

ECOLAB INC.  
Form 10-Q  
August 04, 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 June 30, 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.

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(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| Delaware  | 41-0231510                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>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

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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 June 30, 2016.

291,595,269 shares of common stock, par value \$1.00 per share.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED STATEMENT OF INCOME

(unaudited)

| (millions, except per share amounts)               | Second Quarter Ended |          | Six Months Ended |          |
|--|----------------------|----------|------------------|----------|
|  | June 30<br>2016      | 2015     | June 30<br>2016  | 2015     |
|  | \$                   | \$       | \$               | \$       |
| Net sales  | 3,317.2              | 3,389.1  | 6,414.6          | 6,686.7  |
| Operating expenses                                 |                      |          |                  |          |
| Cost of sales (including special charges (a))      | 1,785.2              | 1,806.5  | 3,416.6          | 3,571.8  |
| Selling, general and administrative expenses       | 1,093.3              | 1,079.2  | 2,181.5          | 2,216.0  |
| Special (gains) and charges                        | 26.2                 | 65.6     | 32.5             | 73.4     |
| Operating income                                   | 412.5                | 437.8    | 784.0            | 825.5    |
| Interest expense, net                              | 65.3                 | 61.2     | 131.4            | 123.7    |
| Income before income taxes                         | 347.2                | 376.6    | 652.6            | 701.8    |
| Provision for income taxes                         | 83.6                 | 67.8     | 157.0            | 157.6    |
| Net income including noncontrolling interest       | 263.6                | 308.8    | 495.6            | 544.2    |
| Net income attributable to noncontrolling interest | 5.2                  | 6.8      | 6.4              | 8.8      |
| Net income attributable to Ecolab                  | \$ 258.4             | \$ 302.0 | \$ 489.2         | \$ 535.4 |
| Earnings attributable to Ecolab per common share   |                      |          |                  |          |
|  | \$                   | \$       | \$               | \$       |
| Basic  | 0.88                 | 1.02     | 1.67             | 1.80     |
|  | \$                   | \$       | \$               | \$       |
| Diluted  | 0.87                 | 1.00     | 1.64             | 1.77     |
|  | \$                   | \$       | \$               | \$       |
| Dividends declared per common share                | 0.350                | 0.330    | 0.700            | 0.660    |
| Weighted-average common shares outstanding         |                      |          |                  |          |
| Basic  | 292.4                | 296.2    | 293.4            | 297.2    |
| Diluted  | 296.5                | 301.1    | 297.5            | 302.2    |

(a) Cost of sales includes special charges of \$61.9 and \$11.0 in the second quarter of 2016 and 2015, respectively, and \$61.9 and \$11.6 in the first six months of 2016 and 2015, respectively.

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



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

| (millions)   | Second Quarter Ended |        | Six Months Ended |         |
|--|----------------------|--------|------------------|---------|
|  | June 30<br>2016      | 2015   | June 30<br>2016  | 2015    |
|  | \$                   | \$     | \$               | \$      |
| Net income including noncontrolling interest   | 263.6                | 308.8  | 495.6            | 544.2   |
| Other comprehensive income (loss), net of tax  |                      |        |                  |         |
| Foreign currency translation adjustments   |                      |        |                  |         |
| Foreign currency translation   | 77.8                 | (35.4) | (18.5)           | (344.8) |
| Gain (loss) on net investment hedges   | (12.9)               | 21.8   | (27.9)           | 78.8    |
|  | 64.9                 | (13.6) | (46.4)           | (266.0) |
| Derivatives and hedging instruments  | (20.2)               | (2.9)  | (30.7)           | 4.9     |
| Pension and postretirement benefits  |                      |        |                  |         |
| Amortization of net actuarial loss and prior service costs included in net periodic pension and postretirement costs | 5.5                  | 8.1    | 11.1             | 16.1    |
| Subtotal   | 50.2                 | (8.4)  | (66.0)           | (245.0) |
| Total comprehensive income, including noncontrolling interest  | 313.8                | 300.4  | 429.6            | 299.2   |
| Comprehensive income attributable to noncontrolling interest   | 5.2                  | 6.0    | 9.8              | 7.0     |
|  | \$                   | \$     | \$               | \$      |
| Comprehensive income attributable to Ecolab  | 308.6                | 294.4  | 419.8            | 292.2   |

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

## CONSOLIDATED BALANCE SHEET

(unaudited)

| (millions, except shares and per share amounts) | June 30<br>2016 | December 31<br>2015 |
|---|-----------------|---------------------|
| <b>ASSETS</b>                                   |                 |                     |
| Current assets                                  |                 |                     |
|   | \$              | \$                  |
| Cash and cash equivalents                       | 167.4           | 92.8                |
| Accounts receivable, net                        | 2,318.0         | 2,390.2             |
| Inventories                                     | 1,331.7         | 1,388.2             |
| Deferred income taxes                           | -               | 250.0               |
| Other current assets                            | 278.3           | 326.3               |
| Total current assets                            | 4,095.4         | 4,447.5             |
| Property, plant and equipment, net              | 3,257.3         | 3,228.3             |
| Goodwill  | 6,504.4         | 6,490.8             |
| Other intangible assets, net                    | 3,978.3         | 4,109.2             |
| Other assets                                    | 389.2           | 365.9               |
|   | \$              | \$                  |
| Total assets                                    | 18,224.6        | 18,641.7            |
| <b>LIABILITIES AND EQUITY</b>                   |                 |                     |
| Current liabilities                             |                 |                     |
|   | \$              | \$                  |
| Short-term debt                                 | 1,749.9         | 2,205.3             |
| Accounts payable                                | 977.8           | 1,049.6             |
| Compensation and benefits                       | 459.9           | 509.0               |
| Income taxes                                    | 86.6            | 52.2                |
| Other current liabilities                       | 964.2           | 948.3               |
| Total current liabilities                       | 4,238.4         | 4,764.4             |
| Long-term debt                                  | 5,097.0         | 4,260.2             |
| Postretirement health care and pension benefits | 968.4           | 1,117.1             |
| Deferred income taxes                           | 1,023.4         | 1,281.2             |
| Other liabilities                               | 227.8           | 238.4               |
| Total liabilities                               | 11,555.0        | 11,661.3            |
| Equity (a)                                      |                 |                     |
| Common stock                                    | 351.6           | 350.3               |
| Additional paid-in capital                      | 5,181.1         | 5,086.1             |
| Retained earnings                               | 6,444.6         | 6,160.3             |
| Accumulated other comprehensive loss            | (1,492.7)       | (1,423.3)           |
| Treasury stock                                  | (3,884.1)       | (3,263.5)           |
| Total Ecolab shareholders' equity               | 6,600.5         | 6,909.9             |
| Noncontrolling interest                         | 69.1            | 70.5                |
| Total equity                                    | 6,669.6         | 6,980.4             |
|   | \$              | \$                  |
| Total liabilities and equity                    | 18,224.6        | 18,641.7            |

- (a) Common stock, 800.0 million shares authorized, \$1.00 par value per share, 291.6 million shares outstanding at June 30, 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)  | Six Months Ended<br>June 30 |          |
|---|-----------------------------|----------|
|   | 2016                        | 2015     |
| <b>OPERATING ACTIVITIES</b>   |                             |          |
| Net income including noncontrolling interest                                  | \$ 495.6                    | \$ 544.2 |
| Adjustments to reconcile net income to cash provided by operating activities: |                             |          |
| Depreciation  | 276.0                       | 285.8    |
| Amortization  | 145.3                       | 149.9    |
| Deferred income taxes   | (28.8)                      | (34.9)   |
| Share-based compensation expense  | 53.6                        | 47.1     |
| Excess tax benefits from share-based payment arrangements                     | (19.6)                      | (31.4)   |
| Pension and postretirement plan contributions                                 | (192.0)                     | (38.0)   |
| Pension and postretirement plan expense                                       | 28.6                        | 58.1     |
| Restructuring charges, net of cash paid                                       | (27.1)                      | (4.6)    |
| Venezuelan charges  | -                           | 30.2     |
| Loss on sale of business  | -                           | 13.7     |
| Asset charges and write-downs   | 50.9                        | -        |
| Other, net  | 12.7                        | 7.0      |
| Changes in operating assets and liabilities, net of effect of acquisitions:   |                             |          |
| Accounts receivable   | 62.5                        | 22.2     |
| Inventories   | 40.6                        | (66.0)   |
| Other assets  | 19.7                        | (58.4)   |
| Accounts payable  | (79.2)                      | (145.7)  |
| Other liabilities   | 36.0                        | (142.6)  |
| Cash provided by operating activities   | 874.8                       | 636.6    |
| <b>INVESTING ACTIVITIES</b>   |                             |          |
| Capital expenditures  | (303.7)                     | (327.5)  |
| Capitalized software expenditures   | (22.2)                      | (14.3)   |
| Property and other assets sold  | 11.4                        | 6.8      |
| Acquisitions and investments in affiliates, net of cash acquired              | (9.4)                       | (14.7)   |
| Divestiture of businesses   | -                           | 0.3      |
| Release from acquisition related escrow                                       | -                           | 9.4      |
| Cash used for investing activities  | (323.9)                     | (340.0)  |
| <b>FINANCING ACTIVITIES</b>   |                             |          |
| Net issuances (repayments) of commercial paper and notes payable              | (342.4)                     | 449.6    |
| Long-term debt borrowings   | 793.8                       | 595.6    |
| Long-term debt repayments   | (130.0)                     | (380.0)  |
| Reacquired shares   | (637.9)                     | (726.3)  |
| Dividends paid  | (217.6)                     | (202.5)  |
| Exercise of employee stock options  | 40.7                        | 49.0     |
| Excess tax benefits from share-based payment arrangements                     | 19.6                        | 31.4     |

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|  |         |         |
|--|---------|---------|
| Acquisition related liabilities and contingent consideration | (3.4)   | (0.8)   |
| Cash used for financing activities                           | (477.2) | (184.0) |
| Effect of exchange rate changes on cash and cash equivalents | 0.9     | (11.6)  |
| Increase in cash and cash equivalents                        | 74.6    | 101.0   |
| Cash and cash equivalents, beginning of period               | 92.8    | 209.6   |
|  | \$      | \$      |
| Cash and cash equivalents, end of period                     | 167.4   | 310.6   |

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

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information for the second quarter and six months ended June 30, 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. Periods prior to the first quarter of 2016 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 now only has 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 second quarter and six months ended June 30, 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 August 4, 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)   | Second Quarter   |      | Six Months Ended |      |
|--|------------------|------|------------------|------|
|  | Ended<br>June 30 | 2015 | June 30          | 2015 |
| Cost of sales                                      |                  |      |                  |      |
|  | \$               | \$   | \$               | \$   |
| Restructuring related activities                   | 0.9              | 1.6  | 0.9              | 2.2  |
| Energy related charges                             | 51.0             | -    | 51.0             | -    |
| Fixed asset impairment and other inventory charges | 10.0             | -    | 10.0             | -    |
| Venezuela related activities                       | -                | 9.4  | -                | 9.4  |
| Subtotal   | 61.9             | 11.0 | 61.9             | 11.6 |
| Special (gains) and charges                        |                  |      |                  |      |
| Restructuring related activities                   | (2.1)            | 18.9 | 0.9              | 21.0 |
| Champion and Nalco integration costs               | -                | 4.5  | -                | 10.2 |
| Energy related charges                             | 12.6             | -    | 12.6             | -    |
| Venezuela related activities                       | (7.8)            | 20.8 | (7.8)            | 20.8 |
| Other  | 23.5             | 21.4 | 26.8             | 21.4 |
| Subtotal   | 26.2             | 65.6 | 32.5             | 73.4 |
|  | \$               | \$   | \$               | \$   |
| Total special (gains) and charges                  | 88.1             | 76.6 | 94.4             | 85.0 |

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 charges of \$1.7 million (\$0.9 million after tax) and \$13.1 million (\$9.1 million after tax) during the second quarter of 2016 and 2015, respectively. During the six months ended June 30, 2016 and 2015, the company recorded charges of \$4.6 million (\$2.6 million after tax) and \$14.1 million (\$9.9 million after tax), respectively.

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

Employee

| (millions)                                 | Termination<br>Costs | Asset<br>Disposals | Other   | Total   |
|--|----------------------|--------------------|---------|---------|
| 2013 - 2015 Activity                       |                      |                    |         |         |
| 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    |
| 2016 Activity                              |                      |                    |         |         |
| Recorded expense (income) and accrual      | (0.4)                | 0.8                | 4.2     | 4.6     |
| Net cash payments                          | (4.1)                | -                  | (4.3)   | (8.4)   |
| Non-cash charges                           | -                    | (0.8)              | -       | (0.8)   |
| Restructuring liability, June 30, 2016     | \$ 7.2               | \$ -               | \$ 13.1 | \$ 20.3 |

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. The company recorded gains of \$2.9 million (\$2.8 million after tax) and \$2.8 million (\$2.7 million after tax) during the second quarter and first six months of 2016, respectively, primarily related to the sale of certain facilities. The company recorded charges of \$7.3 million (\$5.5 million after tax) and \$9.0 million (\$6.3 million after tax), during the second quarter and first six months of 2015, respectively.

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

| (millions)                                 | Employee<br>Termination<br>Costs | Asset<br>Disposals | Other   | Total    |
|--|----------------------------------|--------------------|---------|----------|
| 2011 - 2015 Activity                       |                                  |                    |         |          |
| Recorded 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 expense (income) and accrual      | (0.7)                            | (2.3)              | 0.2     | (2.8)    |
| Net cash payments                          | (19.1)                           | 3.5                | (1.4)   | (17.0)   |
| Non-cash net charges                       | -                                | (1.2)              | -       | (1.2)    |
| Effect of foreign currency translation     | 1.9                              | -                  | -       | 1.9      |
| Restructuring liability, June 30, 2016     | \$ 41.7                          | \$ -               | \$ 4.4  | \$ 46.1  |

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.

#### Non-Restructuring Special (Gains) and Charges

#### Energy Related Charges

Oil industry activity remained depressed during the second quarter of 2016, resulting from continued excess oil supply pressures, which have negatively impacted exploration and production investments in the energy industry, particularly in North America. As a result of these conditions and their corresponding impact on the company's business outlook, the company recorded total charges of \$63.6 million (\$42.9 million after tax) during the second quarter and first six months of 2016, comprised of inventory write downs and related disposal costs, fixed asset charges, headcount reductions and other charges.

The inventory write-downs and related disposal costs of \$31.1 million include lower of cost or market adjustments due to the significant decline in activity and related prices of certain specific-use and other products, coupled with declines in replacement costs, as well as estimated costs to dispose the respective excess inventory. The fixed asset charges of \$18.2 million resulted from the write-down of certain assets related to the reduction in certain aspects of our North American Global Energy segment, as well as abandonment of certain projects under construction. The carrying value of the corresponding fixed assets was reduced to zero. The employee termination costs of \$12.8 million include a reduction in the Global Energy segment's global workforce to better align its workforce with anticipated activity levels in the near term. As of the end of the second quarter of 2016, the company had \$11.9 million of corresponding severance remaining to be paid, which is expected to be paid in the next twelve months and be funded from operating activities.

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

See discussion of the company's goodwill and intangible asset impairment review in Note 6.

#### Venezuela related activities

Effective as of the end of the fourth quarter of 2015, the company deconsolidated its Venezuelan subsidiaries. Prior to deconsolidation, during the second quarter of 2015, the company remeasured its Venezuelan bolivar operations within its Water and Paper operating units from the official exchange rate at the time of 6.3 bolivares to 1 U.S. dollar to the Marginal Currency System ("SIMADI") rate at the time of approximately 200 bolivares to 1 U.S. dollar and recorded a devaluation charge of \$30.2 million (\$30.2 million after tax).

During the second quarter and first six months of 2016 the company recorded a gain of \$7.8 million (\$4.9 million after tax) resulting from U.S. dollar cash recoveries of intercompany receivables written off at the time of deconsolidation.



### 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 six months of 2016. As a result of the Champion acquisition, the company incurred charges of \$4.3 million (\$2.8 million after tax) and \$9.5 million (\$6.0 million after tax) during the second quarter and the first six months of 2015, respectively. As a result of the Nalco merger, the company incurred charges of \$0.2 million (\$0.1 million after tax) and \$0.7 million (\$0.6 million after tax) during the second quarter and the first six months of 2015, respectively.

### Other special (gains) and charges

During the second quarter and first six months of 2016, the company recorded a charge of \$10.0 million (\$6.3 million after tax) related to a fixed asset impairment and related inventory charges. The fixed asset impairment corresponds to additional charges of certain U.S. production equipment and buildings, resulting from further lower production, initially impaired during the fourth quarter of 2015. The impaired facility is a specialized facility used for dry polymer production. Due to market contraction in the oil and the mining industries, and the aggressive competitive pricing environment for dry polymers, the facility has not reached production volumes to recover the value of the underlying fixed assets. Subsequent to the second quarter charge, the remaining value of the underlying fixed assets is less than \$5 million. Inventory charges include lower of cost or market adjustments due to the significant decline in activity and related prices of the corresponding dry polymer products.

The company also recorded charges of \$23.5 million (\$14.6 million after tax) and \$26.8 million (\$17.2 million after tax) during the second quarter and first six months of 2016, respectively, primarily consisting of litigation related charges.

The company recorded charges of \$21.4 million (\$13.4 million after tax) during the second quarter and first six months of 2015, related to recognition of a loss on the sale of a portion of its Ecovation business, and other litigation related charges.

## 3. ACQUISITIONS AND DISPOSITIONS

### Acquisitions

Acquisitions during the first six 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 second quarter and first six months of 2016 and 2015 are shown in the following table.

| (millions)  | Second Quarter           |      | Six Months Ended |       |
|---|--------------------------|------|------------------|-------|
|   | Ended<br>June 30<br>2016 | 2015 | 2016             | 2015  |
|   | \$                       | \$   | \$               | \$    |
| Net tangible assets acquired                                  | (2.9)                    | 2.4  | 10.7             | 3.5   |
| Identifiable intangible assets                                |                          |      |                  |       |
| Customer relationships  | -                        | 2.0  | 2.5              | 2.6   |
| Patents   | -                        | -    | -                | 2.5   |
| Trademarks  | -                        | -    | -                | 0.1   |
| Other technology  | -                        | -    | -                | 0.2   |
| Total intangible assets                                       | -                        | 2.0  | 2.5              | 5.4   |
| Goodwill  | 2.7                      | 0.4  | 3.9              | 6.7   |
| Total aggregate purchase price                                | (0.2)                    | 4.8  | 17.1             | 15.6  |
| Acquisition related liabilities and contingent consideration  | 1.2                      | -    | (4.3)            | (0.1) |
| Net cash paid for acquisitions, including acquisition related | \$                       | \$   | \$               | \$    |
| liabilities and contingent consideration                      | 1.0                      | 4.8  | 12.8             | 15.5  |

Amounts within the 2016 columns 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, final purchase price allocations for the Jianghai Environmental Protection Co. Ltd acquisition, which was acquired in June 2015, and payments of settled liabilities from previous transactions.

Amounts within the 2015 columns of the previous table primarily relate to the acquisitions of Clariant AG, Aseptix Health Sciences NV and Commercial Pest Control Pty Ltd.

The weighted average useful lives of identifiable intangible assets acquired during the first six months of 2016 and 2015, as shown in the previous table, were 5 and 9 years, respectively.



## Subsequent Event Activity

In June 2016, subsequent to the company's fiscal second quarter end for international operations, the company made a binding offer to acquire Laboratoires Anios ("Anios"), a leading European manufacturer and marketer of hygiene and disinfection products for the healthcare, food service, and food and beverage processing industries. Based in Lille, France, Anios sales were approximately €220 million (\$245 million) in 2015. The parties entered into a definitive purchase agreement in July 2016 following the sellers' consultation with their French works councils. The transaction remains subject to clearance by applicable regulatory and competition authorities prior to closing. The transaction is expected to close in late 2016, subject to satisfaction of such contingencies.

In July 2016, the company made a 33% minority investment in Aquatech International LLC ("Aquatech"). Based in Canonsburg, PA, Aquatech is a global leader in the design and engineering of complex and comprehensive water treatment solutions that improve water quality and reduce net water usage. The company determined that it exerts significant influence over Aquatech and therefore will account for the investment using the equity method of accounting.

## Dispositions

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

In June 2015, the company sold a portion of its Ecovation business, resulting in a loss of \$13.7 million (\$8.6 after tax), recorded in special (gains) and charges. The business was part of the company's Global Industrial reportable segment.

## 4. BALANCE SHEET INFORMATION

| (millions)                                    | June 30<br>2016 | December 31<br>2015 |
|---|-----------------|---------------------|
| Accounts receivable, net                      |                 |                     |
|   | \$              | \$                  |
| Accounts receivable                           | 2,394.5         | 2,465.5             |
| Allowance for doubtful accounts               | (76.5)          | (75.3)              |
|   | \$              | \$                  |
| Total   | 2,318.0         | 2,390.2             |
| Inventories                                   |                 |                     |
|   | \$              | \$                  |
| Finished goods                                | 907.6           | 929.6               |
| Raw materials and parts                       | 413.5           | 440.9               |
| Inventories at FIFO cost                      | 1,321.1         | 1,370.5             |
| FIFO cost to LIFO cost difference             | 10.6            | 17.7                |
|   | \$              | \$                  |
| Total   | 1,331.7         | 1,388.2             |
| Other current assets                          |                 |                     |
|   | \$              | \$                  |
| Prepaid assets                                | 104.8           | 94.6                |
| Taxes receivable                              | 117.0           | 137.6               |
| Derivative assets                             | 22.6            | 58.7                |
| Other   | 33.9            | 35.4                |
|   | \$              | \$                  |
| Total   | 278.3           | 326.3               |
| Property, plant and equipment, net            |                 |                     |
|   | \$              | \$                  |
| Land  | 226.2           | 223.7               |
| Buildings and leasehold improvements          | 1,046.3         | 996.0               |
| Machinery and equipment                       | 1,965.2         | 1,896.7             |
| Merchandising and customer equipment          | 2,134.7         | 1,988.1             |
| Capitalized software                          | 494.8           | 479.9               |
| Construction in progress                      | 359.6           | 371.1               |
|   | 6,226.8         | 5,955.5             |
| Accumulated depreciation                      | (2,969.5)       | (2,727.2)           |
|   | \$              | \$                  |
| Total   | 3,257.3         | 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                        | \$              | \$                  |

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|   |           |           |
|---|-----------|-----------|
|   | 3,250.4   | 3,232.3   |
| Trademarks                                    | 304.3     | 303.6     |
| Patents                                       | 439.2     | 433.4     |
| Other technology                              | 210.2     | 213.5     |
|   | 4,204.1   | 4,182.8   |
| Accumulated amortization                      |           |           |
| Customer relationships                        | (1,060.1) | (945.1)   |
| Trademarks                                    | (115.9)   | (104.7)   |
| Patents                                       | (143.2)   | (129.0)   |
| Other technology                              | (136.6)   | (124.8)   |
|   | (1,455.8) | (1,303.6) |
| Net intangible assets subject to amortization | 2,748.3   | 2,879.2   |
|   | \$        | \$        |
| Total   | 3,978.3   | 4,109.2   |
| Other assets                                  |           |           |
|   | \$        | \$        |
| Deferred income taxes                         | 86.0      | 58.3      |
| Pension                                       | 33.5      | 28.0      |
| Derivative assets                             | 16.1      | 42.7      |
| Other   | 253.6     | 236.9     |
|   | \$        | \$        |
| Total   | 389.2     | 365.9     |

| (millions)   | June 30<br>2016 | December 31<br>2015 |
|--|-----------------|---------------------|
| Other current liabilities  |                 |                     |
|  | \$              | \$                  |
| Discounts and rebates  | 290.4           | 270.5               |
| Dividends payable  | 102.1           | 103.6               |
| Interest payable   | 48.3            | 24.2                |
| Taxes payable, other than income                                       | 102.3           | 110.5               |
| Derivative liabilities   | 33.4            | 31.5                |
| Restructuring  | 53.7            | 73.9                |
| Other  | 334.0           | 334.1               |
|  | \$              | \$                  |
| Total  | 964.2           | 948.3               |
| Accumulated other comprehensive loss                                   |                 |                     |
|  | \$              | \$                  |
| Unrealized gain (loss) on derivative financial instruments, net of tax | (21.7)          | 9.0                 |
| Unrecognized pension and postretirement benefit expense, net of tax    | (478.5)         | (486.9)             |
| Cumulative translation, net of tax                                     | (992.5)         | (945.4)             |
|  | \$              | \$                  |
| Total  | (1,492.7)       | (1,423.3)           |

## 5. DEBT AND INTEREST

The following table provides the components of the company's short-term debt obligations as of June 30, 2016 and December 31, 2015.

| (millions)       | June 30<br>2016 | December 31<br>2015 |
|------------------|-----------------|---------------------|
| Short-term debt  |                 |                     |
|                  | \$              | \$                  |
| Commercial paper | 273.4           | 605.0               |
| Notes payable    | 20.7            | 30.9                |

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|                                    |         |         |
|------------------------------------|---------|---------|
| Long-term debt, current maturities | 1,455.8 | 1,569.4 |
|                                    | \$      | \$      |
| Total                              | 1,749.9 | 2,205.3 |

As of June 30, 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 \$200.0 million European commercial paper program. The company's U.S. commercial paper program, as shown in the previous table, had \$273.4 million and \$605.0 million outstanding as of June 30, 2016 and December 31, 2015, respectively. The company had no commercial paper outstanding under its European program as of either June 30, 2016 or December 31, 2015.

The following table provides the components of the company's long-term debt obligations, including current maturities, as of June 30, 2016 and December 31, 2015.

| (millions)  | Maturity<br>by Year | June 30<br>2016 | December 31<br>2015 |
|---|---------------------|-----------------|---------------------|
| Long-term debt  |                     |                 | \$                  |
| Description / 2016 Principal Amount                     |                     |                 |                     |
| Term loan (\$0)   | 2016                | \$ -            | 125.0               |
| Series B private placement senior notes (€175 million)  | 2016                | 194.7           | 184.9               |
| Five year 2011 senior notes (\$1.25 billion)            | 2016                | 1,249.0         | 1,247.3             |
| Five year 2012 senior notes (\$500 million)             | 2017                | 501.5           | 497.9               |
| Three year 2015 senior notes (\$300 million)            | 2018                | 300.5           | 297.8               |
| Series A private placement senior notes (\$250 million) | 2018                | 252.4           | 248.6               |
| Three year 2016 senior notes (\$400 million)            | 2019                | 401.7           | -                   |
| Five year 2015 senior notes (\$300 million)             | 2020                | 298.4           | 298.1               |
| Ten year 2011 senior notes (\$1.25 billion)             | 2021                | 1,244.3         | 1,243.7             |
| Series B private placement senior notes (\$250 million) | 2023                | 249.2           | 249.1               |
| Seven year 2016 senior notes (\$400 million)            | 2023                | 396.8           | -                   |
| Ten year 2015 senior notes (€575 million)               | 2025                | 634.3           | 601.8               |
| Thirty year 2011 senior notes (\$750 million)           | 2041                | 738.5           | 738.3               |
| Capital lease obligations                               |                     | 5.7             | 5.6                 |
| Other   |                     | 85.8            | 91.5                |
| Total debt  |                     | 6,552.8         | 5,829.6             |
| Long-term debt, current maturities                      |                     | (1,455.8)       | (1,569.4)           |
|   |                     | \$              | \$                  |
| Total long-term debt                                    |                     | 5,097.0         | 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. 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 June 30, 2016.

## Net Interest Expense

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

| (millions)            | Second Quarter<br>Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|-----------------------|------------------------------------|-------|-----------------------------|-------|
|                       | 2016                               | 2015  | 2016                        | 2015  |
|                       | \$                                 | \$    | \$                          | \$    |
| Interest expense      | 71.5                               | 63.5  | 140.4                       | 128.7 |
| Interest income       | (6.2)                              | (2.3) | (9.0)                       | (5.0) |
|                       | \$                                 | \$    | \$                          | \$    |
| Interest expense, net | 65.3                               | 61.2  | 131.4                       | 123.7 |

## 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.

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 reporting unit, which indicated the estimated fair value of the Global Energy reporting unit exceeded its carrying amount by a significant margin.

During the second quarter of 2016, the company completed its scheduled annual assessment for goodwill impairment across its ten reporting units through a quantitative analysis, utilizing a discounted cash flow approach. The two-step

quantitative process involved comparing the estimated fair value of each operating unit to the operating unit's carrying value, including goodwill. If the fair value of an operating unit exceeds its carrying value, goodwill of the operating unit is considered not to be impaired, and the second step of the impairment test is unnecessary. If the carrying amount of the operating unit exceeds its fair value, the second step of the goodwill impairment test would be performed to measure the amount of impairment loss to be recorded, if any. The company's goodwill impairment assessment for 2016 indicated the estimated fair value of each of its reporting units exceeded its carrying amount by a significant margin.

The company will continue to assess the need to test its reporting units for impairment during interim periods between its scheduled annual assessments. 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 six months ended June 30, 2016 were as follows:

| (millions)                             | Global<br>Industrial | Global<br>Institutional | Global<br>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)   | 3.5                  | -                       | (0.2)            | -     | 3.3     |
| Reclassifications (c)                  | 3.5                  | (0.6)                   | (2.9)            | -     | -       |
| Effect of foreign currency translation | 3.7                  | 1.0                     | 4.8              | 0.2   | 9.7     |
|  | \$                   | \$                      | \$               | \$    | \$      |
| June 30, 2016                          | 2,571.5              | 663.1                   | 3,153.8          | 116.0 | 6,504.4 |

- (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 principal indefinite life intangible asset. During the second quarter of 2016, using a relief from royalty method of assessment, the company completed its annual test for indefinite life intangible asset impairment. Based on this testing, the estimated fair value of the asset exceeded its carrying value by a significant margin, therefore, no adjustment to the \$1.2 billion carrying value of this asset was necessary. There has been no impairment of the Nalco trade name intangible asset since it was acquired.

The company's intangible assets subject to amortization primarily include customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections and other acceptable valuation methods. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Total amortization expense related to other intangible assets during the first six months of 2016 and 2015 was \$145.3 million and \$146.0 million, respectively. Estimated expense for the remaining six month period of 2016 related to other amortizable intangible assets is \$149.7 million. During the second quarter of 2016, as a result of the continued pressures in the energy market, the company completed an evaluation of certain intangible assets subject to amortization, noting the sum of the undiscounted cash flows exceeded the carrying value of the assets.

## 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:

| June 30 (millions)                 | 2016            |                         |         |         |
|------------------------------------|-----------------|-------------------------|---------|---------|
|                                    | Carrying Amount | Fair Value Measurements |         |         |
|                                    |                 | Level 1                 | Level 2 | Level 3 |
| <b>Assets</b>                      |                 |                         |         |         |
|                                    | \$              | \$                      |         |         |
| Investments held in rabbi trusts   | 1.2             | 1.2                     | \$ -    | \$ -    |
| Foreign currency forward contracts | 51.2            | -                       | 51.2    | -       |
| Interest rate swap contracts       | 11.8            | -                       | 11.8    | -       |
| <b>Liabilities</b>                 |                 |                         |         |         |
| Foreign currency forward contracts | 44.8            | -                       | 44.8    | -       |

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|                              |      |   |      |      |
|------------------------------|------|---|------|------|
| Interest rate swap contracts | 13.0 | - | 13.0 | -    |
| Contingent consideration     | 14.2 | - | -    | 14.2 |

| December 31 (millions)             | 2015            | Fair Value Measurements |         |         |
|------------------------------------|-----------------|-------------------------|---------|---------|
|                                    | Carrying Amount | Level 1                 | Level 2 | Level 3 |
| <b>Assets</b>                      |                 |                         |         |         |
|                                    | \$              | \$                      |         |         |
| Investments held in rabbi trusts   | 2.0             | 2.0                     | \$ -    | \$ -    |
| Foreign currency forward contracts | 111.2           | -                       | 111.2   | -       |
| Contingent consideration           | 0.3             | -                       | -       | 0.3     |
| <b>Liabilities</b>                 |                 |                         |         |         |
| 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.

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 six months ended June 30, 2016 were as follows:

|   |       |
|---|-------|
| (millions)                                  | \$    |
| Contingent consideration, December 31, 2015 | 15.6  |
| Amount recognized at transaction date       | -     |
| Losses (gains) recognized in earnings       | (1.3) |
| Settlements                                 | 0.3   |
| Foreign currency translation                | (0.4) |
|   | \$    |
| Contingent consideration, June 30, 2016     | 14.2  |

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)                                   | June 30<br>2016    |               | December 31<br>2015 |               |
|--|--------------------|---------------|---------------------|---------------|
|  | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount  | Fair<br>Value |
|  | \$                 | \$            | \$                  | \$            |
| Long-term debt, including current maturities | 6,552.8            | 7,113.5       | 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.

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

| (millions)   | Asset Derivatives |                     | Liability Derivatives |                     |
|--|-------------------|---------------------|-----------------------|---------------------|
|  | June 30<br>2016   | December 31<br>2015 | June 30<br>2016       | December 31<br>2015 |
| Derivatives designated as hedging instruments:         |                   |                     |                       |                     |
|  | \$                | \$                  | \$                    | \$                  |
| Foreign currency forward contracts                     | 36.4              | 70.2                | 19.1                  | 3.2                 |
| Interest rate swap contracts                           | 11.8              | -                   | 13.0                  | 5.4                 |
| Derivatives not designated as hedging instruments:     |                   |                     |                       |                     |
| Foreign currency forward contracts                     | 14.8              | 41.0                | 25.7                  | 32.7                |
| Gross value of derivatives                             | 63.0              | 111.2               | 57.8                  | 41.3                |
| Gross amounts offset in the Consolidated Balance Sheet | (24.4)            | (9.8)               | (24.4)                | (9.8)               |
|  | \$                | \$                  | \$                    | \$                  |
| Net value of derivatives                               | 38.6              | 101.4               | 33.4                  | 31.5                |

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

| (millions)                         | Notional Values |                     |
|------------------------------------|-----------------|---------------------|
|                                    | June 30<br>2016 | December 31<br>2015 |
|                                    | \$              | \$                  |
| Foreign currency forward contracts | 4,100           | 4,000               |
|                                    | \$              | \$                  |
| Interest rate agreements           | 2,075           | 1,675               |

Net investment hedge contracts (a)      € 65              € 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 two years.

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

During the second quarter of 2016, the company entered into a treasury lock agreement to hedge against changes in interest rates that could impact a future debt issuance. The agreement was designated and effective as a cash flow hedge of the expected interest payments related to the anticipated future debt issuance. The underlying gain recognized during the second quarter of 2016 was recorded within AOCI.

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

| (millions)                                  |                       | Second Quarter Ended |       | Six Months Ended |       |
|---|-----------------------|----------------------|-------|------------------|-------|
|   |                       | June 30              |       | June 30          |       |
|   |                       | 2016                 | 2015  | 2016             | 2015  |
| Unrealized gain (loss) recognized into AOCI |                       |                      |       |                  |       |
|   | AOCI                  | \$                   | \$    | \$               | \$    |
| Foreign currency forward contracts          | (equity)              | (23.8)               | (5.4) | (27.5)           | 19.9  |
|   | AOCI                  |                      |       |                  |       |
| Interest rate swap contracts                | (equity)              | (4.6)                | 7.9   | (12.9)           | (6.5) |
|   |                       | \$                   | \$    | \$               | \$    |
|   | Total                 | (28.4)               | 2.5   | (40.4)           | 13.4  |
|   |                       |                      |       |                  |       |
| (millions)                                  |                       | Second Quarter Ended |       | Six Months Ended |       |
|   |                       | June 30              |       | June 30          |       |
|   |                       | 2016                 | 2015  | 2016             | 2015  |
| Gain (loss) recognized in income            |                       |                      |       |                  |       |
|   | Cost of sales         | \$                   | \$    | \$               | \$    |
| Foreign currency forward contracts          |                       | 8.9                  | 5.1   | 21.6             | 9.9   |
|   | SG&A                  | (9.0)                | 0.4   | (19.6)           | 0.9   |
|   | Interest expense, net | 1.4                  | -     | 2.9              | -     |
|   | Subtotal              | 1.3                  | 5.5   | 4.9              | 10.8  |
|   | Interest expense, net | (1.6)                | (1.4) | (3.2)            | (2.6) |
| Interest rate swap contracts                |                       | \$                   | \$    | \$               | \$    |
|   | Total                 | (0.3)                | 4.1   | 1.7              | 8.2   |

Gains and losses recognized in income related to the ineffective portion of the company's cash flow hedges were insignificant during the first six months of 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. 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. In May 2014, the company entered into an interest rate swap agreement that converted its \$500 million 1.45% debt from a fixed rate to a floating interest rate.

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

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

| (millions)                            |                       | Second Quarter Ended |          | Six Months Ended |          |
|---------------------------------------|-----------------------|----------------------|----------|------------------|----------|
|                                       |                       | June 30<br>2016      | 2015     | June 30<br>2016  | 2015     |
| Gain on derivative recognized income  |                       |                      |          |                  |          |
| Interest rate swap                    | Interest expense, net | \$ 3.0               | \$ 0.9   | \$ 13.7          | \$ 1.9   |
| Loss on hedged item recognized income |                       |                      |          |                  |          |
| Interest rate swap                    | Interest expense, net | \$ (3.0)             | \$ (0.9) | \$ (13.7)        | \$ (1.9) |

## Net Investment Hedges

The company designates its outstanding €175 million and €575 million (total of \$835 million as of June 30, 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. In March 2016, the company entered into forward contracts totaling €40 million.

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 and were as follows:

| (millions)                             | Second Quarter |      | Six Months Ended |      |
|--|----------------|------|------------------|------|
|  | Ended          |      | June 30          |      |
|  | June 30        | 2015 | 2016             | 2015 |
|  | 2016           | 2015 | 2016             | 2015 |
|  | \$             | \$   | \$               | \$   |
| Revaluation gains (losses), net of tax | (12.9)         | 21.8 | (27.9)           | 78.8 |

## 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:

| Second Quarter | Six Months Ended |
|----------------|------------------|
| Ended          |                  |

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| (millions)                         |                       | June 30 |        | June 30 |        |
|------------------------------------|-----------------------|---------|--------|---------|--------|
|                                    |                       | 2016    | 2015   | 2016    | 2015   |
| Gain (loss) recognized in income   |                       |         |        |         |        |
|                                    |                       | \$      | \$     | \$      | \$     |
| Foreign currency forward contracts | SG&A                  | 17.3    | (5.5)  | (15.3)  | (0.7)  |
|                                    | Interest expense, net | (2.6)   | (5.7)  | (3.1)   | (10.6) |
|                                    |                       | \$      | \$     | \$      | \$     |
|                                    | Total                 | 14.7    | (11.2) | (18.4)  | (11.3) |

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 (gains) losses and amortization of prior service costs.

| (millions)  | Second Quarter   |       | Six Months Ended |       |
|---|------------------|-------|------------------|-------|
|   | Ended<br>June 30 | 2015  | June 30          | 2015  |
| Derivative and Hedging Instruments                            |                  |       |                  |       |
| Unrealized gains (losses) on derivative & hedging instruments |                  |       |                  |       |
|   | \$               | \$    | \$               | \$    |
| Amount recognized in AOCI                                     | (28.4)           | 2.5   | (40.4)           | 13.4  |
| (Gains) losses reclassified from AOCI into income             |                  |       |                  |       |
| Cost of sales   | (8.9)            | (5.1) | (21.6)           | (9.9) |
| SG&A  | 9.0              | (0.4) | 19.6             | (0.9) |
| Interest expense, net   | 0.2              | 1.4   | 0.3              | 2.6   |
|   | 0.3              | (4.1) | (1.7)            | (8.2) |
| Translation and other insignificant activity                  | (0.8)            | (0.1) | -                | (0.5) |
| Tax impact  | 8.7              | (1.2) | 11.4             | 0.2   |
|   | \$               | \$    | \$               | \$    |
| Net of tax  | (20.2)           | (2.9) | (30.7)           | 4.9   |
| Pension and Postretirement Benefits                           |                  |       |                  |       |
| Amount reclassified from AOCI into income                     |                  |       |                  |       |
| Actuarial losses  | 10.9             | 14.5  | 21.8             | 29.0  |
| Prior service costs   | (2.0)            | (2.0) | (4.0)            | (3.7) |
|   | 8.9              | 12.5  | 17.8             | 25.3  |
| Tax impact  | (3.4)            | (4.4) | (6.7)            | (9.2) |
|   | \$               | \$    | \$               | \$    |
| Net of tax  | 5.5              | 8.1   | 11.1             | 16.1  |

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



| (millions)   | Second Quarter           |          | Six Months Ended |          |
|--|--------------------------|----------|------------------|----------|
|  | Ended<br>June 30<br>2016 | 2015     | June 30<br>2016  | 2015     |
| Derivative (gains) losses reclassified from AOCI into income, net of tax   | \$ (0.1)                 | \$ (3.1) | \$ (1.4)         | \$ (6.3) |
| Pension and postretirement benefits net actuarial losses and prior services costs reclassified from AOCI into income, net of tax | \$ 5.5                   | \$ 8.1   | \$ 11.1          | \$ 16.1  |

## 10. SHAREHOLDERS' EQUITY

### Share Repurchase Authorization

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. In February 2015, under this repurchase authorization, the company announced a \$1.0 billion share repurchase program, which was completed during the second quarter of 2016.

As of June 30, 2016, 17,423,858 shares remained to be repurchased under the company's repurchase authorization. The company intends to repurchase all shares under its authorization, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.



## Accelerated Stock Repurchase (“ASR”) Agreements

In February 2015, the company entered into an 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.

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

The final per share purchase price and the total number of shares to be repurchased under both 2016 and 2015 ASR agreements generally were based on the volume-weighted average price of the company’s common stock during the term of the agreements. Upon final settlement of the two ASR agreements, 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.

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

During their respective open periods in 2015 and 2016, neither of the ASRs were dilutive to the company’s earnings per share calculations, nor did they trigger the two-class earnings per share methodology. Additionally, the unsettled portion of ASRs during their respective open periods met the criteria to be accounted for as a forward contract indexed to the company’s stock and qualified as equity transactions.

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

## Share Repurchases

During the first six months of 2016, the company reacquired 5,654,877 shares of its common stock, of which 5,474,701 related to share repurchases through open market or private purchases, including the February 2016 ASR discussed above, and 180,176 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 (“EPS”)

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

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

| (millions, except per share amounts)                          | Second Quarter Ended |             | Six Months Ended |             |
|---|----------------------|-------------|------------------|-------------|
|   | June 30<br>2016      | 2015        | June 30<br>2016  | 2015        |
| Net income attributable to Ecolab                             | \$<br>258.4          | \$<br>302.0 | \$<br>489.2      | \$<br>535.4 |
| Weighted-average common shares outstanding                    |                      |             |                  |             |
| Basic   | 292.4                | 296.2       | 293.4            | 297.2       |
| Effect of dilutive stock options and units                    | 4.1                  | 4.9         | 4.1              | 5.0         |
| Diluted   | 296.5                | 301.1       | 297.5            | 302.2       |
| Basic EPS   | \$<br>0.88           | \$<br>1.02  | \$<br>1.67       | \$<br>1.80  |
| Diluted EPS   | \$<br>0.87           | \$<br>1.00  | \$<br>1.64       | \$<br>1.77  |
| Anti-dilutive securities excluded from the computation of EPS | 2.1                  | 1.9         | 2.1              | 1.9         |



## 12. INCOME TAXES

The company's tax rate was 24.1% and 18.0% for the second quarter of 2016 and 2015, respectively and 24.1% and 22.5% for the first six months of 2016 and 2015, respectively. The changes in the company's tax rate for the second quarter and first six months of 2016 compared to second quarter and first six months of 2015 were primarily driven by the tax rate impact of discrete tax items and special gains and charges, as well as the permanent enactment of the R&D credit during the fourth quarter of 2015.

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

The company recognized net benefits related to discrete tax items of \$39.4 million during the second quarter of 2015 and \$36.8 million during the first six months of 2015. Second quarter net benefits resulted primarily from the company's ability to recognize a worthless stock deduction for the tax basis in a wholly-owned domestic subsidiary. First quarter net expense was 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 second quarter ended June 30 are as follows:

| U.S.<br>Pension | International<br>Pension | U.S.<br>Postretirement<br>Health Care |
|-----------------|--------------------------|---------------------------------------|
|-----------------|--------------------------|---------------------------------------|

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| (millions)                                   | 2016   | 2015   | 2016   | 2015   | 2016  | 2015  |
|--|--------|--------|--------|--------|-------|-------|
|  | \$     | \$     | \$     | \$     | \$    | \$    |
| Service cost                                 | 16.8   | 19.1   | 7.0    | 8.2    | 0.8   | 1.0   |
| Interest cost on benefit obligation          | 20.4   | 22.8   | 8.1    | 9.9    | 2.0   | 2.4   |
| Expected return on plan assets               | (35.9) | (33.1) | (13.5) | (13.7) | (0.2) | (0.3) |
| Recognition of net actuarial (gain) loss     | 7.7    | 12.2   | 3.6    | 3.8    | (0.4) | (1.5) |
| Amortization of prior service cost (benefit) | (1.7)  | (1.8)  | (0.2)  | (0.1)  | (0.1) | (0.1) |
|  | \$     | \$     | \$     | \$     | \$    | \$    |
| Total expense                                | 7.3    | 19.2   | 5.0    | 8.1    | 2.1   | 1.5   |

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

| (millions)                                   | U.S.<br>Pension |        | International<br>Pension |        | U.S.<br>Postretirement<br>Health Care |       |
|--|-----------------|--------|--------------------------|--------|---------------------------------------|-------|
|  | 2016            | 2015   | 2016                     | 2015   | 2016                                  | 2015  |
|  | \$              | \$     | \$                       | \$     | \$                                    | \$    |
| Service cost                                 | 33.5            | 38.2   | 13.9                     | 16.7   | 1.5                                   | 1.9   |
| Interest cost on benefit obligation          | 40.8            | 45.6   | 16.2                     | 20.2   | 4.1                                   | 4.8   |
| Expected return on plan assets               | (71.8)          | (66.3) | (27.0)                   | (27.8) | (0.4)                                 | (0.5) |
| Recognition of net actuarial (gain) loss     | 15.4            | 24.3   | 7.2                      | 7.8    | (0.8)                                 | (3.1) |
| Amortization of prior service cost (benefit) | (3.5)           | (3.5)  | (0.4)                    | (0.1)  | (0.1)                                 | (0.1) |
|  | \$              | \$     | \$                       | \$     | \$                                    | \$    |
| Total expense                                | 14.4            | 38.3   | 9.9                      | 16.8   | 4.3                                   | 3.0   |

As of June 30, 2016, the company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans. In April of 2016, the company made a \$150 million voluntary contribution to its non-contributory qualified U.S. pension plan. During the first six months of 2016, the company made payments of \$8 million to its U.S. non-contributory non-qualified defined benefit plans and estimates that it will make payments of approximately an additional \$6 million to such plans during the remainder of 2016.

The company contributed \$25 million to its international pension benefit plans during the first six months of 2016. The company estimates that it will contribute approximately an additional \$17 million to the international pension benefit plans during the remainder of 2016.

During the first six months of 2016, the company made payments of \$9 million to its U.S. postretirement health care benefit plans and estimates that it will make payments of approximately an additional \$9 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. dollars at foreign currency exchange rates established by management, with all periods presented using such rates. Fixed currency rates are generally based on existing market rates at the time they are established. The "Fixed Currency Rate Change" column shown in the following table reflects the impact on previously reported values related to fixed currency exchange rates established by management at the beginning of 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 SIMADI rate at the time 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 a 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<br>2016 Rates |
|--|-------------------------|-------------------------------------|--------------------------------|-------|-------------------------|
|  | Values at<br>2015 Rates | Fixed<br>Currency<br>Rate<br>Change | Venezuela<br>Bolivar<br>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)                             | Second Quarter Ended |         | Six Months Ended |         |
|--|----------------------|---------|------------------|---------|
|  | June 30              | June 30 | June 30          | June 30 |
|  | 2016                 | 2015    | 2016             | 2015    |
| Net Sales                              |                      |         |                  |         |
|  | \$                   | \$      | \$               | \$      |
| Global Industrial                      | 1,152.2              | 1,103.2 | 2,231.3          | 2,140.9 |
| Global Institutional                   | 1,142.3              | 1,054.1 | 2,191.0          | 2,029.3 |
| Global Energy                          | 754.6                | 867.6   | 1,514.6          | 1,758.4 |
| Other                                  | 203.4                | 188.9   | 391.0            | 360.9   |
| Subtotal at fixed currency rates       | 3,252.5              | 3,213.8 | 6,327.9          | 6,289.5 |
| Effect of foreign currency translation | 64.7                 | 175.3   | 86.7             | 397.2   |
|  | \$                   | \$      | \$               | \$      |
| Consolidated                           | 3,317.2              | 3,389.1 | 6,414.6          | 6,686.7 |
| Operating Income                       |                      |         |                  |         |
|  | \$                   | \$      | \$               | \$      |
| Global Industrial                      | 171.3                | 147.9   | 300.0            | 250.5   |
| Global Institutional                   | 245.0                | 228.5   | 441.1            | 394.8   |
| Global Energy                          | 77.5                 | 109.9   | 137.9            | 214.1   |
| Other                                  | 38.8                 | 31.8    | 68.9             | 54.9    |
| Corporate                              | (129.7)              | (119.0) | (177.7)          | (169.6) |
| Subtotal at fixed currency rates       | 402.9                | 399.1   | 770.2            | 744.7   |
| Effect of foreign currency translation | 9.6                  | 38.7    | 13.8             | 80.8    |
|  | \$                   | \$      | \$               | \$      |
| Consolidated                           | 412.5                | 437.8   | 784.0            | 825.5   |

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 four pending wage hour lawsuits claiming violations of the Fair Labor Standards Act (“FLSA”) or a similar state law. Of these four suits, two 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.

A second 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 third 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 fourth 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. This matter has been tentatively settled, subject to court approval. The company has established an accrual, which is not material to its results of operations or financial position.

### 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); Troups, 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.

In May 2016, Nalco was named in nine additional complaints filed by individuals alleging, among other things, business and economic loss resulting from the Deepwater Horizon oil spill: Seng Lim v. BP, Case No. 2:16-cv-03950 (E.D. La.); Dai Nguyen v. BP, Case No. 2:16-cv-03952 (E.D. La.); Thanh Duong v. BP, Case No. 2:16-cv-03953 (E.D. La.); Nghia Nguyen v. BP, Case No. 2:16-cv-03954 (E.D. La.); Loc Van Nguyen v. BP, Case No. 2:16-cv-03955 (E.D. La.); Hanh Phan v. BP, Case No. 2:16-cv-03956 (E.D. La.); Anh Ly v. BP, Case No. 2:16-cv-03957 (E.D. La.); Danny Tam Ly v. BP, Case No. 2:16-cv-04027 (E.D. La.); Terry v. BP, Case No. 2:16-cv-04137 (E.D. La.). The plaintiffs in these lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys' fees and costs. These actions have been consolidated in the MDL and the company expects they will be dismissed pursuant to the Court's November 28, 2012 order granting Nalco's motion for summary judgment.

## 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   | Required Date of Adoption | Effect on the Financial Statements  |
|--|------------------|---|---------------------------|---|
| Standards that are not yet adopted:  |                  |   |                           |   |
| ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments | June 2016        | Amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities.  | January 1, 2020           | The company is currently evaluating the impact of adoption.   |
| ASU 2016-05 - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships                       | March 2016       | The amendment clarifies language related to hedge accounting criteria that a change in the counterparty is not in and of itself considered a termination of the derivative or | January 1, 2017           | The company does not expect the updated guidance to have a significant impact on future financial statements. |

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critical term of the hedging relationship.

|   |              |   |                 |   |
|---|--------------|---|-----------------|---|
| ASU 2016-07 - Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting   | March 2016   | Simplifies the transition to equity method accounting for entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence  | January 1, 2017 | The company does not expect the updated guidance to have a significant impact on future financial statements.   |
| 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 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 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.   |
| Revenue Recognition ASUs:<br>2014-09 - Revenue from Contracts with Customers<br>2015-14 - Deferral of the Effective Date<br>2016-08 - Principal Versus Agent Considerations<br>2016-10 - Identifying Performance Obligations and Licensing<br>2016-11 - Revenue | Various      | Recognition standard contains principles for entities to apply to determine the measurement of revenue and timing of when the revenue is recognized. The underlying principle of the updated guidance will have entities recognize revenue to depict the transfer of goods or services to customers at an amount that is expected to be received in exchange for those goods or services. | January 1, 2018 | The company is currently evaluating the impact of adopting the Revenue Recognition ASUs with focus on the determination of performance obligations and fair value allocation. |

Recognition and  
Derivatives and Hedging  
2016-12 - Narrow-Scope  
Improvements & Practical  
Expedients

|                                     |                  |  |                    |  |
|-------------------------------------|------------------|--|--------------------|--|
| ASU 2016-02 - Leases<br>(Topic 842) | February<br>2016 | Introduces the recognition of<br>lease assets and lease liabilities<br>by lessors for those leases<br>classified as operating leases<br>under previous guidance. | January 1,<br>2019 | The company is<br>currently evaluating<br>the impact of<br>adoption. |
|-------------------------------------|------------------|--|--------------------|--|

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| Standard  | Date of Issuance | Description   | Date of Adoption | Effect on the Financial Statements   |
|---|------------------|---|------------------|--|
| 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 accounting had been completed on the acquisition date. The amendment also requires an entity to present separately on the face of the income statement | January 1, 2016  | The adoption of the guidance did not have a material impact on the company's financial statements. |

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 June 30, 2016, and the related consolidated statements of income and comprehensive income for the three-month and six months periods ended June 30, 2016 and 2015 and the consolidated statement of cash flows for the six-month periods ended June 30, 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  
August 4, 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 and segment level. We also provide quantitative information regarding special (gains) and charges, discrete tax items and other significant factors we believe are useful for understanding our results. Such quantitative drivers are supported by comments meant to be qualitative in nature. Qualitative factors are generally ordered based on estimated significance.

The MD&A should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Form 10-Q, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 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 a 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 Related 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 at the time 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 a 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 SECOND QUARTER ENDED JUNE 30, 2016

##### Sales Performance

When comparing second quarter 2016 against second quarter 2015, sales performance was as follows:

- Reported net sales decreased 2% to \$3,317 million, fixed currency sales increased 1%, and acquisition adjusted fixed currency sales decreased 1%.
- Fixed currency sales for our Global Industrial segment increased 4% to \$1,152 million, acquisition adjusted fixed currency sales increased 2%, led by growth in Food & Beverage.
- Fixed currency sales for our Global Institutional segment increased 8% to \$1,142 million, acquisition adjusted fixed currency sales increased 5%, led by good Institutional and Specialty sales growth.
- Fixed currency sales for our Global Energy segment decreased 13% to \$755 million, as growth in the downstream business was more than offset by a decline in our upstream businesses.
- Fixed currency sales for our Other segment sales increased 8% to \$203 million, driven by sales growth in both Pest Elimination and Equipment Care.

## Financial Performance

When comparing second quarter 2016 against second quarter 2015, financial performance was as follows:

- Reported operating income decreased 6% to \$413 million. Excluding the impact of special (gains) and charges from both 2016 and 2015 reported results, our adjusted operating income decreased 3% and our adjusted fixed currency operating income increased 3%. The net impact of acquisitions and divestitures added approximately 1 percentage point to our adjusted fixed currency operating income growth rate.
- Net income attributable to Ecolab decreased 14% to \$258 million. Excluding the impact of special (gains) and charges and discrete tax items from both 2016 and 2015 reported results, our adjusted net income attributable to Ecolab decreased 1%.
- Diluted EPS of \$0.87 decreased 13%. Excluding the impact of special (gains) and charges and discrete tax items from both 2016 and 2015 reported results, adjusted diluted EPS was flat. Currency translation had an unfavorable impact of approximately \$0.08 on diluted EPS.
- Our reported tax rate was 24.1% during the second quarter of 2016, compared to 18.0% during the second 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 25.5% and 27.1% during the second quarter of 2016 and 2015, respectively.

## RESULTS OF OPERATIONS

## Net Sales

| (millions)                             | Second Quarter Ended<br>June 30 |         |        | Six Months Ended<br>June 30 |         |        |
|--|---------------------------------|---------|--------|-----------------------------|---------|--------|
|  | 2016                            | 2015    | Change | 2016                        | 2015    | Change |
|  | \$                              | \$      |        | \$                          | \$      |        |
| Reported GAAP net sales                | 3,317.2                         | 3,389.1 | (2) %  | 6,414.6                     | 6,686.7 | (4) %  |
| Effect of foreign currency translation | (64.7)                          | (175.3) |        | (86.7)                      | (397.2) |        |
|  | \$                              | \$      |        | \$                          | \$      |        |
| Non-GAAP fixed currency sales          | 3,252.5                         | 3,213.8 | 1 %    | 6,327.9                     | 6,289.5 | 1 %    |

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

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|  | Second Quarter Ended<br>June 30<br>2016 | Six Months Ended<br>June 30<br>2016 |
|--|---|-------------------------------------|
| (percent)  |   |                                     |
| Volume   | (1)%                                    | (1)%                                |
| Price changes                                    | 0                                       | 0                                   |
| Acquisition adjusted fixed currency sales change | (1)                                     | (1)                                 |
| Acquisitions and divestitures                    | 2                                       | 2                                   |
| Fixed currency sales change                      | 1                                       | 1                                   |
| Foreign currency translation                     | (3)                                     | (5)                                 |
| Reported GAAP net sales change                   | (2)%                                    | (4)%                                |

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

|  | Second Quarter Ended<br>June 30 |                 |               |                 | Six Months Ended<br>June 30 |                 |               |                 |
|--|---------------------------------|-----------------|---------------|-----------------|-----------------------------|-----------------|---------------|-----------------|
|  | 2016                            |                 | 2015          |                 | 2016                        |                 | 2015          |                 |
| (millions/percent)                           | COS                             | Gross<br>Margin | COS           | Gross<br>Margin | COS                         | Gross<br>Margin | COS           | Gross<br>Margin |
| Reported GAAP<br>COS and gross<br>margin     | \$<br>1,785.2                   | 46.2%           | \$<br>1,806.5 | 46.7%           | \$<br>3,416.6               | 46.7%           | \$<br>3,571.8 | 46.6%           |
| Special (gains)<br>and charges               | 61.9                            | 1.8             | 11.0          | 0.3             | 61.9                        | 1.0             | 11.6          | 0.2             |
| Non-GAAP<br>adjusted COS and<br>gross margin | \$<br>1,723.3                   | 48.0%           | \$<br>1,795.5 | 47.0%           | \$<br>3,354.7               | 47.7%           | \$<br>3,560.2 | 46.8%           |

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 46.2% and 46.7% for the second quarter of 2016 and 2015, respectively. Our reported gross margin for the first six months of 2016 and 2015 was 46.7% and 46.6%, respectively.

Excluding the impact of special (gains) and charges within COS, our second quarter 2016 adjusted gross margin was 48.0% and our adjusted gross margin for the first six months of 2016 was 47.7%. These percentages compared against a second quarter 2015 adjusted gross margin of 47.0% and an adjusted gross margin of 46.8% for the first six months of 2015.

Our adjusted gross margin increase when comparing the second quarter of 2016 against the second quarter of 2015 and the comparable periods for the first six months of 2016 and 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 33.0% for the second quarter of 2016 compared to 31.8% in 2015. For the six month period, SG&A expenses were 34.0% of sales in 2016 compared to 33.1% 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. The second quarter comparison was also impacted by investments in the business and higher comparable variable compensation.

### Special (Gains) and Charges

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

| (millions)   | Second Quarter<br>Ended<br>June 30 |      | Six Months Ended<br>June 30 |      |
|--|------------------------------------|------|-----------------------------|------|
|  | 2016                               | 2015 | 2016                        | 2015 |
| Cost of sales                                      |                                    |      |                             |      |
|  | \$                                 | \$   | \$                          | \$   |
| Restructuring related activities                   | 0.9                                | 1.6  | 0.9                         | 2.2  |
| Energy related charges                             | 51.0                               | -    | 51.0                        | -    |
| Fixed asset impairment and other inventory charges | 10.0                               | -    | 10.0                        | -    |
| Venezuela related activities                       | -                                  | 9.4  | -                           | 9.4  |
| Subtotal   | 61.9                               | 11.0 | 61.9                        | 11.6 |
| Special (gains) and charges                        |                                    |      |                             |      |
| Restructuring related activities                   | (2.1)                              | 18.9 | 0.9                         | 21.0 |
| Champion and Nalco integration costs               | -                                  | 4.5  | -                           | 10.2 |

|                                   |       |      |       |      |
|-----------------------------------|-------|------|-------|------|
| Energy related charges            | 12.6  | -    | 12.6  | -    |
| Venezuela related activities      | (7.8) | 20.8 | (7.8) | 20.8 |
| Other                             | 23.5  | 21.4 | 26.8  | 21.4 |
| Subtotal                          | 26.2  | 65.6 | 32.5  | 73.4 |
|                                   | \$    | \$   | \$    | \$   |
| Total special (gains) and charges | 88.1  | 76.6 | 94.4  | 85.0 |

#### 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 included 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 charges of \$1.7 million (\$0.9 million after tax) or less than \$0.01 per diluted share and \$13.1 million (\$9.1 million after tax) or \$0.03 per diluted share during the second quarter of 2016 and 2015, respectively. During the six months ended June 30, 2016 and 2015, we recorded charges of \$4.6 million (\$2.6 million after tax) or \$0.01 per diluted share and \$14.1 million (\$9.9 million after tax) or \$0.03 per diluted share, respectively.

Net cash payments under the Energy Restructuring Plan during the first six months of 2016 were \$8.4 million. The majority of cash payments under this plan are related to severance, with the current accrual expected to be paid over a period of a few months to several quarters. We anticipate the remaining cash expenditures will continue to be funded from operating activities.

For the first six months of 2016, the Energy Restructuring Plan has achieved approximately \$15 million in incremental savings as compared to 2015. We anticipate cumulative cost savings from this 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 our 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 our global workforce and optimization of our 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. We recorded gains of \$2.9 million (\$2.8 million after tax) or \$0.01 per diluted share and \$2.8 million (\$2.7 million after tax) or \$0.01 per diluted share during the second quarter and first six months of 2016, respectively, related to the sale of facilities. We recorded charges of \$7.3 million (\$5.5 million after tax) or \$0.02 per diluted share and \$9.0 million (\$6.3 million after tax) or \$0.02 per diluted share during the second quarter and first six months of 2015, respectively.

Net cash payments under the Combined Plan during the first six months of 2016 were \$17.0 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 six months of 2016, the Combined Plan has achieved approximately \$15 million in incremental savings as compared to 2015. We anticipate cumulative cost savings from this 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

## Energy Related Charges

Oil industry activity remained depressed during the second quarter of 2016, resulting from continued excess oil supply pressures, which have negatively impacted exploration and production investments in the energy industry, particularly in North America. As a result of these conditions and their corresponding impact on our business outlook, we recorded total charges of \$63.6 million (\$42.9 million after tax) or \$0.14 per diluted share, during the second quarter and first six months of 2016 comprised of inventory write-downs and related disposal costs, fixed asset charges, headcount reductions and other charges.

The inventory write-downs and related disposal costs of \$31.1 million include lower of cost or market adjustments due to the significant decline in activity and related prices of certain specific-use and other products, coupled with declines in replacement costs, as well as estimated costs to dispose the respective excess inventory. The fixed asset charges of \$18.2 million resulted from the write-down of certain assets related to the reduction of certain aspects of our North American Global Energy segment, as well as abandonment of certain projects under construction. The carrying value of the corresponding fixed assets was reduced to zero. The employee termination costs of \$12.8 million include a reduction in our Global Energy segment's global workforce to better align its workforce with anticipated activity levels in the near term. As of the end of the second quarter of 2016, we had \$11.9 million of corresponding severance remaining to be paid, which is expected to be paid within the next twelve months and be funded from operating activities.

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

## Venezuela related activities

Effective as of the end of the fourth quarter of 2015, we deconsolidated our Venezuelan subsidiaries. Prior to deconsolidation, during the second quarter of 2015, we remeasured our Venezuelan bolivar operations within our Water and Paper operating units from the official exchange rate at the time of 6.3 bolivares to 1 U.S. dollar to the SIMADI rate at the time of approximately 200 bolivares to 1 U.S. dollar and recorded a devaluation charge of \$30.2 million (\$30.2 million after tax) or \$0.10 per diluted share.

During the second quarter and first six months of 2016 we recorded a gain of \$7.8 million (\$4.9 million after tax) or \$0.02 per diluted share resulting from U.S. dollar cash recoveries of intercompany receivables written off at the time of deconsolidation.



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 six months of 2016. As a result of the Champion acquisition, we incurred charges of \$4.3 million (\$2.8 million after tax) or \$0.01 per diluted share during the second quarter of 2015 and

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\$9.5 million (\$6.0 million after tax) or \$0.02 per diluted share during the first six months of 2015. As a result of the Nalco merger, we incurred charges of \$0.2 million (\$0.1 million after tax) or less than \$0.01 per diluted share during the second quarter of 2015 and \$0.7 million (\$0.6 million after tax) or less than \$0.01 per diluted share during the first six months of 2015.

#### Other special (gains) and charges

During the second quarter and first six months of 2016, we recorded a charge of \$10.0 million (\$6.3 million after tax) or \$0.02 per diluted share related to a fixed asset impairment and related inventory charges. The fixed asset impairment corresponds to additional charges of certain U.S. production equipment and buildings, resulting from further lower production, initially impaired during the fourth quarter of 2015. The impaired facility is a specialized facility used for dry polymer production. Due to market contraction in the oil and the mining industries, and the aggressive competitive pricing environment for dry polymers, the facility has not reached production volumes to recover the value of the underlying fixed assets. Subsequent to the second quarter charge, the remaining value of the underlying fixed assets is less than \$5 million. Inventory charges include lower of cost or market adjustments due to the significant decline in activity and related prices of the corresponding dry polymer products.

We also recorded charges of \$23.5 million (\$14.6 million after tax) or \$0.05 per diluted share and \$26.8 million (\$17.2 million after tax) or \$0.06 per diluted share during the second quarter and first six months of 2016, respectively, primarily consisting of litigation related charges.

We recorded charges of \$21.4 million (\$13.4 million after tax), or \$0.05 per diluted share, during the second quarter and first six months of 2015, related to recognition of a loss on the sale of a portion of our Ecovation business, and other litigation related charges.

#### Operating Income and Operating Income Margin

| (millions)                     | Second Quarter Ended<br>June 30 |          |        | Six Months Ended<br>June 30 |          |        |
|--------------------------------|---------------------------------|----------|--------|-----------------------------|----------|--------|
|                                | 2016                            | 2015     | Change | 2016                        | 2015     | Change |
| Reported GAAP operating income | \$ 412.5                        | \$ 437.8 | (6) %  | \$ 784.0                    | \$ 825.5 | (5) %  |
| Special (gains) and charges    | 88.1                            | 76.6     |        | 94.4                        | 85.0     |        |

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|   |          |          |     |          |          |     |
|---|----------|----------|-----|----------|----------|-----|
| Non-GAAP adjusted operating income                | 500.6    | 514.4    | (3) | 878.4    | 910.5    | (4) |
| Effect of foreign currency translation            | (9.6)    | (38.7)   |     | (13.8)   | (80.8)   |     |
| Non-GAAP adjusted fixed currency operating income | \$ 491.0 | \$ 475.7 | 3 % | \$ 864.6 | \$ 829.7 | 4 % |

| (percent)  | Second Quarter Ended<br>June 30 |   |      |   | Six Months Ended<br>June 30 |   |      |   |
|--|---------------------------------|---|------|---|-----------------------------|---|------|---|
|  | 2016                            |   | 2015 |   | 2016                        |   | 2015 |   |
| Reported GAAP operating income margin                    | 12.4                            | % | 12.9 | % | 12.2                        | % | 12.3 | % |
| Non-GAAP adjusted operating income margin                | 15.1                            | % | 15.2 | % | 13.7                        | % | 13.6 | % |
| Non-GAAP adjusted fixed currency operating income margin | 15.1                            | % | 14.8 | % | 13.7                        | % | 13.2 | % |

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 6% and 5% in the second quarter and the first six months of 2016, respectively, versus the comparable periods of 2015. Excluding the impact of special (gains) and charges from 2016 and 2015 reported results, our adjusted operating income decreased 3% and 4% in the second quarter and the first six months of 2016, respectively, versus the comparable periods of 2015.

Foreign currency had a negative impact on operating income growth, as adjusted fixed currency operating income increased 3% and 4% in the second quarter and first six months of 2016, respectively, against the second quarter and first six months of 2015. The net impact of acquisitions and divestitures added approximately 1 percentage point to both our second quarter and first six months of 2016 adjusted fixed currency operating income growth rates.

As addressed further in the Segment Performance section of this MD&A, the second quarter and first six months of 2016 adjusted fixed currency operating income increase and the improving trend in our adjusted fixed currency operating income margin were driven primarily by growth in our Global Industrial, Global Institutional and Other segments, which more than offset higher variable compensation and a decline in Global Energy.

#### Interest Expense, Net

Net interest expense was \$65.3 million and \$61.2 million in the second quarter of 2016 and 2015, respectively. Net interest expense in the first six months of 2016 and 2015 was \$131.4 million and \$123.7 million, 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)                  | Second Quarter   |       | Six Months Ended |        |
|----------------------------|------------------|-------|------------------|--------|
|                            | Ended<br>June 30 |       | June 30          |        |
|                            | 2016             | 2015  | 2016             | 2015   |
| Reported GAAP tax rate     | 24.1 %           | 18.0% | 24.1 %           | 22.5 % |
| Tax rate impact of:        |                  |       |                  |        |
| Special gains and charges  | 2.3              | 0.4   | 1.4              | (0.1)  |
| Discrete tax items         | (0.9)            | 8.7   | 0.1              | 4.7    |
| Non-GAAP adjusted tax rate | 25.5 %           | 27.1% | 25.6 %           | 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 second quarter 2016 reported tax expense included \$31.1 million of net tax benefits on special gains and charges and net expense of \$3.9 million associated with discrete tax items. For the first six months of 2016, our reported tax expense included \$33.0 million of net tax benefits on special gains and charges and net benefits of \$0.9 million associated with discrete tax items. The corresponding impact of these items on the reported tax rate is shown in the previous table.

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

Our second quarter 2015 reported tax expense includes \$15.5 million of net tax benefits on special gains and charges and net benefits of \$39.4 million associated with discrete tax items. For the first six months of 2015, our reported tax expense includes \$18.6 million of net tax benefits on special gains and charges and net benefits of \$36.8 million associated with discrete tax items. The corresponding impact of these items on the reported tax rate is shown in the previous table.

Second quarter 2015 net benefits related to discrete tax items resulted primarily from our ability to recognize a worthless stock deduction for the tax basis in a wholly-owned domestic subsidiary. First quarter 2015 net expense related to discrete tax items was 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 strategies.

#### Net Income Attributable to Ecolab

| (millions)                             | Second Quarter Ended<br>June 30 |        |        | Six Months Ended<br>June 30 |        |        |
|--|---------------------------------|--------|--------|-----------------------------|--------|--------|
|  | 2016                            | 2015   | Change | 2016                        | 2015   | Change |
|  | \$                              | \$     |        | \$                          | \$     |        |
| Reported GAAP net income               | 258.4                           | 302.0  | (14) % | 489.2                       | 535.4  | (9) %  |
| Adjustments:                           |                                 |        |        |                             |        |        |
| Special (gains) and charges, after tax | 57.0                            | 61.1   |        | 61.4                        | 66.4   |        |
| Discrete tax net expense (benefit)     | 3.9                             | (39.4) |        | (0.9)                       | (36.8) |        |
|  | \$                              | \$     |        | \$                          | \$     |        |
| Non-GAAP adjusted net income           | 319.3                           | 323.7  | (1) %  | 549.7                       | 565.0  | (3) %  |

#### Diluted EPS

| (dollars)                          | Second Quarter Ended<br>June 30 |        |        | Six Months Ended<br>June 30 |        |        |
|------------------------------------|---------------------------------|--------|--------|-----------------------------|--------|--------|
|                                    | 2016                            | 2015   | Change | 2016                        | 2015   | Change |
|                                    | \$                              | \$     |        | \$                          | \$     |        |
| Reported GAAP diluted EPS          | 0.87                            | 1.00   | (13) % | 1.64                        | 1.77   | (7) %  |
| Adjustments:                       |                                 |        |        |                             |        |        |
| Special (gains) and charges        | 0.19                            | 0.20   |        | 0.21                        | 0.22   |        |
| Discrete tax net expense (benefit) | 0.01                            | (0.13) |        | (0.00)                      | (0.12) |        |
|                                    | \$                              | \$     |        | \$                          | \$     |        |
| Non-GAAP adjusted diluted EPS      | 1.08                            | 1.08   | 0 %    | 1.85                        | 1.87   | (1) %  |

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

Currency translation had an unfavorable impact of approximately \$0.08 and \$0.19 on diluted EPS for the second quarter and first six months of 2016, respectively, compared to the same periods of 2015.

## SEGMENT PERFORMANCE

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

| Net Sales<br>(millions)                | Second Quarter Ended<br>June 30 |            |        | Six Months Ended<br>June 30 |            |        |
|--|---------------------------------|------------|--------|-----------------------------|------------|--------|
|  | 2016<br>\$                      | 2015<br>\$ | Change | 2016<br>\$                  | 2015<br>\$ | Change |
| Global Industrial                      | 1,152.2                         | 1,103.2    | 4 %    | 2,231.3                     | 2,140.9    | 4 %    |
| Global Institutional                   | 1,142.3                         | 1,054.1    | 8      | 2,191.0                     | 2,029.3    | 8      |
| Global Energy                          | 754.6                           | 867.6      | (13)   | 1,514.6                     | 1,758.4    | (14)   |
| Other                                  | 203.4                           | 188.9      | 8      | 391.0                       | 360.9      | 8      |
| Subtotal at fixed currency             | 3,252.5                         | 3,213.8    | 1      | 6,327.9                     | 6,289.5    | 1      |
| Effect of foreign currency translation | 64.7                            | 175.3      |        | 86.7                        | 397.2      |        |
|  | \$                              | \$         |        | \$                          | \$         |        |
| Total reported net sales               | 3,317.2                         | 3,389.1    | (2) %  | 6,414.6                     | 6,686.7    | (4) %  |
| Operating Income<br>(millions)         | Second Quarter Ended<br>June 30 |            |        | Six Months Ended<br>June 30 |            |        |
|  | 2016<br>\$                      | 2015<br>\$ | Change | 2016<br>\$                  | 2015<br>\$ | Change |
| Global Industrial                      | 171.3                           | 147.9      | 16 %   | 300.0                       | 250.5      | 20 %   |
| Global Institutional                   | 245.0                           | 228.5      | 7      | 441.1                       | 394.8      | 12     |
| Global Energy                          | 77.5                            | 109.9      | (29)   | 137.9                       | 214.1      | (36)   |
| Other                                  | 38.8                            | 31.8       | 22     | 68.9                        | 54.9       | 26     |
| Corporate                              | (129.7)                         | (119.0)    |        | (177.7)                     | (169.6)    |        |
| Subtotal at fixed currency             | 402.9                           | 399.1      | 1      | 770.2                       | 744.7      | 3      |
| Effect of foreign currency translation | 9.6                             | 38.7       |        | 13.8                        | 80.8       |        |
|  | \$                              | \$         |        | \$                          | \$         |        |
| Total reported operating income        | 412.5                           | 437.8      | (6) %  | 784.0                       | 825.5      | (5) %  |

## Global Industrial

Second Quarter Ended  
June 30

Six Months Ended  
June 30



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|   | 2016    | 2015    | 2016    | 2015    |      |   |      |   |
|---|---------|---------|---------|---------|------|---|------|---|
|   | \$      | \$      | \$      | \$      |      |   |      |   |
| Sales at fixed currency (millions)                          | 1,152.2 | 1,103.2 | 2,231.3 | 2,140.9 |      |   |      |   |
| Sales at public currency (millions)                         | 1,182.2 | 1,167.8 | 2,271.0 | 2,295.0 |      |   |      |   |
| Volume  | 2       | %       | 2       | %       |      |   |      |   |
| Price changes   | 1       | %       | 1       | %       |      |   |      |   |
| Acquisition adjusted fixed currency sales change            | 2       | %       | 2       | %       |      |   |      |   |
| Acquisitions and divestitures                               | 2       | %       | 2       | %       |      |   |      |   |
| Fixed currency sales change                                 | 4       | %       | 4       | %       |      |   |      |   |
| Foreign currency translation                                | (3)     | %       | (5)     | %       |      |   |      |   |
| Public currency sales change                                | 1       | %       | (1)     | %       |      |   |      |   |
|   | \$      | \$      | \$      | \$      |      |   |      |   |
| Operating income at fixed currency (millions)               | 171.3   | 147.9   | 300.0   | 250.5   |      |   |      |   |
| Operating income at public currency (millions)              | 176.3   | 161.0   | 306.8   | 279.4   |      |   |      |   |
| Fixed currency operating income change                      | 16      | %       | 20      | %       |      |   |      |   |
| Fixed currency operating income margin                      | 14.9    | %       | 13.4    | %       | 13.4 | % | 11.7 | % |
| Acquisition adjusted fixed currency operating income change | 13      | %       | 17      | %       |      |   |      |   |
| Acquisition adjusted fixed currency operating margin        | 15.1    | %       | 13.6    | %       | 13.7 | % | 11.9 | % |
| Public currency operating income change                     | 10      | %       | 10      | %       |      |   |      |   |

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

#### Net Sales

Fixed currency sales for our Global Industrial segment increased in the second quarter and first six months of 2016, impacted by acquisitions, volume gains and pricing. At a regional level, both the second quarter and six month sales were impacted by good growth in Latin America and modest growth in Europe and North America.

At an operating unit level, Water fixed currency sales increased 6% (1% acquisition adjusted) in both the second quarter of 2016 and first six months of 2016. Growth was led by results in light industries, partially offset by slower heavy industry sales growth and a double-digit decline in the mining industry. Food & Beverage fixed currency sales increased 4% in both the second quarter of 2016 and first six months of 2016, benefiting from share gains. Growth continued to be led by the food and beverage markets, with moderate gains in dairy. Paper fixed currency sales increased 1% in both the second quarter and first six months of 2016, impacted by share gains and continued innovative customer solutions. Market conditions continued to be challenging in Asia Pacific, including Greater China. Textile Care fixed currency sales increased 6% in the second quarter of 2016 and 5% in the first six months of 2016, benefiting from new customer accounts in Europe and product penetration.

### Operating Income

Fixed currency operating income and fixed currency operating income margins for our Global Industrial segment increased in both the second quarter and first six months of 2016. Acquisitions positively impacted the fixed currency operating income growth for both the second quarter and first six months of 2016. The impact of acquisitions on fixed currency operating income margins was minimal.

Acquisition adjusted fixed currency operating income margins increased 1.5 and 1.8 percentage points during the second quarter and first six months of 2016, respectively. The favorable impact of pricing gains, sales volume gains and product mix changes added approximately 0.8 and 1.1 percentage points for the second quarter and first six months of 2016, respectively. The growth was also impacted by cost savings initiatives and lower delivered product costs, net of higher variable compensation costs in both the second quarter and first six months of 2016.

### Global Institutional

|  | Second Quarter Ended |         | Six Months Ended |         |
|--|----------------------|---------|------------------|---------|
|  | June 30              |         | June 30          |         |
|  | 2016                 | 2015    | 2016             | 2015    |
|  | \$                   | \$      | \$               | \$      |
| Sales at fixed currency (millions)               | 1,142.3              | 1,054.1 | 2,191.0          | 2,029.3 |
| Sales at public currency (millions)              | 1,158.8              | 1,078.1 | 2,211.7          | 2,091.2 |
| Volume   | 4                    | %       | 3                | %       |
| Price changes                                    | 2                    | %       | 2                | %       |
| Acquisition adjusted fixed currency sales change | 5                    | %       | 5                | %       |
| Acquisitions and divestitures                    | 3                    | %       | 3                | %       |
| Fixed currency sales change                      | 8                    | %       | 8                | %       |
| Foreign currency translation                     | (1)                  | %       | (2)              | %       |

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|   |       |   |       |   |       |   |       |   |
|---|-------|---|-------|---|-------|---|-------|---|
| Public currency sales change                                | 7     | % |       |   | 6     | % |       |   |
|   | \$    |   | \$    |   | \$    |   | \$    |   |
| Operating income at fixed currency (millions)               | 245.0 |   | 228.5 |   | 441.1 |   | 394.8 |   |
| Operating income at public currency (millions)              | 247.7 |   | 232.6 |   | 444.4 |   | 402.6 |   |
| Fixed currency operating income change                      | 7     | % |       |   | 12    | % |       |   |
| Fixed currency operating income margin                      | 21.4  | % | 21.7  | % | 20.1  | % | 19.5  | % |
| Acquisition adjusted fixed currency operating income change | 8     | % |       |   | 13    | % |       |   |
| Acquisition adjusted fixed currency operating margin        | 22.1  | % | 21.7  | % | 20.9  | % | 19.5  | % |
| Public currency operating income change                     | 6     | % |       |   | 10    | % |       |   |

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

#### Net Sales

Fixed currency sales for our Global Institutional segment increased in the second quarter and first six months of 2016, impacted by volume growth, acquisitions and pricing gains. At a regional level, both the second quarter and six month sales increase were led by good growth in North America, Asia Pacific and Latin America.

At an operating unit level, Institutional fixed currency sales increased 10% (6% acquisition adjusted) in the second quarter of 2016 and 10% (5% acquisition adjusted) in the first six months of 2016. Results were led by new accounts, appropriate pricing and continued demand for our innovative products. Global lodging demand showed modest growth, while foodservice foot traffic remains soft. Specialty fixed currency sales increased 6% in both the second quarter and first six months of 2016. Quick service sales growth continued to be solid, impacted by new accounts and product penetration. Sales growth in the food retail business showed stronger incremental growth in the second quarter, impacted by new customer additions and product introductions. Healthcare fixed currency sales increased 4% in the second quarter of 2016 and 3% in the first six months of 2016, benefiting from new accounts and product penetration.

## Operating Income

Fixed currency operating income increased for our Global Institutional segment in both the second quarter and first six months of 2016, and the fixed currency operating margin decreased during the second quarter and increased during the first six months of 2016. Acquisitions negatively impacted fixed currency operating income growth and fixed currency operating income margins.

Acquisition adjusted fixed currency operating income margins increased 0.4 and 1.4 percentage points during the second quarter and first six months of 2016, respectively. The favorable impact of pricing gains, product mix changes and sales volume increases added approximately 2.3 percentage points for both the second quarter and first six months of 2016, and was partially offset by investments in the business and higher variable compensation costs.

## Global Energy

|   | Second Quarter Ended |       | Six Months Ended |         |
|---|----------------------|-------|------------------|---------|
|   | June 30              |       | June 30          |         |
|   | 2016                 | 2015  | 2016             | 2015    |
|   | \$                   | \$    | \$               | \$      |
| Sales at fixed currency (millions)                          | 754.6                | 867.6 | 1,514.6          | 1,758.4 |
| Sales at public currency (millions)                         | 771.1                | 950.3 | 1,538.4          | 1,929.7 |
| Volume  | (10)                 | %     | (11)             | %       |
| Price changes   | (3)                  | %     | (3)              | %       |
| Acquisition adjusted fixed currency sales change            | (13)                 | %     | (14)             | %       |
| Acquisitions and divestitures                               | 0                    | %     | 0                | %       |
| Fixed currency sales change                                 | (13)                 | %     | (14)             | %       |
| Foreign currency translation                                | (6)                  | %     | (6)              | %       |
| Public currency sales change                                | (19)                 | %     | (20)             | %       |
|   | \$                   | \$    | \$               | \$      |
| Operating income at fixed currency (millions)               | 77.5                 | 109.9 | 137.9            | 214.1   |
| Operating income at public currency (millions)              | 80.0                 | 132.1 | 142.3            | 260.4   |
| Fixed currency operating income change                      | (29)                 | %     | (36)             | %       |
| Fixed currency operating income margin                      | 10.3                 | %     | 12.7             | %       |
| Acquisition adjusted fixed currency operating income change | (32)                 | %     | (39)             | %       |
| Acquisition adjusted fixed currency operating margin        | 9.8                  | %     | 12.4             | %       |
| Public currency operating income change                     | (39)                 | %     | (45)             | %       |

## Net Sales

Fixed currency sales for our Global Energy segment were negatively impacted by volume reductions and lower pricing. The decrease in fixed currency sales was impacted by a significant decline in our well stimulation business and weak industry conditions in our production business. Our downstream business increased modestly during both the second quarter and first six months of 2016. North America results continue to be lower in 2016 compared to 2015.

## Operating Income

Fixed currency operating income and fixed currency operating income margins for our Global Energy segment decreased during both the second quarter and first six months of 2016. Acquisitions had a positive impact on the fixed currency operating income and fixed currency operating income margins during both the second quarter and first six months of 2016.

Acquisition adjusted fixed currency operating income margins for our Global Energy segment decreased 2.6 and 3.5 percentage points during the second quarter and the first six months of 2016, respectively. Reductions in sales volume, product mix changes and lower pricing contributed approximately 5.7 and 6.8 percentage points to the decline in the second quarter and the first six months of 2016, respectively, which more than offset the benefit of lower delivered product costs, synergies and other cost reduction actions.

## Other

|   | Second Quarter Ended |       | Six Months Ended |       |      |   |      |   |
|---|----------------------|-------|------------------|-------|------|---|------|---|
|   | June 30              |       | June 30          |       |      |   |      |   |
|   | 2016                 | 2015  | 2016             | 2015  |      |   |      |   |
|   | \$                   | \$    | \$               | \$    |      |   |      |   |
| Sales at fixed currency (millions)                          | 203.4                | 188.9 | 391.0            | 360.9 |      |   |      |   |
| Sales at public currency (millions)                         | 205.1                | 192.9 | 393.5            | 370.8 |      |   |      |   |
| Volume  | 6                    | %     | 6                | %     |      |   |      |   |
| Price changes   | 2                    | %     | 2                | %     |      |   |      |   |
| Acquisition adjusted fixed currency sales change            | 8                    | %     | 8                | %     |      |   |      |   |
| Acquisitions and divestitures                               | 0                    | %     | 0                | %     |      |   |      |   |
| Fixed currency sales change                                 | 8                    | %     | 8                | %     |      |   |      |   |
| Foreign currency translation                                | (1)                  | %     | (2)              | %     |      |   |      |   |
| Public currency sales change                                | 6                    | %     | 6                | %     |      |   |      |   |
|   | \$                   | \$    | \$               | \$    |      |   |      |   |
| Operating income at fixed currency (millions)               | 38.8                 | 31.8  | 68.9             | 54.9  |      |   |      |   |
| Operating income at public currency (millions)              | 38.9                 | 32.3  | 69.1             | 55.4  |      |   |      |   |
| Fixed currency operating income change                      | 22                   | %     | 26               | %     |      |   |      |   |
| Fixed currency operating income margin                      | 19.1                 | %     | 16.8             | %     | 17.6 | % | 15.2 | % |
| Acquisition adjusted fixed currency operating income change | 22                   | %     | 25               | %     |      |   |      |   |
| Acquisition adjusted fixed currency operating margin        | 19.1                 | %     | 16.8             | %     | 17.6 | % | 15.2 | % |
| Public currency operating income change                     | 20                   | %     | 25               | %     |      |   |      |   |

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

## Net Sales

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

At an operating unit level, Pest Elimination fixed currency sales increased 8% in both the second quarter of 2016 and first six months of 2016, impacted by gains in the foodservice and food and beverage markets. Equipment Care sales

increased 6% in the second quarter of 2016 and 8% in the first six months of 2016, driven largely by increases in service sales, impacted by productivity improvements and new customers.

### Operating Income

Fixed currency operating income and fixed currency operating income margins for our Other segment increased 2.3 and 2.4 percentage points during the second quarter and the first six months of 2016, respectively, favorably impacted primarily by the combination of pricing gains and sales volume increases, partially offset by higher variable compensation costs.

### 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 31.

## FINANCIAL POSITION AND LIQUIDITY

## Financial Position

Total assets were \$18.2 billion and \$18.6 billion as of June 30, 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 and the impact of intangible asset amortization.

Total liabilities were \$11.6 billion as of June 30, 2016 and \$11.7 billion as of December 31, 2015. Total debt was \$6.8 billion as of June 30, 2016 and \$6.5 billion as of December 31, 2015.

Our net debt to earnings before interest, taxes, depreciation and amortization (“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.

|                             | June 30<br>2016 | 2015    |
|-----------------------------|-----------------|---------|
| (ratio)                     |                 |         |
| Net debt to EBITDA          | 2.8             | 2.5     |
| Net debt to adjusted EBITDA | 2.3             | 2.4     |
| (millions)                  |                 |         |
| Net Debt                    |                 |         |
|                             | \$              | \$      |
| Total debt                  | 6,846.9         | 7,287.4 |
| Cash                        | 167.4           | 310.6   |
|                             | \$              | \$      |
| Net debt                    | 6,679.5         | 6,976.8 |

EBITDA



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|   |         |         |
|---|---------|---------|
|   | \$      | \$      |
| Net income including non-controlling interest | 968.6   | 1,256.9 |
| Provision for income taxes                    | 299.9   | 411.5   |
| Interest expense, net                         | 251.3   | 249.0   |
| Depreciation                                  | 549.7   | 567.8   |
| Amortization                                  | 295.4   | 304.5   |
| EBITDA  | 2,364.9 | 2,789.7 |
| Special (gains) and charges impacting EBITDA  | 504.8   | 137.5   |
|   | \$      | \$      |
| Adjusted EBITDA                               | 2,869.7 | 2,927.2 |

Cash Flows

Operating Activities

| (millions)                            | Six Months Ended |       |        |
|---------------------------------------|------------------|-------|--------|
|                                       | June 30          |       |        |
|                                       | 2016             | 2015  | Change |
|                                       | \$               | \$    | \$     |
| Cash provided by operating activities | 874.8            | 636.6 | 238.2  |

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

## Investing Activities

| (millions)                         | Six Months Ended |         |        |
|------------------------------------|------------------|---------|--------|
|                                    | June 30          |         |        |
|                                    | 2016             | 2015    | Change |
|                                    | \$               | \$      | \$     |
| Cash used for investing activities | (323.9)          | (340.0) | 16.1   |

We continue to make investments in our business, including capital expenditures. Cash paid for acquisitions was generally consistent comparing the first six months of 2016 against the first six months of 2015. See Note 3 for further information on our business acquisition activity.

## Financing Activities

| (millions)                         | Six Months Ended |         |         |
|------------------------------------|------------------|---------|---------|
|                                    | June 30          |         |         |
|                                    | 2016             | 2015    | Change  |
|                                    | \$               | \$      | \$      |
| Cash used for financing activities | (477.2)          | (184.0) | (293.2) |

Our 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 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 six months of 2016, net issuances and repayments of commercial paper and notes payable led to a net decrease of \$342 million, compared to a net increase of \$450 million during the first six months of 2015.

In February 2015, we announced a \$1.0 billion share repurchase program, which was completed during the second quarter of 2016. During the first six months of 2016, we repurchased \$638 million shares, including \$300 million shares through an ASR program initiated in February 2016. During the first six months of 2015, we repurchased \$726 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 June 30, 2016, we had \$167.4 million of cash and cash equivalents on hand, of which \$143.0 million was held outside of the U.S.

As of June 30, 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 June 30, 2016 or December 31, 2015.

The credit facility supports our \$2.0 billion U.S. commercial paper program and \$200.0 million European commercial paper program. Combined borrowing under these two commercial paper programs may not exceed \$2.0 billion. As of June 30, 2016, we had \$273 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 June 30, 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.

As of June 30, 2016, Standard & Poor's and Moody's rated our long-term credit at A- (stable outlook) and Baa1 (stable outlook), respectively.

The schedule of contractual obligations included in the Financial Position and Liquidity section of our Form 10-K for the year ended December 31, 2015 disclosed total notes payable and long-term debt due within one year of \$2.2 billion. As of June 30, 2016, the total notes payable and long-term debt due within one year decreased to \$1.7 billion. The decrease reflected repayment of commercial paper borrowings and current maturities of long-term debt during the first six months of 2016.

Our gross liability for uncertain tax positions was \$72 million as of June 30, 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 24% of our sales are generated from our Global Energy segment, the results of which, as noted further below, are subject to volatility in the oil and gas commodity markets.

Oil industry activity remained depressed during the first six months of 2016, resulting from continued excess oil supply pressures, which have negatively impacted exploration and production investments in the energy industry, particularly in North America. We also experienced additional pricing headwinds in 2016 when compared to 2015. As a result of these conditions, we recorded charges related to inventory write-downs and related disposal costs, fixed asset charges, employee termination costs and other charges during the second quarter of 2016, as discussed further in Note 2.

Demand for oil and overall energy consumption has remained consistent.

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.

### Brexit Referendum

The June 23, 2016 referendum by British voters to exit the European Union (“Brexit”) resulted in a sharp decline in the value of the British pound, as compared to the U.S. dollar and other currencies.

Brexit is non-binding; however, if passed into law, negotiations would commence to determine the future terms of the U.K.’s relationship with the European Union. The effects of Brexit will depend on any agreements the U.K. makes to retain access to European Union markets either during a transitional period or more permanently. Volatility in exchange rates is expected to continue in the short term as the U.K. negotiates its exit from the European Union. In the longer term, any impact from Brexit on our U.K. operations will depend, in part, on the outcome of tariff, trade, regulatory, and other negotiations.

For the six months ended June 30, 2016, net sales of our U.K. operations were approximately 3% of our consolidated net sales.

#### Global Foreign Currency Markets

The U.S. dollar remained strong against most global currencies during the first six months 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 June 2016, subsequent to our fiscal second quarter end for international operations, we made a binding offer to acquire Anios, a leading European manufacturer and marketer of hygiene and disinfection products for the healthcare, food service, and food and beverage processing industries. Based in Lille, France, Anios sales were approximately €220 million (\$245 million) in 2015. The parties entered into a definitive purchase agreement in July 2016 following the sellers’ consultation with their French works councils. The transaction remains subject to clearance by applicable regulatory and competition authorities prior to closing. The transaction is expected to close in late 2016, subject to satisfaction of such contingencies.

In July 2016, we made a 33% minority investment in Aquatech International. Based in Canonsburg, PA, Aquatech is a global leader in the design and engineering of complex and comprehensive water treatment solutions that improve water quality and reduce net water usage. We determined that we exert significant influence over Aquatech and therefore will account for the investment using the equity method of accounting.

## 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
- 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 EPS

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

Our non-GAAP financial measures for cost of sales, gross margin and operating income exclude the impact of special (gains) and charges, and our non-GAAP measures for tax rate, net income attributable to Ecolab and diluted earnings per share further exclude the impact of discrete tax items. We include in special gains and charges items that are unusual in nature and significant in amount. Both special (gains) and charges and discrete tax items can significantly affect the period-over-period assessment of operating results and not necessarily reflect costs associated with historical trends and future results.

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



We evaluate the performance of our international operations based on fixed currency rates of foreign exchange. Fixed currency amounts included in this Form 10-Q are based on translation into U.S. dollars at the fixed foreign currency exchange rates established by management at the beginning of 2016. Fixed currency amounts also reflect all Venezuelan bolivar operations, prior to the deconsolidation of our Venezuelan operations, at a SIMADI rate of approximately 200 bolivares to 1 U.S. dollar, which was the approximate conversion rate for SIMADI at year end 2015. Fixed currency sales, acquisition adjusted fixed currency sales, adjusted fixed currency operating income and adjusted fixed currency operating income margin measures eliminate the impact of exchange rate fluctuations on our international sales, acquisition adjusted sales and adjusted operating income, respectively, and promote a better understanding of our sales and operating income trends from underlying business performance.

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 Operations” in Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning our 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; changes in tax law and unanticipated tax liabilities; potential chemical spill or release; potential class action lawsuits; the loss or insolvency of a major customer or distributor; acts of war or terrorism; natural or man-made disasters; water shortages; severe weather conditions; and other uncertainties or risks reported from time to time in our reports to the SEC. There can be no assurances that our earnings levels will meet investors’ expectations. Except as may be required under applicable law, we do not undertake, and expressly disclaim, any duty to update our Forward-Looking Statements.

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

We 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 June 30, 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 April 1 through June 30, 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.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

As previously reported, the Texas Commission on Environmental Quality (“TCEQ”) issued a Notice of Enforcement and Notice of Violation related to Ecolab’s facility in Fresno, TX on August 29, 2014, alleging violations of the facility’s air permits and various state and federal air laws. On June 24, 2015, the TCEQ issued a draft consent decree to Ecolab for certain violations, with the TCEQ ultimately seeking an administrative penalty of approximately \$850,000. The company signed an Agreed Order with the TCEQ on May 2, 2016 to pay this penalty, which is subject to approval by the TCEQ, and simultaneously paid the first installment of approximately \$425,000. The final installment will be paid upon approval of the Agreed Order by the TCEQ.

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 located on pages 42-43 of this Form 10-Q. We may also refer to such disclosure to identify factors that may cause results to differ from those expressed in other forward-looking statements made in oral presentations, including telephone conferences and/or webcasts open to the public.

The discussion below provides updates and additions to the risk factors and should be read together with the full list of risk factors set forth in the aforementioned Form 10-K.

Our results are impacted by general worldwide economic factors.

Economic factors such as the worldwide economy, capital flows, interest rates and currency movements, including, in particular, our exposure to foreign currency risk, have affected our business in the past and may have a material adverse impact on our business in the future. In 2008 and 2009, the global economy experienced considerable disruption and volatility, and the disruption was particularly acute in the global credit markets. In 2011 and 2012, the European Union's sovereign debt crisis negatively impacted economic activity in that region as well as the strength of the euro versus the U.S. dollar. Additionally, the June 2016 Brexit vote resulted in a sharp decline in the value of the British pound, as compared to the U.S. dollar and other currencies, and the possibility for referendum by other EU member states may lead to further market volatility. Other regions of the world, including emerging market areas, also expose us to foreign currency risk. For example, as a result of the increasing currency controls, importation restrictions, workforce regulations, pricing constraints and local capitalization requirements, we deconsolidated our Venezuelan subsidiaries effective as of the end of the fourth quarter of 2015. Prior to deconsolidation, across the second through fourth quarters of 2015, we devalued our Venezuelan bolivar operations within our Water, Paper, Food & Beverage, Institutional and Energy operating units. Similar currency devaluations, credit market disruptions or other economic turmoil in other countries could have a material adverse impact on our consolidated results of operations, financial position and cash flows by negatively impacting economic activity, including in our key end-markets, and by further weakening the local currency versus the U.S. dollar, resulting in reduced sales and earnings from our foreign operations, which are generated in the local currency, and then translated to U.S. dollars.

Our significant non-U.S. operations expose us to global economic, political and legal risks that could impact our profitability.

We have significant operations outside the United States, including joint ventures and other alliances. We conduct business in approximately 170 countries and, in 2015, approximately 48% of our net sales originated outside the United States. There are inherent risks in our international operations, including:

- exchange controls and currency restrictions;
- currency fluctuations and devaluations;
- tariffs and trade barriers;
- export duties and quotas;
- changes in the availability and pricing of raw materials, energy and utilities;
- changes in local economic conditions;
- changes in laws and regulations, including the imposition of economic sanctions affecting commercial transactions in countries such as the Russian Federation;
- impact from Brexit and the possibility for referendum in other EU member states;
- difficulties in managing international operations and the burden of complying with foreign laws;
  - requirements to include local ownership or management in our business;
- economic and business objectives that differ from those of our joint venture partners;
- exposure to possible expropriation, nationalization or other government actions;
- restrictions on our ability to repatriate dividends from our subsidiaries;
- unsettled political conditions, military action, civil unrest, acts of terrorism, force majeure, war or other armed conflict; and
- countries whose governments have been hostile to U.S.-based businesses.

Also, because of uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights, we face risks in some countries that our intellectual property rights and contract rights would not be enforced by local governments. We are also periodically faced with the risk of economic uncertainty, which has impacted our business in some countries. Other risks in international business also include difficulties in staffing and managing local operations, including managing credit risk to local customers and distributors.

Further, our operations outside the United States require us to comply with a number of United States and international regulations, including anti-corruption laws such as the United States Foreign Corrupt Practices Act and the United Kingdom Bribery Act, as well as U.S. and international economic sanctions regulations. We have internal policies and procedures relating to such regulations; however, there is risk that such policies and procedures will not always protect us from the reckless acts of employees or representatives, particularly in the case of recently acquired operations that may not have significant training in applicable compliance policies and procedures. Violations of such laws and regulations could result in disruptive investigations of the Company, significant fines and sanctions, which could adversely affect our consolidated results of operations, financial position or cash flows.

Our overall success as a global business depends, in part, upon our ability to succeed in differing economic, social, legal and political conditions. We may not continue to succeed in developing and implementing policies and strategies that are effective in each location where we do business, which could adversely affect our consolidated results of operations, financial position or cash flows.

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

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

We are a defendant in four wage hour lawsuits claiming violations of the Fair Labor Standards Act (“FLSA”) or a similar state law that have either been certified for class treatment or are seeking such certification. While two of the lawsuits have been tentatively settled, there can be no assurance that pending or future wage hour lawsuits can be successfully defended or settled.

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

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

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

All but one of these cases have been administratively transferred to a judge in the United States District Court for the Eastern District of Louisiana with other related cases under In Re: Oil Spill by the Oil Rig “Deepwater Horizon” in the Gulf of Mexico, on April 20, 2010, Case No. 10-md-02179 (E.D. La.) (the “MDL”). The remaining case was Franks v. Sea Tow of South Miss, Inc., et al, Cause No. A2402-10-228 (Circuit Court of Harrison County Mississippi). The Franks case was dismissed in May 2014.

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

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

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

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



Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the United States and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or related authoritative interpretations in the United States and elsewhere, such as interpretations as to the legality of tax advantages granted under the European Union state aid rules. We are also impacted by settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope. Any increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

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

## (c) Issuer Purchases of Equity Securities

| Period           | (a)<br>Total<br>number of<br>shares<br>purchased(1) | (b)<br>Average price<br>paid per<br>share(2) | (c)<br>Number of shares<br>purchased as part<br>of publicly<br>announced plans<br>or programs(3) | (d)<br>Maximum number of<br>shares that may<br>yet be purchased<br>under the plans<br>or programs(3) |
|------------------|---|--|--|--|
| April 1-30, 2016 | 620,145   | 112.8823                                     | 602,849  | 19,150,093   |
| May 1-31, 2016   | 529,098   | 116.7520                                     | 520,244  | 18,629,849   |
| June 1-30, 2016  | 1,207,960   | 118.9262                                     | 1,205,991  | 17,423,858   |
| Total            | 2,357,203   | 116.8481                                     | 2,329,084  | 17,423,858   |

- (1) Includes 28,119 shares reacquired from employees and/or directors as swaps for the cost of stock options, or shares surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.
- (2) The average price paid per share includes brokerage commissions associated with publicly announced plan purchases plus the value of such other reacquired shares.
- (3) As announced on February 24, 2015, our Board of Directors authorized the repurchase of up to 20,000,000 shares. We also announced on February 24, 2015 a \$1.0 billion share repurchase program under the existing share repurchase authorizations, which was 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.

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Item 6. Exhibits

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

- (10.1) Declaration of Amendment dated May 5, 2016 to Ecolab Inc. 2001 Non-Employee Director Stock Option and Deferred Compensation Plan, as amended and restated effective August 1, 2013.
- (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: August 4, 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               |
|-------------|---|--------------------------------|
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| (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. |