarding unaudited interim financial information.

(31.1) Rule 13a - 14(a) Certifications.

(32.1) Section 1350 Certifications.

(101.1) Interactive Data File.

SIGNATURE

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

ECOLAB INC.

Date: May 5, 2016 By: /s/ Bryan L. Hughes  
Bryan L. Hughes  
Senior Vice President & Corporate Controller  
(duly authorized Officer and  
Chief Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Document	Method of Filing
(15.1)	Letter regarding unaudited interim financial information.	Filed herewith electronically.
(31.1)	Rule 13a - 14(a) Certifications.	Filed herewith electronically.
(32.1)	Section 1350 Certifications.	Filed herewith electronically.
(101.1)	Interactive Data File.	Filed herewith electronically.