ECOLAB INC.
Form 10-Q
November 03, 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 September 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.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices)(Zip Code)

1-800-232-6522

(Registrant's telephone number, including area code)

(Not Applicable)

(Former name, former address and former fiscal year,

if changed since last report)

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

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

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

Large accelerated filer	Accelerated filer

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 September 30, 2016.

291,551,991 shares of common stock, par value $1.00 per share.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(millions, except per share amounts)	Third Quarter Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
Net sales	$ 3,386.1	$ 3,446.4	$ 9,800.7	$ 10,133.1
Operating expenses				
Cost of sales (including special charges (a))	1,737.2	1,820.0	5,153.8	5,391.8
Selling, general and administrative expenses	1,071.6	1,070.7	3,253.1	3,286.7
Special (gains) and charges	3.2	142.7	35.7	216.1
Operating income	574.1	413.0	1,358.1	1,238.5
Interest expense, net	64.9	57.6	196.3	181.3
Income before income taxes	509.2	355.4	1,161.8	1,057.2
Provision for income taxes	129.7	105.3	286.7	262.9
Net income including noncontrolling interest	379.5	250.1	875.1	794.3
Net income attributable to noncontrolling interest (including special charges (a))	5.4	(7.7)	11.8	1.1
Net income attributable to Ecolab	$ 374.1	$ 257.8	$ 863.3	$ 793.2
Earnings attributable to Ecolab per common share				
Basic	$ 1.28	$ 0.87	$ 2.95	$ 2.67
Diluted	$ 1.27	$ 0.86	$ 2.91	$ 2.63
Dividends declared per common share	$ 0.350	$ 0.330	$ 1.050	$ 0.990
Weighted-average common shares outstanding				
Basic	291.6	295.2	292.8	296.5
Diluted	295.7	300.0	297.1	301.5

(a) Cost of sales includes special charges of $23.8 in the third quarter of 2015, and $61.9 and $35.4 in the first nine months of 2016 and 2015, respectively. Net income (loss) attributable to noncontrolling interest includes special charges of $11.1 in both the third quarter and the first nine months of 2015.

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

2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Net income including noncontrolling interest	$ 379.5	$ 250.1	$ 875.1	$ 794.3
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments				
Foreign currency translation	17.2	(211.5)	(1.3)	(556.3)
Gain (loss) on net investment hedges	(1.2)	(12.0)	(29.1)	66.8
	16.0	(223.5)	(30.4)	(489.5)
Derivatives and hedging instruments	(9.5)	7.2	(40.2)	12.1
Pension and postretirement benefits				
Amortization of net actuarial loss and prior service costs included in net periodic pension and postretirement costs	5.6	7.5	16.7	23.6
Postretirement benefits changes	30.9	-	30.9	-
	36.5	7.5	47.6	23.6
Subtotal	43.0	(208.8)	(23.0)	(453.8)
Total comprehensive income, including noncontrolling interest	422.5	41.3	852.1	340.5
Comprehensive income (loss) attributable to noncontrolling interest	8.0	(7.0)	17.8	-
Comprehensive income attributable to Ecolab	$ 414.5	$ 48.3	$ 834.3	$ 340.5

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

CONSOLIDATED BALANCE SHEET

(unaudited)

(millions, except shares and per share amounts)	September 30 2016	December 31 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 180.6	$ 92.8
Accounts receivable, net	2,349.6	2,390.2
Inventories	1,342.4	1,388.2
Deferred income taxes	-	250.0
Other current assets	299.4	326.3
Total current assets	4,172.0	4,447.5
Property, plant and equipment, net	3,292.9	3,228.3
Goodwill	6,515.5	6,490.8
Other intangible assets, net	3,914.3	4,109.2
Other assets	484.1	365.9
Total assets	$ 18,378.8	$ 18,641.7
LIABILITIES AND EQUITY		
Current liabilities		
Short-term debt	$ 1,571.2	$ 2,205.3
Accounts payable	1,022.7	1,049.6
Compensation and benefits	505.8	509.0
Income taxes	83.3	52.2
Other current liabilities	991.0	948.3
Total current liabilities	4,174.0	4,764.4
Long-term debt	5,091.4	4,260.2
Postretirement health care and pension benefits	914.5	1,117.1
Deferred income taxes	1,030.7	1,281.2
Other liabilities	226.4	238.4
Total liabilities	11,437.0	11,661.3
Equity (a)		
Common stock	352.3	350.3
Additional paid-in capital	5,236.1	5,086.1
Retained earnings	6,716.7	6,160.3
Accumulated other comprehensive loss	(1,452.3)	(1,423.3)
Treasury stock	(3,983.2)	(3,263.5)
Total Ecolab shareholders’ equity	6,869.6	6,909.9
Noncontrolling interest	72.2	70.5
Total equity	6,941.8	6,980.4
Total liabilities and equity	$ 18,378.8	$ 18,641.7

(a) Common stock, 800.0 million shares authorized, $1.00 par value per share, 291.6 million shares outstanding at September 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)	Nine Months Ended September 30 2016	2015
OPERATING ACTIVITIES		
	$	$
Net income including noncontrolling interest	875.1	794.3
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	420.9	422.7
Amortization	217.2	224.4
Deferred income taxes	(55.3)	(176.2)
Share-based compensation expense	67.7	60.1
Excess tax benefits from share-based payment arrangements	(39.5)	(36.2)
Pension and postretirement plan contributions	(207.0)	(54.0)
Pension and postretirement plan expense	43.1	87.0
Restructuring charges, net of cash paid	(48.1)	(9.9)
Venezuelan charges	-	165.9
Loss on sale of business	-	13.7
Asset charges and write-downs	50.9	-
Other, net	11.9	2.2
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	37.8	(11.6)
Inventories	34.6	(77.4)
Other assets	(14.0)	(79.8)
Accounts payable	(37.6)	(63.9)
Other liabilities	134.0	133.9
Cash provided by operating activities	1,491.7	1,395.2
INVESTING ACTIVITIES		
Capital expenditures	(478.6)	(551.6)
Capitalized software expenditures	(32.2)	(24.7)
Property and other assets sold	29.6	10.2
Acquisitions and investments in affiliates, net of cash acquired	(44.7)	(129.5)
Divestiture of businesses	-	0.3
Release from acquisition related escrow	-	44.4
Restricted cash activity	(55.9)	-
Settlement of net investment hedges	-	101.8
Cash used for investing activities	(581.8)	(549.1)
FINANCING ACTIVITIES		
Net issuances (repayments) of commercial paper and notes payable	(522.4)	(227.4)
Long-term debt borrowings	793.8	1,225.0
Long-term debt repayments	(130.5)	(884.2)
Reacquired shares	(737.8)	(727.8)
Dividends paid	(324.5)	(301.6)

Exercise of employee stock options	62.3	57.8
Excess tax benefits from share-based payment arrangements	39.5	36.2
Acquisition related liabilities and contingent consideration	(3.8)	(0.8)
Cash used for financing activities	(823.4)	(822.8)
Effect of exchange rate changes on cash and cash equivalents	1.3	(48.1)
Increase (decrease) in cash and cash equivalents	87.8	(24.8)
Cash and cash equivalents, beginning of period	92.8	209.6
Cash and cash equivalents, end of period	$ 180.6	$ 184.8

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 third quarter and nine months ended September 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 third quarter and nine months ended September 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 November 3, 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)	Third Quarter Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
Cost of sales				
Restructuring activities	$ -	$ -	$ 0.9	$ 2.2
Energy related charges	-	-	51.0	-
Fixed asset impairment and other inventory charges	-	-	10.0	-
Venezuela related activities	-	23.8	-	33.2
Subtotal	-	23.8	61.9	35.4
Special (gains) and charges				
Restructuring activities	(7.7)	12.1	(6.8)	33.1
Champion and Nalco integration costs	-	4.7	-	14.9
Energy related charges	-	-	12.6	-
Venezuela related activities	-	111.9	(7.8)	132.7
Other	10.9	14.0	37.7	35.4
Subtotal	3.2	142.7	35.7	216.1
Operating income subtotal	3.2	166.5	97.6	251.5
Net income attributable to noncontrolling interest				
Venezuela related activities	-	(11.1)	-	(11.1)
Total special (gains) and charges	$ 3.2	$ 155.4	$ 97.6	$ 240.4

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

Restructuring Activities

The company's restructuring activities are associated with plans to enhance its efficiency and effectiveness and sharpen its competitiveness. 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 activities 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 net gains of $0.4 million ($0.2 million after tax) and net charges of $0.9 million ($0.6 million after tax) during the third quarter of 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, the company recorded net charges of $4.2 million ($2.4 million after tax) and $15.0 million ($10.5 million after tax), respectively.

Restructuring activity related to the Energy Restructuring Plan since inception of the underlying actions includes the following:

Employee

(millions)	Termination Costs	Asset 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	(0.8)	0.8	4.2	4.2
Net cash payments	(5.6)	-	(6.7)	(12.3)
Non-cash charges	-	(0.8)	-	(0.8)
Restructuring liability, September 30, 2016	$ 5.3	$ -	$ 10.7	$ 16.0

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

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 net gains of $7.3 million ($7.0 million after tax) and $10.1 million ($9.7 million after tax) during the third quarter and first nine months of 2016. The company recorded net charges of $11.2 million ($9.4 million after tax) and $20.2 million ($15.7 million after tax), during the third quarter and first nine months of 2015, respectively.

Restructuring activity related to the Combined Plan since inception of the underlying actions includes the following:

(millions)	Employee Termination Costs	Asset 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	0.2	(10.1)	(0.2)	(10.1)
Net cash payments	(26.4)	22.3	(3.6)	(7.7)
Non-cash net charges	-	(12.2)	-	(12.2)
Effect of foreign currency translation	2.4	-	-	2.4
Restructuring liability, September 30, 2016	$ 35.8	$ -	$ 1.8	$ 37.6

Asset disposals in 2016 include gains from the sale of certain facilities, during the second and third quarters, related to previous restructuring actions at these locations. 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 2016 when compared with 2014 levels, resulting from continued excess oil supply pressures, which have negatively impacted exploration and production investments in the energy industry, particularly in North America. As a result of these conditions and their corresponding impact on the company's business outlook, the company recorded total charges of $63.6 million ($42.9 million after tax) during the second quarter of 2016, comprised of inventory write-downs and related disposal costs, fixed asset charges, headcount reductions and other charges. No additional charges were recorded during the third quarter of 2016.

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 the company's 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 third quarter of 2016, the company had $9.3 million of corresponding severance remaining to be paid, which is expected to 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, the company remeasured its Venezuelan bolivar operations within its Water, Paper, Food & Beverage, Institutional and the bolivar portion of its Venezuelan Energy 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 devaluation charges of $124.6 million ($124.6 million after tax) and $154.8 million ($154.8 million after tax) during the third quarter and first nine months of 2015, respectively. As a result of the ownership structure of the company's Food & Beverage and Institutional operations in Venezuela, it reflected a portion of the devaluation impact as a component of net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income.

During the second quarter 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. No additional gains or charges were recorded during the third quarter of 2016.

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 nine months of 2016. As a result of the Champion acquisition, the company incurred charges of $3.9 million ($2.4 million after tax) and $13.4 million ($8.4 million after tax) during the third quarter and the first nine months of 2015, respectively. As a result of the Nalco merger, the company incurred charges of $0.8 million ($0.6 million after tax) and $1.5 million ($1.2 million after tax) during the third quarter and the first nine months of 2015, respectively.

Other special (gains) and charges

During the second quarter 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 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. No additional charges were recorded during the third quarter of 2016.

The company also recorded charges of $10.9 million ($6.6 million after tax) and $37.7 million ($23.8 million after tax) during the third quarter and first nine months of 2016, respectively, primarily consisting of litigation related and other charges.

During the third quarter of 2015, the company recognized a net charge of $14.0 million ($7.8 million after tax), related to litigation related charges and the recovery of funds deposited into escrow as part of the Champion transaction. During the first nine months of 2015, the company recognized a net charge of $35.4 million ($21.1 million after tax), including the Champion escrow recovery, 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 nine 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 third quarter and first nine months of 2016 and 2015 are shown in the following table.

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2016	2015	2016	2015
Net tangible assets acquired and equity method investments	$ 35.3	$ 49.4	$ 46.0	$ 52.9
Identifiable intangible assets				
Customer relationships	-	25.6	2.5	28.2
Patents	-	13.5	-	13.5
Trademarks	-	3.5	-	3.6
Other technology	-	-	-	2.7
Total intangible assets	-	42.6	2.5	48.0
Goodwill	-	83.5	3.9	90.2
Total aggregate purchase price	35.3	175.5	52.4	191.1
Acquisition related liabilities and contingent consideration	0.4	(60.7)	(3.9)	(60.8)
Net cash paid for acquisitions, including acquisition related liabilities and contingent consideration	$ 35.7	$ 114.8	$ 48.5	$ 130.3

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, but less than controlling interest, over Aquatech and therefore will account for the investment using the equity method of accounting.

Amounts within the 2016 columns of the previous table, including acquisition related liabilities, also 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 ("Jianghai") 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 Jianghai, 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 nine months of 2016 and 2015, as shown in the previous table, were 5 and 15 years, respectively.

Pending Acquisitions

In June 2016, 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 the third quarter of 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, with the acquiring entity expected to be an international subsidiary of the company. The company deposited €50 million ($56 million) in an escrow account that will be released back to the company upon closing of the transaction. As shown within Note 4, this was recorded as restricted cash within Other Assets on the Consolidated Balance Sheet.

Dispositions

There were no business dispositions during the first nine 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)	September 30 2016	December 31 2015
Accounts receivable, net		
Accounts receivable	$ 2,424.5	$ 2,465.5
Allowance for doubtful accounts	(74.9)	(75.3)
Total	$ 2,349.6	$ 2,390.2
Inventories		
Finished goods	$ 910.4	$ 929.6
Raw materials and parts	415.1	440.9
Inventories at FIFO cost	1,325.5	1,370.5
FIFO cost to LIFO cost difference	16.9	17.7
Total	$ 1,342.4	$ 1,388.2
Other current assets		
Prepaid assets	$ 111.4	$ 94.6
Taxes receivable	120.8	137.6
Derivative assets	25.3	58.7
Other	41.9	35.4
Total	$ 299.4	$ 326.3
Property, plant and equipment, net		
Land	$ 216.1	$ 223.7
Buildings and leasehold improvements	1,086.3	996.0
Machinery and equipment	1,990.0	1,896.7
Merchandising and customer equipment	2,212.2	1,988.1
Capitalized software	506.0	479.9
Construction in progress	355.6	371.1
	6,366.2	5,955.5
Accumulated depreciation	(3,073.3)	(2,727.2)
Total	$ 3,292.9	$ 3,228.3
Other intangible assets, net		
Intangible assets not subject to amortization		
Trade names	$ 1,230.0	$ 1,230.0
Intangible assets subject to amortization		
Customer relationships	$	$

	3,256.5	3,232.3
Trademarks	303.8	303.6
Patents	442.3	433.4
Other technology	209.8	213.5
	4,212.4	4,182.8
Accumulated amortization		
Customer relationships	(1,115.6)	(945.1)
Trademarks	(120.2)	(104.7)
Patents	(150.3)	(129.0)
Other technology	(142.0)	(124.8)
	(1,528.1)	(1,303.6)
Net intangible assets subject to amortization	2,684.3	2,879.2
	$	$
Total	3,914.3	4,109.2
Other assets		
	$	$
Deferred income taxes	95.7	58.3
Pension	34.5	28.0
Derivative assets	5.6	42.7
Restricted cash	55.8	-
Other	292.5	236.9
	$	$
Total	484.1	365.9

(millions)	September 30 2016	December 31 2015
Other current liabilities		
Discounts and rebates	$ 287.1	$ 270.5
Dividends payable	102.0	103.6
Interest payable	70.3	24.2
Taxes payable, other than income	114.0	110.5
Derivative liabilities	44.3	31.5
Restructuring	43.2	73.9
Other	330.1	334.1
Total	$ 991.0	$ 948.3
Accumulated other comprehensive loss		
Unrealized gain (loss) on derivative financial instruments, net of tax	$ (31.2)	$ 9.0
Unrecognized pension and postretirement benefit expense, net of tax	(435.4)	(486.9)
Cumulative translation, net of tax	(985.7)	(945.4)
Total	$ (1,452.3)	$ (1,423.3)

5. DEBT AND INTEREST

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

(millions)	September 30 2016	December 31 2015
Short-term debt		
Commercial paper	$ 101.5	$ 605.0
Notes payable	12.8	30.9

Long-term debt, current maturities	1,456.9	1,569.4
Total	$ 1,571.2	$ 2,205.3

As of September 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 $2.0 billion European commercial paper program.

During the third quarter of 2016, the company amended its existing $200.0 million European commercial paper program by, among other things, increasing the aggregate amount of the euro commercial paper notes that may be issued from $200.0 million to $2.0 billion. The maximum aggregate amount of commercial paper that may be issued by the company under its U.S. commercial paper program and its euro commercial paper program may not exceed $2.0 billion.

The company's U.S. commercial paper program, as shown in the previous table, had $101.5 million and $605.0 million outstanding as of September 30, 2016 and December 31, 2015, respectively. The company had no commercial paper outstanding under its European program as of either September 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 September 30, 2016 and December 31, 2015.

(millions)	Maturity by Year	September 30 2016	December 31 2015
Long-term debt			
Description / 2016 Principal Amount			
Term loan ($0)	2016	$ -	$ 125.0
Series B private placement senior notes (€175 million)	2016	195.2	184.9
Five year 2011 senior notes ($1.25 billion)	2016	1,249.4	1,247.3
Five year 2012 senior notes ($500 million)	2017	499.8	497.9
Three year 2015 senior notes ($300 million)	2018	299.4	297.8
Series A private placement senior notes ($250 million)	2018	250.9	248.6
Three year 2016 senior notes ($400 million)	2019	399.3	-
Five year 2015 senior notes ($300 million)	2020	298.5	298.1
Ten year 2011 senior notes ($1.25 billion)	2021	1,244.5	1,243.7
Series B private placement senior notes ($250 million)	2023	249.2	249.1
Seven year 2016 senior notes ($400 million)	2023	396.9	-
Ten year 2015 senior notes (€575 million)	2025	636.0	601.8
Thirty year 2011 senior notes ($750 million)	2041	738.7	738.3
Capital lease obligations		5.4	5.6
Other		85.1	91.5
Total debt		6,548.3	5,829.6
Long-term debt, current maturities		(1,456.9)	(1,569.4)
Total long-term debt		$ 5,091.4	$ 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%. 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.

Subsequent to the end of the third quarter, in October 2016, the company issued $1.0 billion of debt securities consisting of a $750 million aggregate principal ten year fixed rate note with a coupon rate of 2.70% and a $250 million aggregate principal thirty year fixed rate note with a coupon rate of 3.70%. The proceeds are expected to be used to repay commercial paper, and together with additional commercial paper borrowings, repay the company’s 3.00% senior notes due at maturity in December 2016.

The series of notes issued by the company in January 2016 and October 2016, pursuant to public debt offerings (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, which has been reduced by payment activity, 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 September 30, 2016.

Net Interest Expense

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

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2016	2015	2016	2015
Interest expense	$ 69.0	$ 61.6	$ 209.4	$ 190.3
Interest income	(4.1)	(4.0)	(13.1)	(9.0)
Interest expense, net	$ 64.9	$ 57.6	$ 196.3	$ 181.3

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

During the second quarter of 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 nine months ended September 30, 2016 were as follows:

(millions)	Global Industrial	Global Institutional	Global Energy	Other	Total
December 31, 2015	$ 2,560.8	$ 662.7	$ 3,151.5	$ 115.8	$ 6,490.8
Current year business combinations (a)	-	-	0.6	-	0.6
Prior year business combinations (b)	3.5	-	(0.2)	-	3.3
Reclassifications (c)	3.5	(0.6)	(2.9)	-	-
Effect of foreign currency translation	8.1	2.1	10.2	0.4	20.8
September 30, 2016	$ 2,575.9	$ 664.2	$ 3,159.2	$ 116.2	$ 6,515.5

(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 third quarter ended September 30, 2016 and 2015 was $71.9 million and $72.6 million, respectively. Total amortization expense related to other intangible assets during the first nine months of 2016 and 2015 was $217.2 million and $218.6 million, respectively. Estimated expense for the remaining three month period of 2016 related to other amortizable intangible assets is expected to be approximately $75 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 identified asset group.

7. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

September 30 (millions)	2016 Carrying Amount	Fair Value Measurements Level 1	Level 2	Level 3
Assets				
Investments held in rabbi trusts	$ 1.3	$ 1.3	$ -	$ -
Foreign currency forward contracts	46.7	-	46.7	-
Interest rate swap agreements	5.1	-	5.1	-
Liabilities				
Foreign currency forward contracts	52.5	-	52.5	-
Interest rate swap agreements	12.7	-	12.7	-
Contingent consideration	12.6	-	-	12.6

December 31 (millions)	2015 Carrying Amount	Fair Value Measurements Level 1	Level 2	Level 3
Assets				
Investments held in rabbi trusts	$ 2.0	$ 2.0	$ -	$ -
Foreign currency forward contracts	111.2	-	111.2	-
Contingent consideration	0.3	-	-	0.3
Liabilities				
Foreign currency forward contracts	35.9	-	35.9	-
Interest rate swap agreements	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 settlement 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 nine months ended September 30, 2016 were as follows:

(millions)	
Contingent consideration, December 31, 2015	$ 15.6
Amount recognized at transaction date	-
Losses (gains) recognized in earnings	(2.4)
Settlements	-
Foreign currency translation	(0.6)
Contingent consideration, September 30, 2016	$ 12.6

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

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

	September 30 2016		December 31 2015	
(millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current maturities	$ 6,548.3	$ 7,095.0	$ 5,829.6	$ 6,113.6

8. DERIVATIVES AND HEDGING TRANSACTIONS

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

The company is exposed to credit risk in the event of nonperformance of counterparties for foreign currency forward exchange contracts and interest rate swap agreements. The company monitors its exposure to credit risk by using credit approvals and credit limits and by selecting major 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 in the following table no cash collateral had been received or pledged related to the underlying derivatives.

The respective net amounts are included in other current assets, other non-current assets 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 September 30 2016	Asset Derivatives December 31 2015	Liability Derivatives September 30 2016	Liability Derivatives December 31 2015
Derivatives designated as hedging instruments				
Foreign currency forward contracts	$ 33.7	$ 70.2	$ 32.6	$ 3.2
Interest rate swap agreements	5.1	-	12.7	5.4
Derivatives not designated as hedging instruments				
Foreign currency forward contracts	13.0	41.0	19.9	32.7
Gross value of derivatives	51.8	111.2	65.2	41.3
Gross amounts offset in the Consolidated Balance Sheet	(20.9)	(9.8)	(20.9)	(9.8)
Net value of derivatives	$ 30.9	$ 101.4	$ 44.3	$ 31.5

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

(millions)	Notional Values September 30 2016	Notional Values December 31 2015
Foreign currency forward contracts	$ 4,285	$ 4,029
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 lock and forward starting interest rate swap agreements to manage interest rate exposure.

During 2016 and 2015, the company entered into treasury lock and forward starting interest rate swap agreements, respectively. The agreements were closed in October 2016, subsequent to the end of the third quarter, in conjunction with the debt issuance discussed in Note 5. Certain other forward starting interest rate swap agreements opened in 2015 were closed in January 2016, in conjunction with the debt issuance discussed in Note 5.

During 2014, the company entered into a series of forward starting interest rate swap agreements, which were subsequently closed, 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 agreements noted above were designated and effective as a cash flow hedge of the expected interest payments related to the anticipated future debt issuance. Amounts recorded in AOCI for the respective transactions above 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)		Third Quarter Ended September 30		Nine Months Ended September 30	
		2016	2015	2016	2015
Unrealized gain (loss) recognized into AOCI					
Foreign currency forward contracts	AOCI (equity)	$ (12.9)	$ 19.0	$ (40.4)	$ 38.9
Interest rate swap agreements	AOCI (equity)	1.4	7.7	(11.5)	1.2
	Total	$ (11.5)	$ 26.7	$ (51.9)	$ 40.1

(millions)		Third Quarter Ended September 30		Nine Months Ended September 30	
Gain (loss) recognized in income		2016	2015	2016	2015
Foreign currency forward contracts	Cost of sales	$ 5.0	$ 13.3	$ 26.6	$ 23.2
	SG&A	(0.7)	0.2	(20.3)	1.1
	Interest expense, net	-	1.4	2.9	1.4
	Subtotal	4.3	14.9	9.2	25.7
Interest rate swap agreements	Interest expense, net	(1.6)	(1.4)	(4.8)	(4.0)
	Total	$ 2.7	$ 13.5	$ 4.4	$ 21.7

Gains and losses recognized in income related to the ineffective portion of the company's cash flow hedges were insignificant during the first nine 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:

		Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)		2016	2015	2016	2015
Gain (loss) on derivative recognized income					
Interest rate swap	Interest expense, net	$ (7.6)	$ 7.6	$ 6.1	$ 9.5
Gain (loss) on hedged item recognized income					
Interest rate swap	Interest expense, net	$ 7.6	$ (7.6)	$ (6.1)	$ (9.5)

Net Investment Hedges

The company designates its outstanding €175 million and €575 million (total of $837 million as of September 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. As noted in the table on page 17, the total notional value of which is €65 million as of September 30, 2016.

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:

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2016	2015	2016	2015
Revaluation gains (losses), net of tax	$ (1.2)	$ (12.0)	$ (29.1)	$ 66.8

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:

	Third Quarter Ended	Nine Months Ended

(millions)		September 30 2016	September 30 2015	September 30 2016	September 30 2015
Gain (loss) recognized in income					
Foreign currency forward contracts	SG&A	$ (12.0)	$ 7.1	$ (27.3)	$ 6.4
	Interest expense, net	1.0	(0.3)	(2.1)	(10.9)
	Total	$ (11.0)	$ 6.8	$ (29.4)	$ (4.5)

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 pension and postretirement benefits activity.

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2016	2015	2016	2015
Derivative and Hedging Instruments				
Unrealized gains (losses) on derivative & hedging instruments				
Amount recognized in AOCI	$ (11.5)	$ 26.7	$ (51.9)	$ 40.1
(Gains) losses reclassified from AOCI into income				
Cost of sales	(5.0)	(13.3)	(26.6)	(23.2)
SG&A	0.7	(0.2)	20.3	(1.1)
Interest expense, net	1.6	-	1.9	2.6
	(2.7)	(13.5)	(4.4)	(21.7)
Translation and other insignificant activity	0.1	0.2	0.1	(0.3)
Tax impact	4.6	(6.2)	16.0	(6.0)
Net of tax	$ (9.5)	$ 7.2	$ (40.2)	$ 12.1
Pension and Postretirement Benefits				
Amount reclassified from AOCI into income				
Actuarial losses	10.8	14.5	32.6	43.5
Prior service costs	(2.0)	(1.7)	(6.0)	(5.4)
Postretirement benefits changes	50.0	-	50.0	-
	58.8	12.8	76.6	38.1
Tax impact	(22.3)	(5.3)	(29.0)	(14.5)
Net of tax	$ 36.5	$ 7.5	$ 47.6	$ 23.6

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

(millions)	Third Quarter Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
Derivative losses reclassified from AOCI into income, net of tax	$ (2.0)	$ (10.5)	$ (3.5)	$ (16.9)
Pension and postretirement benefits net actuarial losses and prior services costs reclassified from AOCI into income, net of tax	$ 5.6	$ 7.5	$ 16.7	$ 23.6

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 September 30, 2016, 16,772,526 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 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.

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 institutions were 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 institutions.

In connection with the finalization of the ASR agreement in April 2015, the company received an additional 555,511 shares of common stock. In connection with the finalization of the ASR agreement in May 2016, the company received an additional 232,012 shares of common stock.

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 was dilutive to the company’s earnings per share calculations, nor did they trigger the two-class earnings per share methodology. Additionally, the unsettled portion of ASRs during their respective open periods met the criteria to be accounted for as a forward contract indexed to the company’s stock and qualified as equity transactions.

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

Share Repurchases

During the first nine months of 2016, the company reacquired 6,467,382 shares of its common stock, of which 6,126,033 related to share repurchases through open market or private purchases, including the February 2016 ASR discussed above, and 341,349 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 6,666,403 shares of its common stock, of which 6,267,699 related to share repurchases through open market or private purchases, including the February 2015 ASR discussed above, and 398,704 related to shares withheld for taxes on the exercise of stock options and the vesting of stock awards and units.

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

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

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

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions, except per share amounts)	2016	2015	2016	2015
Net income attributable to Ecolab	$ 374.1	$ 257.8	$ 863.3	$ 793.2
Weighted-average common shares outstanding				
Basic	291.6	295.2	292.8	296.5
Effect of dilutive stock options and units	4.1	4.8	4.3	5.0
Diluted	295.7	300.0	297.1	301.5
Basic EPS	$ 1.28	$ 0.87	$ 2.95	$ 2.67
Diluted EPS	$ 1.27	$ 0.86	$ 2.91	$ 2.63
Anti-dilutive securities excluded from the computation of EPS	1.7	1.6	1.7	1.6

21

12. INCOME TAXES

The company's tax rate was 25.5% and 29.6% for the third quarter of 2016 and 2015, respectively and 24.7% and 24.9% for the first nine months of 2016 and 2015, respectively. The changes in the company's tax rate for the third quarter and first nine months of 2016 compared to third quarter and first nine months of 2015 were primarily driven by the tax rate impact of discrete tax items and special gains and charges, with lesser impacts from changes in the geographic mix of income, the permanent enactment of the R&D credit during the fourth quarter of 2015 and global tax planning strategies.

The company recognized net expense related to discrete tax items of $4.5 million during the third quarter of 2016 and net expense related to discrete tax items of $3.6 million during the first nine months of 2016. Third quarter net expense was driven primarily by recognizing adjustments from filing the company's 2015 U.S. federal income tax return, partially offset by settlement of international tax matters and remeasurement of certain deferred tax assets and liabilities resulting from the application of an updated tax rate in an international jurisdiction. Net expense related to discrete tax items for the first nine months of 2016 was also impacted by adjustments to deferred tax asset and liability positions and 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 $19.2 million during the third quarter of 2015 and $56.0 million during the first nine months of 2015. Third quarter net benefits related to discrete items were driven primarily by the release of valuation allowances, and a refund claim for taxes paid in a prior period resulting from updated Internal Revenue Service ("IRS") regulations. These benefits were offset partially by recognizing adjustments from filing the company's 2014 U.S. federal income tax return. Net benefits related to discrete tax items for the first nine months of 2015 were also impacted by the ability to recognize a worthless stock deduction for the tax basis in a wholly-owned domestic subsidiary and 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 third quarter ended September 30, 2016 and 2015 are as follows:

(millions)	U.S. Pension 2016	U.S. Pension 2015	International Pension 2016	International Pension 2015	U.S. Postretirement Health Care 2016	U.S. Postretirement Health Care 2015
Service cost	$ 16.8	$ 19.1	$ 7.0	$ 8.2	$ 0.8	$ 0.9
Interest cost on benefit obligation	20.4	22.8	8.0	10.1	2.0	2.4
Expected return on plan assets	(35.9)	(33.2)	(13.3)	(14.0)	(0.2)	(0.2)
Recognition of net actuarial (gain) loss	7.7	12.1	3.6	3.9	(0.4)	(1.5)
Amortization of prior service cost (benefit)	(1.7)	(1.7)	(0.2)	-	(0.1)	-
Total expense	$ 7.3	$ 19.1	$ 5.1	$ 8.2	$ 2.1	$ 1.6

The components of net periodic pension and postretirement health care benefit costs for the nine months ended September 30, 2016 and 2015 are as follows:

(millions)	U.S. Pension 2016	U.S. Pension 2015	International Pension 2016	International Pension 2015	U.S. Postretirement Health Care 2016	U.S. Postretirement Health Care 2015
Service cost	$ 50.3	$ 57.3	$ 20.9	$ 25.0	$ 2.3	$ 2.8
Interest cost on benefit obligation	61.2	68.4	24.0	30.2	6.1	7.2
Expected return on plan assets	(107.7)	(99.5)	(40.0)	(41.8)	(0.6)	(0.7)
Recognition of net actuarial (gain) loss	23.1	36.4	10.7	11.7	(1.2)	(4.6)
Amortization of prior service cost (benefit)	(5.2)	(5.2)	(0.6)	(0.1)	(0.2)	(0.1)
Total expense	$ 21.7	$ 57.4	$ 15.0	$ 25.0	$ 6.4	$ 4.6

As of September 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 nine months of 2016, the company made payments of $11 million to its U.S. non-contributory non-qualified defined benefit plans and estimates that it will make payments of approximately an additional $3 million to such plans during the remainder of 2016.

The company contributed $33 million to its international pension benefit plans during the first nine months of 2016. The company estimates that it will contribute approximately an additional $9 million to such plans during the remainder of 2016.

During the first nine months of 2016, the company made payments of $13 million to its U.S. postretirement health care benefit plans and estimates that it will make payments of approximately an additional $5 million to such plans during the remainder of 2016.

During the third quarter ended September 30, 2016, the Compensation Committee of the company's Board of Directors approved moving the U.S. postretirement healthcare plans to a Retiree Exchange approach, rather than the Employee Group Waiver Plan plus Wrap program, for post-65 retiree medical coverage beginning in 2018, and the company informed all eligible legacy Ecolab and legacy Nalco retirees of the change. As a result of the approval and communication to the beneficiaries, the Ecolab and Nalco plans were re-measured, resulting in a $50 million reduction of postretirement benefit obligations, with a corresponding impact to AOCI, net of tax. The remeasurement was completed using discount rates of 3.29% and 3.60%, respectively. Additionally, at the time of this remeasurement, the Nalco U.S. postretirement health care plan was merged with the Ecolab U.S. postretirement health care plan. As a result of these actions, the company's U.S. postretirement health care costs are expected to decrease by $5 million for 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 remaining operating units 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:

	December 31, 2015				
(millions)	Values at 2015 Rates	Fixed Currency Rate Change	Venezuela Bolivar Impact	Other	Values at 2016 Rates
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:

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2016	2015	2016	2015
Net Sales				
Global Industrial	$ 1,185.2	$ 1,168.0	$ 3,416.5	$ 3,308.9
Global Institutional	1,163.4	1,092.4	3,354.4	3,121.7
Global Energy	760.6	827.3	2,275.2	2,585.7
Other	210.5	195.0	601.5	555.9
Subtotal at fixed currency rates	3,319.7	3,282.7	9,647.6	9,572.2
Effect of foreign currency translation	66.4	163.7	153.1	560.9
Consolidated	$ 3,386.1	$ 3,446.4	$ 9,800.7	$ 10,133.1
Operating Income				
Global Industrial	$ 199.8	$ 179.7	$ 499.8	$ 430.2
Global Institutional	266.8	256.9	707.9	651.7
Global Energy	100.9	111.1	238.8	325.2
Other	41.3	37.0	110.2	91.9
Corporate	(44.8)	(208.8)	(222.5)	(378.4)
Subtotal at fixed currency rates	564.0	375.9	1,334.2	1,120.6
Effect of foreign currency translation	10.1	37.1	23.9	117.9
Consolidated	$ 574.1	$ 413.0	$ 1,358.1	$ 1,238.5

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

15. COMMITMENTS AND CONTINGENCIES

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

Insurance

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

Litigation and Environmental Matters

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

Environmental Matters

The company is currently participating in environmental assessments and remediation at approximately 40 locations, 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 several pending wage hour lawsuits claiming violations of the Fair Labor Standards Act ("FLSA") or a similar state law. Of these 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 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. This matter has been settled. The company has established an accrual to fund the settlement, which is not material to its results of operations or financial position.

In 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 to fund the settlement, which is not material to its results of operations or financial position.

The company is a defendant in four other wage hour lawsuits brought by Institutional Route Sales Managers seeking class certification of claims for overtime and other relief under federal or state laws. None of these matters are considered to be material to the company's 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.

26

Other Related Claims Pending in MDL 2179

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

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

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

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

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

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.

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 2016-16 - Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	October 2016	Simplifies the guidance on the accounting for the income tax consequences of intra-entity transfers of assets other than inventory (e.g. intellectual property).	January 1, 2018	The company is currently evaluating the impact of adoption.
ASU 2016-15 - Statement of Cash Flow (Topic 230): Classification of Certain Cash Receipts and Cash Payments	August 2016	The guidance's objective is to reduce diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flow.	January 1, 2018	Presentation impact only related to eight specific cash flow items. The company does not expect the updated guidance to have a significant impact on future financial statements.
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 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 critical term of the hedging relationship.	January 1, 2017	The company does not expect the updated guidance to have a significant impact on future financial statements.
ASU 2016-07 - Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting	March 2016	Simplifies the transition to equity method accounting for entities that have an investment that becomes qualified for the equity method of accounting as a result of an	January 1, 2017	The company does not expect the updated guidance to have a significant impact on future financial statements.

		increase in the level of ownership interest or degree of influence.		
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	Upon adoption, among other impacts, the company expects its reported provision for income taxes to become more volatile, dependent upon market prices and the volume of share-based compensation exercises and vestings.
ASU 2016-02 - Leases (Topic 842)	February 2016	Introduces the recognition of lease assets and lease liabilities by lessors for those leases classified as operating leases under previous guidance.	January 1, 2019	The company is 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 does not expect the updated guidance to have a significant impact on future financial statements.
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 does not expect the updated guidance to have a significant impact on future financial statements.
Revenue Recognition ASUs: 2014-09 - Revenue from Contracts with Customers 2015-14 - Deferral of the Effective Date 2016-08 - Principal	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	January 1, 2018	The company is currently evaluating the impact of adopting the Revenue Recognition ASUs with focus on the determination of performance

Versus Agent Considerations 2016-10 - Identifying Performance Obligations and Licensing 2016-11 - Revenue Recognition and Derivatives and Hedging 2016-12 - Narrow-Scope Improvements & Practical Expedients	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.	obligations and fair value allocation.

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 September 30, 2016, and the related consolidated statements of income and comprehensive income for the three-month and nine-months periods ended September 30, 2016 and 2015 and the consolidated statement of cash flows for the nine-month periods ended September 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
November 3, 2016

30

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 results of operations from both the current period and comparable period of the prior year.

OVERVIEW OF THE THIRD QUARTER ENDED SEPTEMBER 30, 2016

Sales Performance

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

- Reported net sales decreased 2% to $3,386 million, fixed currency sales increased 1%, and acquisition adjusted fixed currency sales were flat.
- Fixed currency sales for our Global Industrial segment increased 1% to $1,185 million, acquisition adjusted fixed currency sales increased 2%, led by growth in Food & Beverage.
- Fixed currency sales for our Global Institutional segment increased 6% to $1,163 million, acquisition adjusted fixed currency sales increased 4%, led by growth in Specialty and Healthcare.
- Fixed currency sales for our Global Energy segment decreased 8% to $761 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 $211 million, driven by sales growth in both Pest Elimination and Equipment Care.

Financial Performance

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

- Reported operating income increased 39% to $574 million. Excluding the impact of special (gains) and charges from both 2016 and 2015 reported results, our adjusted operating income was flat and our adjusted fixed currency operating income increased 5%. Acquisitions and divestitures negatively impacted our adjusted fixed currency operating income growth rate by approximately 1.9 percentage points.
- Net income attributable to Ecolab increased 45% to $374.1 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 2%.
- Diluted EPS of $1.27 increased 48%. Excluding the impact of special (gains) and charges and discrete tax items from both 2016 and 2015 reported results, adjusted diluted EPS was flat, at $1.28 in both 2016 and 2015.
- Our reported tax rate was 25.5% during the third quarter of 2016, compared to 29.6% during the third 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 25.2% and 25.8% during the third quarter of 2016 and 2015, respectively.

RESULTS OF OPERATIONS

Net Sales

	Third Quarter Ended September 30			Nine Months Ended September 30		
(millions)	2016	2015	Change	2016	2015	Change
Reported GAAP net sales	$ 3,386.1	$ 3,446.4	(2) %	$ 9,800.7	$ 10,133.1	(3) %
Effect of foreign currency translation	(66.4)	(163.7)		(153.1)	(560.9)	
Non-GAAP fixed currency sales	$ 3,319.7	$ 3,282.7	1 %	$ 9,647.6	$ 9,572.2	1 %

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

(percent)	Third Quarter Ended September 30 2016	Nine Months Ended September 30 2016
Volume	<1%	(1)%
Price changes	<1	0
Acquisition adjusted fixed currency sales change	<1	(1)
Acquisitions and divestitures	1	2
Fixed currency sales change	1	1
Foreign currency translation	(3)	(4)
Reported GAAP net sales change	(2)%	(3)%

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

	Third Quarter Ended September 30				Nine Months Ended September 30			
	2016		2015		2016		2015	
(millions/percent)	COS	Gross Margin	COS	Gross Margin	COS	Gross Margin	COS	Gross Margin
Reported GAAP COS and gross margin	$ 1,737.2	48.7%	$ 1,820.0	47.2%	$ 5,153.8	47.4%	$ 5,391.8	46.8%
Special (gains) and charges	-	-	23.8	0.7	61.9	0.6	35.4	0.3
Non-GAAP adjusted COS and gross margin	$ 1,737.2	48.7%	$ 1,796.2	47.9%	$ 5,091.9	48.0%	$ 5,356.4	47.1%

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 48.7% and 47.2% for the third quarter of 2016 and 2015, respectively. Our reported gross margin for the first nine months of 2016 and 2015 was 47.4% and 46.8%, respectively.

Excluding the impact of special (gains) and charges within COS, our third quarter 2016 adjusted gross margin was 48.7% and our adjusted gross margin for the first nine months of 2016 was 48.0%. These percentages compared against a third quarter 2015 adjusted gross margin of 47.9% and an adjusted gross margin of 47.1% for the first nine months of 2015.

32

Our adjusted gross margin increase when comparing the third quarter of 2016 against the third quarter of 2015 and the comparable periods for the first nine 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 31.6% for the third quarter of 2016 compared to 31.1% in 2015. For the nine month periods, SG&A expenses were 33.2% of sales in 2016 compared to 32.4% in 2015. The increased SG&A ratio to sales across the periods was driven primarily by the impact of acquisitions, investments in the business and the decline in Global Energy, which on average has a lower SG&A ratio.

Special (Gains) and Charges

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

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2016	2015	2016	2015
Cost of sales				
Restructuring activities	$ -	$ -	$ 0.9	$ 2.2
Energy related charges	-	-	51.0	-
Fixed asset impairment and other inventory charges	-	-	10.0	-
Venezuela related activities	-	23.8	-	33.2
Subtotal	-	23.8	61.9	35.4
Special (gains) and charges				
Restructuring activities	(7.7)	12.1	(6.8)	33.1
Champion and Nalco integration costs	-	4.7	-	14.9
Energy related charges	-	-	12.6	-
Venezuela related activities	-	111.9	(7.8)	132.7
Other	10.9	14.0	37.7	35.4
Subtotal	3.2	142.7	35.7	216.1
Operating income subtotal	3.2	166.5	97.6	251.5

Net income attributable to noncontrolling interest				
Venezuela related activities	-	(11.1)	-	(11.1)
Total special (gains) and charges	$ 3.2	$ 155.4	$ 97.6	$ 240.4

Restructuring activities

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

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 (as defined in Note 2, 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 net gains of $0.4 million ($0.2 million after tax) or less than $0.01 per diluted share and net charges $0.9 million ($0.6 million after tax) or less than $0.01 per diluted share during the third quarter of 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, we recorded net charges of $4.2 million ($2.4 million after tax) or $0.01 per diluted share and $15.0 million ($10.5 million after tax) or $0.03 per diluted share, respectively.

Net cash payments under the Energy Restructuring Plan during the first nine months of 2016 were $12.3 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 nine months of 2016, the Energy Restructuring Plan has achieved approximately $20 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 (as defined in Note 2, 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 net gains of $7.3 million ($7.0 million after tax) or $0.02 per diluted share and $10.1 million ($9.7 million after tax) or $0.03 per diluted share during the third quarter and first nine months of 2016, respectively. We recorded net charges of $11.2 million ($9.4 million after tax) or $0.03 per diluted share and $20.2 million ($15.7 million after tax) or $0.05 per diluted share during the third quarter and first nine months of 2015, respectively.

Net cash payments under the Combined Plan during the first nine months of 2016 were $7.7 million. The majority of cash payments under this plan are related to severance, with the current accrual expected to be paid over a period of a few months to several quarters. We anticipate the remaining cash expenditures will continue to be funded from operating activities.

For the first nine months of 2016, the Combined Plan has achieved approximately $20 million in incremental savings as compared to 2015. We anticipate cumulative cost savings from this plan of $420 million by the end of 2016.

Non-restructuring special (gains) and charges

Energy Related Charges

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

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 third quarter of 2016, we had $9.3 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, we remeasured our Venezuelan bolivar operations within our Water, Paper, Food & Beverage, Institutional and the bolivar portion of our Venezuelan Energy 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 devaluation charges of $124.6 million ($124.6 million after tax), or $0.42 per diluted share and $154.8 million ($154.8 million after tax), or $0.51 per diluted share during the third quarter and first nine months of 2015, respectively. As a result of the ownership structure of our Food & Beverage and Institutional operations in Venezuela, we reflected a portion of the devaluation impact as a component of net income (loss) attributable to noncontrolling interest on the Consolidated Statement of Income.

During the second quarter 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. No additional gains or charges were recorded during the third quarter of 2016.

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 nine months of 2016. As a result of the Champion acquisition, we incurred charges of $3.9 million ($2.4 million after tax) or $0.01 per diluted share during the third quarter of 2015 and $13.4 million ($8.4 million after tax) or $0.03 per diluted share during the first nine months of 2015. As a result of the Nalco merger, we incurred charges of $0.8 million ($0.6 million after tax) or less than $0.01 per diluted share during the third quarter of 2015 and $1.5 million ($1.2 million after tax) or less than $0.01 per diluted share during the first nine months of 2015.

Other special (gains) and charges

During the second quarter 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 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. No additional charges were recorded during the third quarter of 2016.

We also recorded charges of $10.9 million ($6.6 million after tax) or $0.02 per diluted share and $37.7 million ($23.8 million after tax) or $0.08 per diluted share during the third quarter and first nine months of 2016, respectively, primarily consisting of litigation related charges.

During the third quarter of 2015, we recognized a net charge of $14.0 million ($7.8 million after tax), or $0.03 per diluted share related to litigation related charges and the recovery of funds deposited into escrow as part of the Champion transaction. During the first nine months of 2015, we recognized a net charge of $35.4 million ($21.1 million after tax), or $0.07 per diluted share including the Champion escrow recovery, 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)	Third Quarter Ended September 30 2016	2015	Change	Nine Months Ended September 30 2016	2015	Change
Reported GAAP operating income	$ 574.1	$ 413.0	39 %	$ 1,358.1	$ 1,238.5	10 %
Special (gains) and charges	3.2	166.5		97.6	251.5	
Non-GAAP adjusted operating income	577.3	579.5	(0)	1,455.7	1,490.0	(2)
Effect of foreign currency translation	(10.1)	(37.1)		(23.9)	(117.9)	
Non-GAAP adjusted fixed currency operating income	$ 567.2	$ 542.4	5 %	$ 1,431.8	$ 1,372.1	4 %

(percent)	Third Quarter Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
Reported GAAP operating income margin	17.0 %	12.0 %	13.9 %	12.2 %
Non-GAAP adjusted operating income margin	17.0 %	16.8 %	14.9 %	14.7 %
Non-GAAP adjusted fixed currency operating income margin	17.1 %	16.5 %	14.8 %	14.3 %

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 increased 39% and 10% in the third quarter and the first nine 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 was flat and decreased 2% in the third quarter and the first nine 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 5% and 4% in the third quarter and first nine months of 2016, respectively, against the third quarter and first nine months of 2015. Acquisitions and divestitures negatively impacted our adjusted fixed currency operating income growth rates by 1.9 and 0.2 percentage points in the third quarter and first nine months of 2016, respectively.

As addressed further in the Segment Performance section of this MD&A, the third quarter and first nine 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, offset by continued challenges within Global Energy.

Interest Expense, Net

Net interest expense was $64.9 million and $57.6 million in the third quarter of 2016 and 2015, respectively. Net interest expense in the first nine months of 2016 and 2015 was $196.3 million and $181.3 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:

	Third Quarter Ended September 30		Nine Months Ended September 30	
(percent)	2016	2015	2016	2015
Reported GAAP tax rate	25.5 %	29.6 %	24.7 %	24.9 %
Tax rate impact of:				
Special gains and charges	0.6	(7.5)	1.0	(2.6)
Discrete tax items	(0.9)	3.7	(0.3)	4.3
Non-GAAP adjusted tax rate	25.2 %	25.8 %	25.4 %	26.6 %

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 third quarter 2016 reported tax expense included $3.8 million of net tax benefits on special gains and charges and net expense of $4.5 million associated with discrete tax items. For the first nine months of 2016, our reported tax expense included $36.8 million of net tax benefits on special gains and charges and net expense of $3.6 million associated with discrete tax items. The corresponding impact of these items on the reported tax rate is shown in the previous table.

Third quarter 2016 net expense related to discrete tax items was driven primarily by recognizing adjustments from filing our 2015 U.S. federal income tax return, partially offset by the settlement of international tax matters and remeasurement of certain deferred tax assets and liabilities resulting from the application of an updated tax rate in an international jurisdiction. Net expense related to discrete tax items for the first nine months of 2016 was also impacted by adjustments to deferred tax asset and liability positions and the release of reserves for uncertain tax positions due to the expiration of statute of limitations in non-U.S. jurisdictions.

Our third quarter 2015 reported tax expense included $10.0 million of net tax benefits on special gains and charges and net benefits of $19.2 million associated with discrete tax items. For the first nine months of 2015, our reported tax expense included $28.6 million of net tax benefits on special gains and charges and net benefits of $56.0 million associated with discrete tax items. The corresponding impact of these items on the reported tax rate is shown in the previous table.

Third quarter 2015 net benefits related to discrete items were driven primarily by the release of valuation allowances, and a refund claim for taxes paid in a prior period resulting from updated IRS regulations. These benefits were offset partially by recognizing adjustments from filing our 2014 U.S. federal income tax return. Net benefits related to discrete tax items for the first nine months of 2015 were also impacted by the ability to recognize a worthless stock deduction for the tax basis in a wholly-owned domestic subsidiary and 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 tax rate compared to 2015 was primarily driven by changes in the geographic mix of income, the permanent enactment of the R&D credit during the fourth quarter of 2015 and global tax planning strategies.

Net Income Attributable to Ecolab

(millions)	Third Quarter Ended September 30 2016	2015	Change	Nine Months Ended September 30 2016	2015	Change
Reported GAAP net income attributable to Ecolab	$ 374.1	$ 257.8	45 %	$ 863.3	$ 793.2	9 %
Adjustments:						
Special (gains) and charges, after tax	(0.6)	145.4		60.8	211.8	
Discrete tax net expense (benefit)	4.5	(19.2)		3.6	(56.0)	
Non-GAAP adjusted net income attributable to Ecolab	$ 378.0	$ 384.0	(2) %	$ 927.7	$ 949.0	(2) %

Diluted EPS

(dollars)	Third Quarter Ended September 30 2016	2015	Change	Nine Months Ended September 30 2016	2015	Change
Reported GAAP diluted EPS	$ 1.27	$ 0.86	48 %	$ 2.91	$ 2.63	11 %
Adjustments:						
Special (gains) and charges	0.00	0.48		0.20	0.70	
Discrete tax net expense (benefit)	0.02	(0.06)		0.01	(0.19)	
Non-GAAP adjusted diluted EPS	$ 1.28	$ 1.28	0 %	$ 3.12	$ 3.15	(1) %

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

Currency translation had an unfavorable impact of approximately $0.09 and $0.28 on diluted EPS for the third quarter and first nine months of 2016, respectively, compared to the same periods of 2015. These amounts include $0.01 per diluted share in both the third quarter and first nine months of 2016 related to the Venezuela deconsolidation.

SEGMENT PERFORMANCE

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

Net Sales	Third Quarter Ended September 30			Nine Months Ended September 30		
(millions)	2016	2015	Change	2016	2015	Change
Global Industrial	$ 1,185.2	$ 1,168.0	1 %	$ 3,416.5	$ 3,308.9	3 %
Global Institutional	1,163.4	1,092.4	6	3,354.4	3,121.7	7
Global Energy	760.6	827.3	(8)	2,275.2	2,585.7	(12)
Other	210.5	195.0	8	601.5	555.9	8
Subtotal at fixed currency	3,319.7	3,282.7	1	9,647.6	9,572.2	1
Effect of foreign currency translation	66.4	163.7		153.1	560.9	
Total reported net sales	$ 3,386.1	$ 3,446.4	(2) %	$ 9,800.7	$ 10,133.1	(3) %

Operating Income	Third Quarter Ended September 30			Nine Months Ended September 30		
(millions)	2016	2015	Change	2016	2015	Change
Global Industrial	$ 199.8	$ 179.7	11 %	$ 499.8	$ 430.2	16 %
Global Institutional	266.8	256.9	4	707.9	651.7	9
Global Energy	100.9	111.1	(9)	238.8	325.2	(27)
Other	41.3	37.0	12	110.2	91.9	20
Corporate	(44.8)	(208.8)		(222.5)	(378.4)	
Subtotal at fixed currency	564.0	375.9	50	1,334.2	1,120.6	19
Effect of foreign currency translation	10.1	37.1		23.9	117.9	
Total reported operating income	$ 574.1	$ 413.0	39 %	$ 1,358.1	$ 1,238.5	10 %

Unless otherwise noted, the following segment performance commentary compares the third quarter and first nine months of 2016 against the comparable periods from 2015.

Global Industrial

	Third Quarter Ended September 30				Nine Months Ended September 30			
	2016		2015		2016		2015	
	$		$		$		$	
Sales at fixed currency (millions)	1,185.2		1,168.0		3,416.5		3,308.9	
Sales at public currency (millions)	1,215.9		1,228.5		3,486.9		3,523.5	
Volume	1	%			2	%		
Price changes	<1	%			1	%		
Acquisition adjusted fixed currency sales change	2	%			2	%		
Acquisitions and divestitures	(0)	%			1	%		
Fixed currency sales change	1	%			3	%		
Foreign currency translation	(2)	%			(4)	%		
Public currency sales change	(1)	%			(1)	%		
	$		$		$		$	
Operating income at fixed currency (millions)	199.8		179.7		499.8		430.2	
Operating income at public currency (millions)	204.9		195.5		511.7		474.9	
Fixed currency operating income change	11	%			16	%		
Fixed currency operating income margin	16.9	%	15.4	%	14.6	%	13.0	%
Acquisition adjusted fixed currency operating income change	12	%			15	%		
Acquisition adjusted fixed currency operating margin	16.9	%	15.3	%	14.8	%	13.1	%
Public currency operating income change	5	%			8	%		

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 third quarter and first nine months of 2016, impacted by volume gains, acquisitions and pricing. At a regional level, both the third quarter and nine month sales showed good growth in Latin America and modest growth in Europe.

At an operating unit level, Water fixed currency sales were flat in the third quarter of 2016 and increased 4% (1% acquisition adjusted) in the first nine months of 2016. Moderate growth in heavy and light industry sales was partially offset by double-digit declines in the mining industry. Food & Beverage fixed currency sales increased 4% in both the third quarter of 2016 and first nine months of 2016, benefiting from corporate account and share gains, which more than offset generally flat industry trends. Beverage and food sales continued to show good growth, with slower sales in dairy and agri. Paper fixed currency sales increased 2% in both the third quarter and first nine months of 2016, helped by strong sales efforts and business wins. Market conditions in Asia Pacific, including Greater China, have remained challenging. Textile Care fixed currency sales increased 2% in the third quarter of 2016 and 4% in the first nine months of 2016, benefiting from new customer accounts in Europe.

Operating Income

Fixed currency operating income and fixed currency operating income margins for our Global Industrial segment increased in both the third quarter and first nine months of 2016. Acquisitions had minimal impact on both the fixed currency operating income growth and fixed currency operating income margins.

Acquisition adjusted fixed currency operating income margins increased 1.6 and 1.7 percentage points during the third quarter and first nine months of 2016, respectively. The favorable impact of sales volume gains, product mix changes and pricing gains added approximately 1.2 percentage points for both the third quarter and first nine months of 2016. The growth was also impacted by cost savings initiatives and lower delivered product costs, in both the third quarter and first nine months of 2016.

Global Institutional

	Third Quarter Ended September 30				Nine Months Ended September 30			
	2016		2015		2016		2015	
	$		$		$		$	
Sales at fixed currency (millions)	1,163.4		1,092.4		3,354.4		3,121.7	
Sales at public currency (millions)	1,178.4		1,114.4		3,390.1		3,205.6	
Volume	2	%			3	%		
Price changes	2	%			2	%		
Acquisition adjusted fixed currency sales change	4	%			4	%		
Acquisitions and divestitures	2	%			3	%		
Fixed currency sales change	6	%			7	%		
Foreign currency translation	(1)	%			(2)	%		
Public currency sales change	6	%			6	%		
	$		$		$		$	
Operating income at fixed currency (millions)	266.8		256.9		707.9		651.7	
Operating income at public currency (millions)	269.0		259.4		713.4		662.0	
Fixed currency operating income change	4	%			9	%		
Fixed currency operating income margin	22.9	%	23.5	%	21.1	%	20.9	%
Acquisition adjusted fixed currency operating income change	6	%			10	%		
Acquisition adjusted fixed currency operating margin	24.0	%	23.5	%	22.0	%	20.9	%
Public currency operating income change	4	%			8	%		

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 third quarter and first nine months of 2016, driven by volume growth, acquisitions and pricing gains. At a regional level, both the third quarter and nine month sales increase were led by good growth in North America, Latin America and Asia Pacific.

At an operating unit level, Institutional fixed currency sales increased 7% (4% acquisition adjusted) in the third quarter of 2016 and 9% (5% acquisition adjusted) in the first nine months of 2016. New business wins, led by demand for our leading product innovation in key platforms, along with appropriate pricing, drove our results. Global lodging demand showed marginal growth while restaurant foot traffic data remains soft. Specialty fixed currency sales increased 6% in both the third quarter and first nine months of 2016. Quick service sales growth was solid, led by growth in our global accounts. Food retail sales were strong, benefiting from new customers and product penetration. Healthcare fixed currency sales increased 6% in the third quarter of 2016 and 4% in the first nine months of 2016. Improving trends in both North America and Europe reflected the continued focus on our value proposition, leading to customer gains and product penetration.

Operating Income

Fixed currency operating income increased for our Global Institutional segment in both the third quarter and first nine months of 2016, and the fixed currency operating margin decreased during the third quarter and increased during the first nine 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 0.5 and 1.1 percentage points during the third quarter and first nine months of 2016, respectively. The favorable impact of pricing gains, product mix changes and sales volume increases added approximately 1.6 and 2.0 percentage points for the third quarter and first nine months of 2016, respectively, and was partially offset by investments in the business. Higher delivered product costs also impacted third quarter comparisons.

Global Energy

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	$	$	$	$
Sales at fixed currency (millions)	760.6	827.3	2,275.2	2,585.7
Sales at public currency (millions)	780.2	904.5	2,318.6	2,834.2
Volume	(5) %		(9) %	
Price changes	(3) %		(3) %	
Acquisition adjusted fixed currency sales change	(8) %		(12) %	
Acquisitions and divestitures	0 %		0 %	
Fixed currency sales change	(8) %		(12) %	
Foreign currency translation	(6) %		(6) %	
Public currency sales change	(14) %		(18) %	
	$	$	$	$
Operating income at fixed currency (millions)	100.9	111.1	238.8	325.2
Operating income at public currency (millions)	104.2	130.4	246.5	390.8
Fixed currency operating income change	(9) %		(27) %	
Fixed currency operating income margin	13.3 %	13.4 %	10.5 %	12.6 %
Acquisition adjusted fixed currency operating income change	(8) %		(28) %	
Acquisition adjusted fixed currency operating margin	13.2 %	13.2 %	10.2 %	12.4 %
Public currency operating income change	(20) %		(37) %	

Net Sales

Fixed currency sales for our Global Energy segment were negatively impacted by volume reductions and lower pricing in both the third quarter and first nine months of 2016. Continued difficult operating conditions negatively impacted our well stimulation and production businesses due to continued lower price and customer product usage. Sales in our downstream business grew modestly. Regionally, international growth was more than offset by lower North America results.

Operating Income

Fixed currency operating income for our Global Energy segment decreased during both the third quarter and first nine months of 2016. Fixed currency operating income margins also decreased during both comparable periods, however to a lesser extent for the third quarter. Acquisitions had a minimal impact on the fixed currency operating income and fixed currency operating income margins during both the third quarter and first nine months of 2016.

Acquisition adjusted fixed currency operating income margins for our Global Energy segment were flat in the third quarter of 2016 and decreased 2.2 percentage points during the first nine months of 2016. Reductions in sales volume, product mix changes and lower pricing contributed approximately 4.3 and 5.4 percentage points to the decline in the third quarter and first nine months of 2016, respectively, which offset the benefit of lower delivered product costs, synergies and other cost reduction actions.

Other

	Third Quarter Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	$	$	$	$
Sales at fixed currency (millions)	210.5	195.0	601.5	555.9
Sales at public currency (millions)	211.6	199.0	605.1	569.8
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	(2) %		(2) %	
Public currency sales change	6 %		6 %	
	$	$	$	$
Operating income at fixed currency (millions)	41.3	37.0	110.2	91.9
Operating income at public currency (millions)	41.4	37.5	110.5	92.9
Fixed currency operating income change	12 %		20 %	
Fixed currency operating income margin	19.6 %	19.0 %	18.3 %	16.5 %
Acquisition adjusted fixed currency operating income change	12 %		20 %	
Acquisition adjusted fixed currency operating margin	19.6 %	19.0 %	18.3 %	16.5 %
Public currency operating income change	10 %		19 %	

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

Net Sales

Fixed currency sales for our Other segment increased in the third quarter and first nine months of 2016, driven by both volume and pricing gains. At a regional level, both the third quarter and nine months sales results showed good growth in Latin America, Asia Pacific and North America.

At an operating unit level, Pest Elimination fixed currency sales increased 7% in the third quarter of 2016 and 8% in the first nine months of 2016. Sales to food retail, hospitality and restaurant customers led the growth. Equipment

Care sales increased 10% in the third quarter of 2016 and 9% in the first nine months of 2016, led by service and installed parts sales growth, benefiting from new customer gains.

Operating Income

Fixed currency operating income and fixed currency operating income margins for our Other segment increased 0.6 and 1.8 percentage points during the third quarter and first nine months of 2016, respectively. The favorable impact of pricing gains, product mix changes and sales volume increases added approximately 2.8 and 2.5 percentage points for the third quarter and first nine months of 2016, and was partially offset by higher employee costs.

Corporate

Consistent with our internal management reporting, Corporate amounts in the table on page 37 include intangible asset amortization specifically from the Nalco merger and special (gains) and charges that are not allocated to our reportable segments. Items included within special (gains) and charges are shown in the table on page 33.

FINANCIAL POSITION, CASH FLOWS AND LIQUIDITY

Financial Position

Total assets were $18.4 billion and $18.6 billion as of September 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 $11.4 billion as of September 30, 2016 and $11.7 billion as of December 31, 2015. Total debt was $6.7 billion as of September 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. EBITDA and adjusted EBITDA are non-GAAP measures, which are discussed further in the "Non-GAAP Financial Measures" section of this MD&A.

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

	September 30	
	2016	2015
(ratio)		
Net debt to EBITDA	2.6	2.5
Net debt to adjusted EBITDA	2.3	2.3
(millions)		
Net Debt		
Total debt	$ 6,662.6	$ 6,762.8
Cash	180.6	184.8
Net debt	$ 6,482.0	$ 6,578.0
EBITDA		
Net income including non-controlling interest	$ 1,098.0	$ 1,137.6
Provision for income taxes	324.3	378.1
Interest expense, net	258.6	243.3
Depreciation	557.7	563.4
Amortization	292.8	301.7
EBITDA	2,531.4	2,624.1

Special (gains) and charges impacting EBITDA	341.5	296.2
Adjusted EBITDA	$ 2,872.9	$ 2,920.3

Cash Flows

Operating Activities

	Nine Months Ended September 30		
(millions)	2016	2015	Change
Cash provided by operating activities	$ 1,491.7	$ 1,395.2	$ 96.5

Year-over-year comparability was positively impacted primarily by continued focus on improving our working capital (accounts receivable, inventory and accounts payable) metrics. The increase in comparable pension contributions, resulting from the $150 voluntary U.S. contribution discussed in Note 13, was 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)	Nine Months Ended September 30 2016	2015	Change
Cash used for investing activities	$ (581.8)	$ (549.1)	$ (32.7)

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

Comparability across 2016 and 2015 was also impacted by restricted cash activity related to the Anios transaction in 2016 and the settlement of a net investment hedge and receipt of Champion related escrow funds, both during 2015.

Financing Activities

(millions)	Nine Months Ended September 30 2016	2015	Change
Cash used for financing activities	$ (823.4)	$ (822.8)	$ (0.6)

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 and €575 million 2.63% fixed rate senior notes; repayment of $250 million 4.88% and $500 million 1.00% senior notes; and repayment of $125 million of term loan borrowings. During the first nine months of 2016, net issuances and repayments of commercial paper and notes payable led to a net decrease of $522 million, compared to a net decrease of $227 million during the first nine 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 nine months of 2016, we repurchased $738 million shares, including $300 million shares through an ASR program initiated in February 2016. During the first nine months of 2015, we repurchased $728 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 and additional short-term and/or long-term borrowings. We continue to expect our operating cash flow to remain strong.

As of September 30, 2016, we had $180.6 million of cash and cash equivalents on hand, of which $175.0 million was held outside of the U.S.

As of September 30, 2016, we had in place a $2.0 billion multi-year credit facility which expires in December 2019. The credit facility has been established with a diverse syndicate of banks and supports our $2.0 billion U.S. commercial paper program and our $2.0 billion European commercial paper program.

During the third quarter of 2016, we amended our existing $200.0 million European commercial paper program by, among other things, increasing the aggregate amount of the euro commercial paper notes that may be issued from $200.0 million to $2.0 billion. The maximum aggregate amount of commercial paper that may be issued under our U.S. commercial paper program and our euro commercial paper program may not exceed $2.0 billion. As of September 30, 2016, we had $102 million in outstanding U.S. commercial paper, with an average annual interest rate of 0.6%, and no amounts outstanding under our European commercial paper program. As of September 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 through the first nine months of both 2016 and 2015 is discussed in the Cash Flows – Financing Activities section of this MD&A.

In October 2016, subsequent to the end of the third quarter, we issued $1.0 billion of debt securities consisting of a $750 million aggregate principal ten year fixed rate note with a coupon rate of 2.70% and a $250 million aggregate principal thirty year fixed rate note with a coupon rate of 3.70%. The proceeds are expected to be used to repay commercial paper, and together with additional commercial paper borrowings, repay our 3.00% senior notes due at maturity in December 2016.

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

43

As of September 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 September 30, 2016, the total notes payable and long-term debt due within one year decreased to $1.6 billion. The decrease primarily reflected repayment of commercial paper borrowings during the first nine months of 2016.

Our gross liability for uncertain tax positions was $70 million as of September 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 2016, when compared with 2014 levels, resulting from continued excess oil supply pressures, which have negatively impacted exploration and production investments in the energy industry, particularly in North America. 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 nine months ended September 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 nine 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 October 2016, we issued $1.0 billion of debt securities consisting of a $750 million aggregate principal ten year fixed rate note with a coupon rate of 2.70% and a $250 million aggregate principal thirty year fixed rate note with a coupon rate of 3.70%. The proceeds are expected to be used to repay commercial paper, and together with additional commercial paper borrowings, repay our 3.00% senior notes due at maturity in December 2016.

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 attributable to Ecolab
- Adjusted diluted EPS

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

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

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

We evaluate the performance of our international operations based on fixed currency rates of foreign exchange. 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.

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 results 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 postretirement health care benefit plans and reductions in postretirement healthcare costs; 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; nonperformance of financial counterparties; and the Anios transaction.

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

Item 4. Controls and Procedures

As of September 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 July 1 through September 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

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 page 46 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 several 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 either settled or 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.

48

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) Total number of shares purchased(1)	(b) Average price paid per share(2)	(c) Number of shares purchased as part of publicly announced plans or programs(3)	(d) Maximum number of shares that may yet be purchased under the plans or programs(3)
July 1-30, 2016	9,450	120.0328	-	17,423,858
August 1-31, 2016	795,960	122.7413	651,332	16,772,526
September 1-30, 2016	7,095	123.3196	-	16,772,526
Total	812,505	122.7148	651,332	16,772,526

(1) Includes 161,173 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

Iran Threat Reduction and Syria Human Rights Act of 2012

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, the company is required to disclose in its periodic reports if it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with entities or individuals designated pursuant to certain Executive Orders. Disclosure is required even where the activities are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and even if the activities are not covered or prohibited by U.S. law. During the third quarter of 2016, after the easing of certain sanctions by the United States against Iran in January 2016 and in compliance with the economic sanctions regulations administered by U.S. Treasury's Office of Foreign Assets Control (OFAC) and U.S. export control laws, a wholly-owned non-U.S. subsidiary of the company has invoiced a non-U.S. distributor for four purchase orders totaling $0.5 million relating to the sale of products associated with the Downstream refinery and petrochemical processing business of our Energy business unit pursuant to and in compliance with the terms and conditions of OFAC's General License H. These products are used for process and water treatment applications in petrochemical plants. Additionally, the aforementioned subsidiary has invoiced an Iranian distributor for two purchase orders totaling $0.3 million relating to the sale of products associated with the Oilfield Chemicals business of our Energy business unit pursuant to and in compliance with the terms and conditions of OFAC's General License H. These products are used for process and water treatment applications in upstream oil and gas production. Our non-U.S. subsidiary intends to continue doing business in Iran under General License H in compliance with U.S. economic sanctions and export control laws, which sales may require additional disclosure pursuant to Section 13(r) of the Act.

Item 6. Exhibits

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

(10.1)Documents comprising Euro-Commercial Paper Program

a. Amended and Restated Dealer Agreement dated 21 September 2016 between Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V. (as Issuers), Ecolab Inc. (as Guarantor in respect of the notes issued by Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V.), Credit Suisse Securities (Europe) Limited (as Arranger), and Citibank Europe plc, UK Branch and Credit Suisse Securities (Europe) Limited (as Dealers) – Incorporated by reference to Exhibit 10.1(a) of our Form 8-K dated September 21, 2016. (File No. 001-9328)

b. Amended and Restated Note Agency Agreement dated 21 September 2016 between Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V. (as Issuers), Ecolab Inc. (as Guarantor in respect of the notes issued by Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V.), and Citibank, N.A., London Branch (as Issue and Paying Agent) – Incorporated by reference to Exhibit 10.1(b) of our Form 8-K dated September 21, 2016. (File No. 001-9328)

c. Deed of Covenant made on 21 September 2016 by Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V. (as Issuers) Incorporated by reference to Exhibit 10.1(c) of our Form 8-K dated September 21, 2016 -- Incorporated by reference to Exhibit 10.1(c) of our Form 8-K dated September 21, 2016. (File No. 001-9328)

d. Deed of Guarantee made on 21 September 2016 by Ecolab Inc. -- Incorporated by reference to Exhibit 10.1(d) of our Form 8-K dated September 21, 2016. (File No. 001-9328)

(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:	November 3, 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
(10.1)	Documents comprising Euro-Commercial Paper Program	
	(a) Amended and Restated Dealer Agreement dated 21 September 2016 between Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V. (as Issuers), Ecolab Inc. (as Guarantor in respect of the notes issued by Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V.), Credit Suisse Securities (Europe) Limited (as Arranger), and Citibank Europe plc, UK Branch and Credit Suisse Securities (Europe) Limited (as Dealers).	Incorporated by reference to Exhibit 10.1(a) of our Form 8-K dated September 21, 2016. (File No. 001-9328)
	(b) Amended and Restated Note Agency Agreement dated 21 September 2016 between Ecolab Inc., Ecolab Lux 1 S.à r.l.,	Incorporated by reference to Exhibit 10.1(b) of our Form 8-K dated September 21, 2016. (File No. 001-9328)

	Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V. (as Issuers), Ecolab Inc. (as Guarantor in respect of the notes issued by Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V.), and Citibank, N.A., London Branch (as Issue and Paying Agent).	
	(c) Deed of Covenant made on 21 September 2016 by Ecolab Inc., Ecolab Lux 1 S.à r.l., Ecolab Lux 2 S.à r.l. and Ecolab NL 10 B.V. (as Issuers) Incorporated by reference to Exhibit 10.1(c) of our Form 8-K dated September 21, 2016.	Incorporated by reference to Exhibit 10.1(c) of our Form 8-K dated September 21, 2016. (File No. 001-9328)
	(d) Deed of Guarantee made on 21 September 2016 by Ecolab Inc.	Incorporated by reference to Exhibit 10.1(d) of our Form 8-K dated September 21, 2016. (File No. 001-9328)
(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.