

ECOLAB INC.
Form 10-Q
May 03, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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

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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.) |

1 Ecolab Place, St. Paul, Minnesota 55102

(Address of principal executive offices)(Zip Code)

1-800-232-6522

(Registrant's telephone number, including area code)

(Not applicable)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2018.

288,520,477 shares of common stock, par value \$1.00 per share.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

| (millions, except per share amounts) | First Quarter Ended March 31 | |
|--|---------------------------------|-----------|
| | 2018 | 2017 |
| Product and equipment sales | \$2,847.2 | \$2,604.4 |
| Service and lease sales | 623.7 | 558.0 |
| Net sales | 3,470.9 | 3,162.4 |
| Product and equipment cost of sales | 1,696.6 | 1,500.7 |
| Service and lease cost of sales | 385.5 | 351.1 |
| Cost of sales (including special charges (a)) | 2,082.1 | 1,851.8 |
| Selling, general and administrative expenses | 1,008.5 | 947.2 |
| Special (gains) and charges | 26.0 | 6.2 |
| Operating income | 354.3 | 357.2 |
| Other (income) expense | (19.4) | (16.8) |
| Interest expense, net | 56.4 | 62.5 |
| Income before income taxes | 317.3 | 311.5 |
| Provision for income taxes | 69.1 | 54.2 |
| Net income including noncontrolling interest | 248.2 | 257.3 |
| Net income attributable to noncontrolling interest | 0.9 | 3.3 |
| Net income attributable to Ecolab | \$247.3 | \$254.0 |
| Earnings attributable to Ecolab per common share | | |
| Basic | \$ 0.86 | \$ 0.87 |
| Diluted | \$ 0.84 | \$ 0.86 |
| Dividends declared per common share | \$0.410 | \$0.370 |
| Weighted-average common shares outstanding | | |
| Basic | 288.6 | 290.6 |
| Diluted | 292.7 | 295.0 |

- (a) Cost of sales includes special charges of \$1.5 million in the first quarter of 2017, which is recorded in product and equipment cost of sales.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

| (millions) | First Quarter Ended March 31 | |
|--|---------------------------------|---------|
| | 2018 | 2017 |
| Net income including noncontrolling interest | \$248.2 | \$257.3 |
| Other comprehensive income (loss), net of tax | | |
| Foreign currency translation adjustments | | |
| Foreign currency translation | 115.6 | 81.0 |
| Gain (loss) on net investment hedges | (26.2) | 2.8 |
| | 89.4 | 83.8 |
| Derivatives and hedging instruments | (2.1) | (9.2) |
| Pension and postretirement benefits | | |
| Amortization of net actuarial loss and prior service costs included in net periodic pension and postretirement costs | 0.3 | 3.3 |
| | 0.3 | 3.3 |
| Subtotal | 87.6 | 77.9 |
| Total comprehensive income, including noncontrolling interest | 335.8 | 335.2 |
| Comprehensive income attributable to noncontrolling interest | 3.4 | 4.5 |
| Comprehensive income attributable to Ecolab | \$332.4 | \$330.7 |

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

CONSOLIDATED BALANCE SHEET

(unaudited)

| (millions, except shares and per share amounts) | March 31 2018 | December 31 2017 |
|---|------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$175.5 | \$211.4 |
| Accounts receivable, net | 2,574.3 | 2,571.4 |
| Inventories | 1,541.8 | 1,446.5 |
| Other current assets | 305.2 | 365.0 |
| Total current assets | 4,596.8 | 4,594.3 |
| Property, plant and equipment, net | 3,779.9 | 3,707.1 |
| Goodwill | 7,303.0 | 7,167.1 |
| Other intangible assets, net | 4,012.2 | 4,017.6 |
| Other assets | 492.4 | 477.4 |
| Total assets | \$20,184.3 | \$19,963.5 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Short-term debt | \$1,017.8 | \$564.4 |
| Accounts payable | 1,229.1 | 1,177.1 |
| Compensation and benefits | 497.0 | 549.4 |
| Income taxes | 170.0 | 183.6 |
| Other current liabilities | 1,068.9 | 1,000.7 |
| Total current liabilities | 3,982.8 | 3,475.2 |
| Long-term debt | 6,397.7 | 6,758.3 |
| Postretirement health care and pension benefits | 1,027.7 | 1,025.5 |
| Deferred income taxes | 652.8 | 635.4 |
| Other liabilities | 453.4 | 415.3 |
| Total liabilities | 12,514.4 | 12,309.7 |
| Equity (a) | | |
| Common stock | 355.5 | 354.7 |
| Additional paid-in capital | 5,496.5 | 5,435.7 |
| Retained earnings | 8,097.0 | 8,011.6 |
| Accumulated other comprehensive loss | (1,558.3) | (1,643.4) |
| Treasury stock | (4,789.7) | (4,575.0) |
| Total Ecolab shareholders' equity | 7,601.0 | 7,583.6 |
| Noncontrolling interest | 68.9 | 70.2 |
| Total equity | 7,669.9 | 7,653.8 |
| Total liabilities and equity | \$20,184.3 | \$19,963.5 |

(a) Common stock, 800.0 million shares authorized, \$1.00 par value per share, 288.5 million shares outstanding at March 31, 2018 and 289.3 million shares outstanding at December 31, 2017. Shares outstanding are net of treasury stock.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

| (millions) | First Quarter Ended March 31 | |
|---|---------------------------------|---------|
| | 2018 | 2017 |
| OPERATING ACTIVITIES | | |
| Net income including noncontrolling interest | \$248.2 | \$257.3 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 150.9 | 142.2 |
| Amortization | 80.2 | 73.8 |
| Deferred income taxes | 13.3 | 3.3 |
| Share-based compensation expense | 33.7 | 30.9 |
| Pension and postretirement plan contributions | (23.0) | (23.0) |
| Pension and postretirement plan expense | 8.6 | 8.8 |
| Restructuring charges, net of cash paid | (7.7) | (6.2) |
| Other, net | 4.9 | 4.7 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable | 33.9 | 76.4 |
| Inventories | (77.2) | (67.5) |
| Other assets | (1.0) | (13.7) |
| Accounts payable | 40.4 | 12.9 |
| Other liabilities | (18.0) | (74.2) |
| Cash provided by operating activities | 487.2 | 425.7 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (203.3) | (167.5) |
| Property and other assets sold | 0.5 | 0.5 |
| Acquisitions and investments in affiliates, net of cash acquired | (76.5) | (826.6) |
| Divestiture of businesses | 9.4 | - |
| Settlement of net investment hedges | 14.1 | - |
| Other, net | - | (1.7) |
| Cash used for investing activities | (255.8) | (995.3) |
| FINANCING ACTIVITIES | | |
| Net issuances of commercial paper and notes payable | 354.3 | 858.8 |
| Long-term debt repayments | (300.6) | (0.4) |
| Reacquired shares | (215.1) | (374.5) |
| Dividends paid | (123.4) | (113.2) |
| Exercise of employee stock options | 28.4 | 25.7 |
| Acquisition related liabilities and contingent consideration | (8.6) | - |
| Other, net | - | (0.9) |
| Cash (used for) provided by financing activities | (265.0) | 395.5 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (2.3) | 5.8 |

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| | | |
|---|---------|---------|
| Decrease in cash, cash equivalents and restricted cash | (35.9) | (168.3) |
| Cash, cash equivalents and restricted cash, beginning of period (a) | 211.4 | 380.4 |
| Cash, cash equivalents and restricted cash, end of period (b) | \$175.5 | \$212.1 |

- (a) 2017 includes \$53.0 million of restricted cash related to the Anios transaction, which was included in other assets on the Consolidated Balance Sheet as of December 31, 2016.
- (b) There was no restricted cash as of March 31, 2018 or 2017.

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

CONSOLIDATED STATEMENT OF EQUITY

(unaudited)

| | Ecolab Shareholders | | | | | Ecolab | Non- |
|---|---------------------|--------------------|-----------|-------------|-------------|---------------|----------|
| (millions) | Common | Additional | Retained | OCI | Treasury | Shareholders' | Controll |
| Balance, December 31, 2015 | Stock | Paid-in Capital | Earnings | (Loss) | Stock | Equity | Interest |
| | \$350.3 | \$5,086.1 | \$6,160.3 | \$(1,423.3) | \$(3,263.5) | \$6,909.9 | \$70.5 |
| New accounting guidance adoption (a) | | | (29.3) | | | (29.3) | |
| Net income | | | 1,229.0 | | | 1,229.0 | 17.5 |
| Comprehensive income (loss) | | | | | | | |
| activity | | | | (289.6) | | (289.6) | (1.3) |
| Cash dividends declared | | | (414.9) | | | (414.9) | (16.9) |
| Stock options and awards | 2.3 | 200.2 | | | 3.2 | 205.7 | |
| Reacquired shares | | (15.5) | | | (724.1) | (739.6) | |
| Balance, December 31, 2016 | 352.6 | 5,270.8 | 6,945.1 | (1,712.9) | (3,984.4) | 6,871.2 | 69.8 |
| New accounting guidance adoption (b) | | | 1.9 | | | 1.9 | |
| Net income | | | 1,504.6 | | | 1,504.6 | 14.0 |
| Comprehensive income (loss) | | | | | | | |
| activity | | | | 69.5 | | 69.5 | 1.7 |
| Cash dividends declared | | | (440.0) | | | (440.0) | (19.3) |
| Acquisition of noncontrolling interests | | | | | | | 4.0 |
| Stock options and awards | 2.1 | 170.3 | | | 4.3 | 176.7 | |
| Reacquired shares | | (5.4) | | | (594.9) | (600.3) | |
| | 354.7 | 5,435.7 | 8,011.6 | (1,643.4) | (4,575.0) | 7,583.6 | 70.2 |

| | | | | | | | |
|---|---------|-----------|-----------|-------------|-------------|-----------|--------|
| Balance, December 31, 2017 | | | | | | | |
| New accounting guidance adoption (c) | | | (43.6) | | | (43.6) | |
| Net income | | | 247.3 | | | 247.3 | 0.9 |
| Comprehensive income (loss) activity | | | | 85.1 | | 85.1 | 2.5 |
| Cash dividends declared | | | (118.3) | | | (118.3) | (4.7) |
| Stock options and awards | 0.8 | 60.8 | | | 0.4 | 62.0 | |
| Reacquired shares | | - | | | (215.1) | (215.1) | |
| Balance, March 31, 2018 | \$355.5 | \$5,496.5 | \$8,097.0 | \$(1,558.3) | \$(4,789.7) | \$7,601.0 | \$68.9 |

- (a) Upon adoption of Topic 606, Revenue from Contracts with Customers and the related amendments (“the new revenue standard”), the Company changed its accounting policy for revenue recognition and has established deferred revenue for service revenues with the cumulative effect reflected as an adjustment to retained earnings.
- (b) In 2017, upon adoption of ASU 2016-09, Compensation – Stock Compensation, the Company released a valuation allowance for previously unrecognized excess tax benefits resulting in an adjustment to retained earnings.
- (c) Upon adoption of ASU 2016-16, Intra-Entity Transfers of Assets Other than Inventory, the Company recorded an adjustment to retained earnings representing the write-off of income tax effects that had been deferred from past transactions and the recording of deferred tax assets which previously were not allowed to be recognized.

See Note 17 for additional information regarding adoption of new accounting standards.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information for the first quarter ended March 31, 2018 and 2017 reflect, in the opinion of company management, all adjustments necessary for a fair statement of the financial position, results of operations, comprehensive income (loss), equity 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, 2017 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, 2017.

Certain amounts in prior periods have been reclassified to conform to the current period presentation. The reclassifications are primarily related to the adoption of new accounting standards as described further in Note 17. Except for the changes due to the adoption of the new accounting standards, the Company has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

With respect to the unaudited financial information of the Company for the first quarter ended March 31, 2018 and 2017 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. Their separate report dated May 3, 2018 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:

| | First Quarter Ended March 31 | |
|-----------------------------------|---------------------------------|-------|
| (millions) | 2018 | 2017 |
| Cost of sales | | |
| Acquisition and integration costs | - | 1.5 |
| Special (gains) and charges | | |
| Restructuring activities | 0.3 | (0.3) |
| Acquisition and integration costs | 0.5 | 6.3 |
| Other | 25.2 | 0.2 |
| Subtotal | 26.0 | 6.2 |
| Total special (gains) and charges | \$26.0 | \$7.7 |

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

During the second quarter of 2017, the Company commenced restructuring and other cost-saving actions in order to streamline operations. These actions include a reduction of the Company's global workforce by approximately 570 positions, as well as asset disposals and lease terminations. Actions were substantially completed in 2017. The Company also has restructuring plans that commenced prior to 2015. Net restructuring charges were \$0.3 million (\$0.3 million after tax) and net restructuring gains were \$0.3 million (\$0.2 million after tax) in the first quarter of 2018 and 2017, respectively. The restructuring liability balance for all plans was \$34.0 million and \$41.5 million as of March 31, 2018 and December 31, 2017, respectively. The reduction in liability was driven primarily by severance and other cash payments. The majority of pretax charges represent net cash expenditures which are expected to be paid over a period of a few months to several quarters and will continue to be funded from operating activities. Cash payments during 2018 related to restructuring plans were \$7.9 million.

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

noncurrent liabilities on the Consolidated Balance Sheet.

Acquisition and integration related costs

Acquisition and integration costs reported in special (gains) and charges on the Consolidated Statement of Income include \$0.5 million (\$0.3 million after tax) and \$6.3 million (\$4.2 million after tax) in the first quarter of 2018 and 2017, respectively. Charges are related to acquisition costs, advisory and legal fees, and integration charges for acquisitions. Acquisition and integration costs reported in product and equipment cost of sales on the Consolidated Statement of Income in the first quarter of 2017 relate to recognition of fair value step-up in the Anios inventory.

Further information related to the Company's acquisitions is included in Note 3.

Other

During the first quarter of 2018, the Company recorded other special charges of \$25.2 million, which primarily consisted of a \$25.0 million (\$18.9 million after tax) commitment to the Ecolab Foundation in response to the new U.S. tax law. Other charges were minimal in both the first quarter of 2018 and 2017.

3. ACQUISITIONS AND DISPOSITIONS

Acquisitions

The Company makes acquisitions that align with its strategic business objectives. The assets and liabilities of the acquired entities have been recorded as of the acquisition date, at their respective fair values, and are included in the Consolidated Balance Sheet. The purchase price allocation is based on estimates of the fair value of assets acquired and liabilities assumed. The aggregate purchase price of acquisitions has been reduced for any cash or cash equivalents acquired with the acquisition. Acquisitions during the first three months of 2018 and 2017 were not significant to the Company's consolidated financial statements; therefore, pro forma financial information is not presented.

Anios Acquisition

On February 1, 2017, the Company acquired Anios for total consideration of \$798.3 million, including satisfaction of outstanding debt. Anios had annualized pre-acquisition sales of approximately \$245 million and is a leading European manufacturer and marketer of hygiene and disinfection products for the healthcare, food service, and food and beverage processing industries. Anios provides an innovative product line that expands the solutions the Company is able to offer, while also providing a complementary geographic footprint within the healthcare market. During 2016, the Company deposited €50 million in an escrow account that was released back to the Company upon closing of the transaction in February 2017.

The Company incurred certain acquisition and integration costs associated with the transaction that were expensed and are reflected in the Consolidated Statement of Income. See Note 2 for additional information related to the Company's special (gains) and charges related to such activities.

The components of the cash paid for Anios are shown in the following table.

| | |
|--------------------------------|---------|
| (millions) | 2017 |
| Tangible assets | \$139.8 |
| Identifiable intangible assets | |
| Customer relationships | 252.0 |
| Trademarks | 65.7 |
| Other technology | 16.1 |
| Total assets acquired | 473.6 |
| Goodwill | 511.7 |

| | |
|--|---------|
| Total liabilities | 187.0 |
| Total consideration transferred | 798.3 |
| Long-term debt repaid upon close | 192.8 |
| Net consideration transferred to sellers | \$605.5 |

Tangible assets are primarily comprised of accounts receivable of \$64.8 million, property, plant and equipment of \$24.7 million and inventory of \$29.1 million. Liabilities primarily consist of deferred tax liabilities of \$102.3 million and current liabilities of \$62.5 million.

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

Goodwill of \$511.7 million arising from the acquisition consists largely of the synergies and economies of scale expected through adding complementary geographies and innovative products to the Company's healthcare portfolio. The goodwill was allocated to the Institutional, Healthcare, and Specialty operating segments within the Global Institutional reportable segment and the Food & Beverage and Life Sciences operating segments within the Global Industrial reportable segment. None of the goodwill recognized is expected to be deductible for income tax purposes. The purchase price allocation was completed during the fourth quarter of 2017.

Other Acquisitions

During the first quarter of 2018, the Company paid \$76.5 million for acquisitions, of which \$47.3 million was attributed to certain identifiable intangible assets. The weighted average useful life of these identifiable intangible assets acquired was 11 years.

Excluding the Anios acquisition, during the first quarter of 2017, the Company paid \$28.0 million for acquisitions, of which \$18.4 million was attributed to certain identifiable intangible assets. The weighted average useful life of these identifiable intangible assets acquired was 12 years. Additionally, there were insignificant purchase price adjustments related to prior year acquisitions.

Dispositions

There were no significant business dispositions during the first quarter of 2018, and there were no business dispositions in the first quarter of 2017. In November 2017, the Company completed the sale of its Equipment Care business to a third party. Annualized Equipment Care sales were approximately \$180 million and were included in the Other segment.

4. BALANCE SHEET INFORMATION

| (millions) | March 31 2018 | December 31 2017 |
|---|------------------|---------------------|
| Accounts receivable, net | | |
| Accounts receivable | \$2,648.2 | \$2,642.9 |
| Allowance for doubtful accounts | (73.9) | (71.5) |
| Total | \$2,574.3 | \$2,571.4 |
| Inventories | | |
| Finished goods | \$1,032.0 | \$974.9 |
| Raw materials and parts | 483.3 | 438.7 |
| Inventories at FIFO cost | 1,515.3 | 1,413.6 |
| FIFO cost to LIFO cost difference | 26.5 | 32.9 |
| Total | \$1,541.8 | \$1,446.5 |
| Other current assets | | |
| Prepaid assets | \$140.0 | \$153.5 |
| Taxes receivable | 118.0 | 129.2 |
| Derivative assets | 6.7 | 28.8 |
| Other | 40.5 | 53.5 |
| Total | \$305.2 | \$365.0 |
| Property, plant and equipment, net | | |
| Land | \$230.8 | \$224.1 |
| Buildings and leasehold improvements | 1,241.1 | 1,207.4 |
| Machinery and equipment | 2,334.0 | 2,280.9 |
| Merchandising and customer equipment | 2,486.1 | 2,399.4 |
| Capitalized software | 618.2 | 585.8 |
| Construction in progress | 418.0 | 438.7 |
| | 7,328.2 | 7,136.3 |
| Accumulated depreciation | (3,548.3) | (3,429.2) |
| Total | \$3,779.9 | \$3,707.1 |
| 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 | \$3,668.0 | \$3,620.3 |
| Trademarks | 381.5 | 380.6 |
| Patents | 467.7 | 462.7 |
| Other technology | 269.1 | 232.6 |
| | 4,786.3 | 4,696.2 |
| Accumulated amortization | | |
| Customer relationships | (1,477.7) | (1,403.8) |
| Trademarks | (155.2) | (147.6) |
| Patents | (194.2) | (187.9) |
| Other technology | (177.0) | (169.3) |

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| | | |
|---|-----------|-----------|
| | (2,004.1) | (1,908.6) |
| Net intangible assets subject to amortization | 2,782.2 | 2,787.6 |
| Total | \$4,012.2 | \$4,017.6 |
| Other assets | | |
| Deferred income taxes | \$104.4 | \$105.4 |
| Pension | 45.6 | 41.7 |
| Other | 342.4 | 330.3 |
| Total | \$492.4 | \$477.4 |

| (millions) | March 31 2018 | December 31 2017 |
|---|------------------|---------------------|
| Other current liabilities | | |
| Discounts and rebates | \$289.8 | \$267.2 |
| Dividends payable | 118.3 | 118.6 |
| Interest payable | 78.2 | 50.7 |
| Taxes payable, other than income | 102.9 | 129.9 |
| Derivative liabilities | 89.3 | 62.2 |
| Restructuring | 28.6 | 36.0 |
| Contract liability | 88.2 | 79.0 |
| Other | 273.6 | 257.1 |
| Total | \$1,068.9 | \$1,000.7 |
| Accumulated other comprehensive loss | | |
| Unrealized loss on derivative financial instruments, net of tax | \$(28.5) | \$(26.4) |
| Unrecognized pension and postretirement benefit expense, net of tax | (555.6) | (555.8) |
| Cumulative translation, net of tax | (974.2) | (1,061.2) |
| Total | \$(1,558.3) | \$(1,643.4) |

5. DEBT AND INTEREST

Short-term Debt

The following table provides the components of the Company's short-term debt obligations as of March 31, 2018 and December 31, 2017.

| (millions) | March 31 2018 | December 31 2017 |
|------------------------------------|------------------|---------------------|
| Short-term debt | | |
| Commercial paper | \$336.4 | \$- |
| Notes payable | 35.7 | 14.7 |
| Long-term debt, current maturities | 645.7 | 549.7 |

| | | |
|-------|-----------|---------|
| Total | \$1,017.8 | \$564.4 |
|-------|-----------|---------|

Line of Credit

As of March 31, 2018, the Company had in place a \$2.0 billion multi-year credit facility which expires in November 2022. The credit facility has been established with a diverse syndicate of banks and supports the Company's U.S. and Euro commercial paper programs. There were no borrowings under the Company's credit facility as of either March 31, 2018 or December 31, 2017.

Commercial Paper

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

As of March 31, 2018, the Company had \$170.8 million (€140.0 million) of commercial paper outstanding under its Euro program and \$165.6 million commercial paper outstanding under its U.S. program. As of December 31, 2017, the Company had no commercial paper outstanding under either program.

Long-term Debt

The following table provides the components of the Company's long-term debt obligations, including current maturities, as of March 31, 2018 and December 31, 2017.

| (millions) | Maturity by Year | March 31 2018 | December 31 2017 |
|---|---------------------|------------------|---------------------|
| Long-term debt | | | |
| Public and 144A notes (2018 principal amount) | | | |
| Three year 2015 senior notes (\$0 million) | 2018 | - | 299.9 |
| Three year 2016 senior notes (\$400 million) | 2019 | 395.6 | 396.1 |
| Five year 2015 senior notes (\$300 million) | 2020 | 299.2 | 299.1 |
| Ten year 2011 senior notes (\$1.02 billion) | 2021 | 1,016.7 | 1,016.6 |
| Five year 2017 senior notes (\$500 million) | 2022 | 496.3 | 496.3 |
| Seven year 2016 senior notes (\$400 million) | 2023 | 397.7 | 397.5 |
| Seven year 2016 senior notes (€575 million) | 2024 | 694.3 | 676.6 |
| Ten year 2015 senior notes (€575 million) | 2025 | 697.0 | 679.4 |
| Ten year 2016 senior notes (\$750 million) | 2026 | 743.1 | 742.8 |
| Ten year 2017 144A notes (\$500 million) | 2027 | 494.7 | 494.7 |
| Thirty year 2011 senior notes (\$458 million) | 2041 | 451.4 | 451.3 |
| Thirty year 2016 senior notes (\$250 million) | 2046 | 246.0 | 246.0 |
| Thirty year 2017 144A notes (\$700 million) | 2047 | 608.0 | 607.8 |
| Private notes (2017 principal amount) | | | |
| Series A private placement senior notes (\$250 million) | 2018 | 248.2 | 248.5 |
| Series B private placement senior notes (\$250 million) | 2023 | 249.4 | 249.3 |
| Capital lease obligations | | 4.8 | 4.6 |
| Other | | 1.0 | 1.5 |
| Total debt | | 7,043.4 | 7,308.0 |
| Long-term debt, current maturities | | (645.7) | (549.7) |
| Total long-term debt | | \$6,397.7 | \$6,758.3 |

Public and 144A Notes

During the first quarter of 2018, pursuant to a registration rights agreement pertaining to the 144A Notes, the Company filed a registration statement regarding an offer to exchange each series of the 144A Notes for new issues of notes registered under the U.S. Securities Act of 1933, as amended. The registration statement was declared effective, and the Company commenced the exchange offer, on March 20, 2018. The exchange offer expired on April 17, 2018, with all of the 144A Notes being exchanged for new notes. The terms of each series of the new notes are substantially identical to the terms of the applicable series of 144A Notes, except that the new notes are registered as mentioned above and the transfer restrictions and registration rights and related special interest provisions applicable to the 144A Notes do not apply to the new notes.

The Company's public notes, including the new notes received upon exchange of the 144A Notes, may be redeemed by the Company at its option at redemption prices that include accrued and unpaid interest and a make-whole premium. Upon the occurrence of a change of control accompanied by a downgrade of the public notes below investment grade rating, within a specified time period, the Company would be required to offer to repurchase the public notes at a price equal to 101% of the aggregate principal amount thereof, plus any accrued and unpaid interest to the date of repurchase. The public notes are senior unsecured and unsubordinated obligations of the Company and rank equally with all other senior and unsubordinated indebtedness of the Company.

Private Notes

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

Covenants

The Company is in compliance with its debt covenants as of March 31, 2018.

Net Interest Expense

Interest expense and interest income recognized during the first quarter of 2018 and 2017 were as follows:

| | First Quarter Ended March 31 | |
|-----------------------|---------------------------------|--------|
| (millions) | 2018 | 2017 |
| Interest expense | \$61.0 | \$66.6 |
| Interest income | (4.6) | (4.1) |
| Interest expense, net | \$56.4 | \$62.5 |

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

The Company tests goodwill for impairment on an annual basis during the second quarter. If circumstances change significantly, the Company would also test a reporting unit's goodwill for impairment during interim periods between its annual tests. Based on the current and expected performance of the Company's reporting units, updating the impairment testing during the first quarter of 2018 was not deemed necessary. There has been no impairment of goodwill in any of the years presented.

The changes in the carrying amount of goodwill for each of the Company's reportable segments during the three months ended March 31, 2018 were as follows:

| (millions) | Global Industrial | Global Institutional | Global Energy | Other | Total |
|--|----------------------|-------------------------|------------------|---------|-----------|
| December 31, 2017 | \$2,797.0 | \$1,027.0 | \$3,203.7 | \$139.4 | \$7,167.1 |
| Segment change (a) | (71.7) | - | - | 71.7 | - |
| December 31, 2017 revised | \$2,725.3 | \$1,027.0 | \$3,203.7 | \$211.1 | \$7,167.1 |
| Current year business combinations (b) | 20.7 | 11.8 | - | - | 32.5 |
| Prior year business combinations (c) | - | - | - | 0.1 | 0.1 |
| Dispositions | - | - | (2.5) | - | (2.5) |
| Effect of foreign currency translation | 40.3 | 15.3 | 47.1 | 3.1 | 105.8 |
| March 31, 2018 | \$2,786.3 | \$1,054.1 | \$3,248.3 | \$214.3 | \$7,303.0 |

- (a) Relates to establishment of the Colloidal Technologies Group (“CTG”) operating segment, which is also a reporting unit. Goodwill was allocated to CTG based on a fair value allocation. The CTG operating segment is included in the Other segment. CTG was previously reported in the Water reporting unit, which is aggregated and reported in the Global Industrial reportable segment. See Note 15 for further information.
- (b) Represents goodwill associated with current year acquisitions. The Company does not expect any of the goodwill related to businesses acquired to be tax deductible.
- (c) Represents purchase price allocation adjustments for 2017 acquisitions deemed preliminary as of December 31, 2017.

Other Intangible Assets

The Nalco trade name is the Company’s principal indefinite life intangible asset, which is tested for impairment on an annual basis during the second quarter. Based on the ongoing performance of the Company’s reporting units associated with the trade name, updating the impairment testing during the first quarter of 2018 was not deemed necessary. There has been no impairment of the Nalco trade name intangible since it was acquired.

The Company’s intangible assets subject to amortization primarily include customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections and other acceptable valuation methods. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Total amortization expense related to other intangible assets during the first quarter of 2018 and 2017 was \$80.2 million and \$73.8 million, respectively. Estimated amortization for the remaining nine month period of 2018 related to other amortizable intangible assets is expected to be approximately \$242 million.

7. FAIR VALUE MEASUREMENTS

The Company's financial instruments include cash and cash equivalents, restricted cash, 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:

| (millions) | March 31, 2018 | | | |
|------------------------------------|--------------------|-------------------------|---------|------------|
| | Carrying Amount | Fair Value Measurements | | |
| | | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Foreign currency forward contracts | \$21.3 | \$- | \$21.3 | \$- |

| | | | | |
|------------------------------------|-------|---|-------|---|
| Liabilities | | | | |
| Foreign currency forward contracts | 199.7 | - | 199.7 | - |
| Interest rate swap agreements | 5.4 | - | 5.4 | - |

| (millions) | December 31, 2017 | | | |
|------------------------------------|--------------------|-------------------------|---------|------------|
| | Carrying Amount | Fair Value Measurements | | |
| | | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Foreign currency forward contracts | \$45.8 | \$- | \$45.8 | \$- |
| Liabilities | | | | |
| Foreign currency forward contracts | 153.1 | - | 153.1 | - |
| Interest rate swap agreements | 4.2 | - | 4.2 | - |

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

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

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

| | March 31, 2018 | | December 31, 2017 | |
|--|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt, including current maturities | \$7,043.4 | \$7,282.2 | \$7,308.0 | \$7,716.0 |

8. DERIVATIVES AND HEDGING TRANSACTIONS

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

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

Derivative Positions Summary

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

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

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

| (millions) | Asset Derivatives | | Liability Derivatives | |
|---|-------------------|---------------------|-----------------------|---------------------|
| | March 31 2018 | December 31 2017 | March 31 2018 | December 31 2017 |
| Derivatives designated as hedging instruments | | | | |
| Foreign currency forward contracts | \$3.8 | \$19.6 | \$162.6 | \$125.2 |
| Interest rate swap agreements | - | - | 5.4 | 4.2 |

| | | | | |
|--|--------|--------|---------|---------|
| Derivatives not designated as hedging instruments | | | | |
| Foreign currency forward contracts | 17.5 | 26.2 | 37.1 | 27.9 |
| Gross value of derivatives | 21.3 | 45.8 | 205.1 | 157.3 |
| Gross amounts offset in the Consolidated Balance Sheet | | | | |
| Sheet | (14.6) | (17.0) | (14.6) | (17.0) |
| Net value of derivatives | \$6.7 | \$28.8 | \$190.5 | \$140.3 |

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

| (millions) | Notional Values | |
|------------------------------------|-----------------|----------|
| | 2018 | 2017 |
| Foreign currency forward contracts | \$ 4,762 | \$ 5,593 |
| Interest rate agreements | \$ 650 | \$ 950 |

Cash Flow Hedges

The Company utilizes foreign currency forward contracts to hedge the effect of foreign currency exchange rate fluctuations on forecasted foreign currency transactions, including inventory purchases and intercompany royalty, management fee and other payments. These forward contracts are designated as cash flow hedges. The effective portions of the changes in fair value of these contracts are recorded in accumulated other comprehensive income (“AOCI”) until the hedged items affect earnings, at which time the gain or loss is reclassified into the same line item in the Consolidated Statement of Income as the underlying exposure being hedged. Cash flow hedged transactions impacting AOCI are forecasted to occur within the next five 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 and subsequently closed a series of treasury lock and forward starting interest rate swap agreements, in conjunction with its public debt issuances. The agreements were designated and effective as cash flow hedges of the expected interest payments related to the anticipated future debt issuances. Amounts recorded in AOCI are recognized as part of interest expense over the remaining life of the notes as the forecasted interest transactions occur.

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

| (millions) | | First Quarter Ended March 31 | |
|---|-----------------------|---------------------------------|---------|
| | | 2018 | 2017 |
| Unrealized gain (loss) recognized into AOCI | | | |
| Foreign currency forward contracts | AOCI (equity) | \$(44.9) | \$(4.3) |
| Interest rate swap agreements | AOCI (equity) | - | - |
| | Total | (44.9) | (4.3) |
| Gain (loss) recognized in income | | | |
| Foreign currency forward contracts | Cost of sales | (1.9) | (2.5) |
| | SG&A | (47.6) | 10.2 |
| | Interest expense, net | 8.3 | 2.9 |
| | Subtotal | (41.2) | 10.6 |
| Interest rate swap agreements | Interest expense, net | (1.8) | (1.8) |
| | Total | \$(43.0) | \$8.8 |

Gains and losses recognized in income related to the ineffective portion of the Company’s cash flow hedges were insignificant during the first three months of 2018 and 2017.

Fair Value Hedges

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

In January 2016, the Company entered into an interest rate swap agreement that converted its \$400 million 2.00% debt from a fixed interest rate to a floating interest rate. In January 2015, the Company entered into interest rate swap agreements that converted its \$300 million 1.55% debt and its \$250 million 3.69% debt from fixed interest rates to floating interest rates. In May 2014, the Company entered into an interest rate swap agreement that converted its \$500 million 1.45% debt from a fixed rate to a floating interest rate. The interest rate swap agreements tied to the Company's \$500 million 1.45% and \$300 million 1.55% debt expired in December 2017 and January 2018, respectively, upon repayment of the underlying debt.

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

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

| (millions) | | First Quarter Ended March 31 | |
|--|-----------------------|---------------------------------|---------|
| | | 2018 | 2017 |
| Gain (loss) on derivative recognized income | | | |
| Interest rate swap | Interest expense, net | \$(1.1) | \$(1.7) |
| Gain (loss) on hedged item recognized income | | | |
| Interest rate swap | Interest expense, net | \$1.1 | \$1.7 |

Net Investment Hedges

The Company designates its outstanding €1,150 million (\$1,391 million at the end of the first quarter of 2018) senior notes (“euronotes”) and €100 million (\$122 million at the end of the first quarter of 2018) Euro commercial paper and related accrued interest as hedges of existing foreign currency exposures related to investments the Company has in certain euro denominated functional currency subsidiaries.

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

| (millions) | First Quarter Ended March 31 | |
|--|---------------------------------|-------|
| | 2018 | 2017 |
| Revaluation gains (losses), net of tax | \$(26.2) | \$2.8 |

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:

| (millions) | | First Quarter Ended | |
|------------------------------------|-----------------------|---------------------|---------|
| | | March 31 | |
| | | 2018 | 2017 |
| Gain (loss) recognized in income | | | |
| Foreign currency forward contracts | SG&A | \$(18.4) | \$(2.6) |
| | Interest expense, net | 1.6 | (1.4) |
| | Total | \$(16.8) | \$(4.0) |

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 difference between the spot and forward rates of the hedges as a result of interest rate differentials.

9. OTHER COMPREHENSIVE INCOME (LOSS) INFORMATION

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

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

| (millions) | First Quarter Ended March 31 | |
|---|---------------------------------|---------|
| | 2018 | 2017 |
| Derivative and Hedging Instruments | | |
| Unrealized gains (losses) on derivative & hedging instruments | | |
| Amount recognized in AOCI | \$(44.9) | \$(4.3) |
| (Gains) losses reclassified from AOCI into income | | |
| Cost of sales | 1.9 | 2.5 |
| SG&A | 47.6 | (10.2) |
| Interest (income) expense, net | (6.5) | (1.1) |
| | 43.0 | (8.8) |
| Other activity | (0.3) | 0.1 |
| Tax impact | 0.1 | 3.8 |
| Net of tax | \$(2.1) | \$(9.2) |
| Pension and Postretirement Benefits | | |
| Amount reclassified from AOCI into income | | |
| Amortization of net actuarial loss and prior service costs | 7.7 | 4.9 |
| | 7.7 | 4.9 |
| Other activity | (5.5) | - |
| Tax impact | (1.9) | (1.6) |
| Net of tax | \$0.3 | \$3.3 |

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

| | First Quarter Ended March 31 | |
|---|---------------------------------|---------|
| (millions) | 2018 | 2017 |
| Derivative losses (gains) reclassified from AOCI into income, net of tax | \$33.5 | \$(6.7) |
| Pension and postretirement benefits net actuarial losses and prior services costs reclassified from AOCI into income, net of tax | \$0.3 | \$3.3 |

10. SHAREHOLDERS' EQUITY

Share Repurchase Authorization

In February 2015, the Company's Board of Directors authorized the repurchase of up to 20 million shares of its common stock, including shares to be repurchased under Rule 10b5-1. As of March 31, 2018, 10,875,427 shares remained to be repurchased under the Company's repurchase authorization. The Company intends to repurchase all shares under its authorization, for which no expiration date has been established, in open market or privately negotiated transactions, subject to market conditions.

Accelerated Stock Repurchase ("ASR") Agreements

In February 2017, the Company entered into an ASR agreement to repurchase \$300 million of its common stock and received 2,077,224 shares of its common stock, which was approximately 85% of the total number of shares the Company expected to be repurchased under the ASR, based on the price of the Company's common stock at that time. In connection with the final settlement of the ASR agreement in June 2017, the Company received an additional 286,620 shares of common stock. The final per share purchase price and the total number of shares to be repurchased was based on the volume-weighted average price of the Company's common stock during the term of the agreements and all shares acquired were recorded as treasury stock.

During the open periods in 2017, the ASR was not dilutive to the Company's earnings per share calculations, nor did it trigger the two-class earnings per share methodology. Additionally, the unsettled portion of ASR during the 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.

Share Repurchases

During the first three months of 2018, the Company reacquired 1,604,896 shares of its common stock, of which 1,482,683 related to share repurchases through open market or private purchases, and 122,213 related to shares withheld for taxes on the exercise of stock options and the vesting of stock awards and units.

During all of 2017, the Company reacquired 4,707,629 shares of its common stock, of which 4,414,416 related to share repurchases through open market or private purchases, including the February 2017 ASR discussed above, and 293,213 related to shares withheld for taxes on the exercise of stock options and the vesting of stock awards and units.

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

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

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

| (millions, except per share) | First Quarter Ended March 31 | |
|---|---------------------------------|---------|
| | 2018 | 2017 |
| Net income attributable to Ecolab | \$247.3 | \$254.0 |
| Weighted-average common shares outstanding | | |
| Basic | 288.6 | 290.6 |
| Effect of dilutive stock options and units | 4.1 | 4.4 |
| Diluted | 292.7 | 295.0 |
| Basic EPS | \$ 0.86 | \$ 0.87 |
| Diluted EPS | \$ 0.84 | \$ 0.86 |
| Anti-dilutive securities excluded from the computation of diluted EPS | 1.8 | 3.6 |

12. INCOME TAXES

The Company's tax rate was 21.8% and 17.4% for the first quarter of 2018 and 2017, respectively. The change in the Company's tax rate for the first quarter of 2018 compared to the first quarter of 2017 was driven primarily by discrete tax items and a lower U.S. corporate tax rate.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Act"), which reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign sourced earnings. The Tax Act added many new provisions including changes to bonus depreciation, the deduction for executive compensation and interest expense, a tax on global intangible low taxed income ("GILTI"), the base erosion anti abuse tax ("BEAT") and a deduction for foreign derived intangible income ("FDII"). The SEC staff issued Staff Accounting Bulletin ("SAB 118"), which provides a measurement period of up to one year from the Tax Act's enactment date to complete the accounting for the effects of the Tax Act. The Company is assessing the impact of the provisions of the Act, and has not yet elected an accounting policy related to GILTI.

The Company recorded an estimate of the one-time transition tax in the fourth quarter of 2017, and in the first quarter of 2018 recorded additional expense of \$11.3 million, primarily due to the issuance of technical guidance during the quarter. The one-time transition tax is subject to finalization of estimates of assets and liabilities at future dates, the calculation of deemed repatriation of foreign income and the state tax effect of adjustments made to federal temporary differences. The Company's estimates are subject to continued technical guidance which may change the provisional amounts recorded in the financial statements, and will be evaluated throughout the measurement period, as permitted by SAB 118.

Excess tax benefits related to employee share-based compensation were \$6.8 million and \$16.0 million in the first quarter of 2018 and 2017, respectively.

Net discrete tax benefits of \$4.6 million in 2018 related to changes in the Company's state tax profile and changes in reserves in non-U.S. jurisdictions. 2017 discrete tax benefits of \$6.8 million related to the release of reserves for uncertain tax positions due to the expiration of statute of limitation in non-U.S. jurisdictions.

13. PENSION AND POSTRETIREMENT PLANS

The Company has a non-contributory qualified defined benefit pension plan covering the majority of its U.S. employees. The Company also has U.S. non-contributory non-qualified defined benefit plans, which provide for

benefits to employees in excess of limits permitted under its U.S. pension plans. Various international subsidiaries also have defined benefit pension plans. The Company provides postretirement health care benefits to certain U.S. employees and retirees.

The components of net periodic pension and postretirement health care benefit costs for the first quarter ended March 31 are as follows:

| | U.S. Pension | | International Pension | | U.S. Postretirement Health Care | |
|--|-----------------|--------|--------------------------|--------|------------------------------------|---------|
| (millions) | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Service cost | \$18.6 | \$17.5 | \$8.5 | \$7.4 | \$0.9 | \$0.7 |
| Interest cost on benefit obligation | 20.8 | 20.9 | 7.5 | 6.9 | 1.5 | 1.5 |
| Expected return on plan assets | (40.5) | (37.4) | (16.3) | (13.5) | (0.1) | (0.1) |
| Recognition of net actuarial (gain) loss | 9.8 | 7.2 | 4.4 | 4.4 | (0.5) | (0.6) |
| Amortization of prior service cost (benefit) | (1.7) | (1.7) | (0.2) | (0.2) | (4.1) | (4.2) |
| Total expense (benefit) | \$7.0 | \$6.5 | \$3.9 | \$5.0 | \$(2.3) | \$(2.7) |

Service cost is included with employee compensation cost in cost of sales and selling, general and administrative expenses in the Consolidated Statement of Income while all other components are included in other (income) expense in the Consolidated Statement of Income. For more information about the adoption of the pension standard relating to the classification of components of pension expense, refer to Note 17.

As of March 31, 2018, the Company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans. During the first quarter of 2018, the Company made payments of \$1 million to its U.S. non-contributory non-qualified defined benefit plans and estimates it will make additional payments of approximately \$5 million to such plans during the remainder of 2018.

The Company contributed \$19 million to its international pension benefit plans during the first quarter of 2018. The Company estimates it will contribute approximately an additional \$30 million to such plans during the remainder of 2018.

During the first three months of 2018, the Company made payments of \$3 million to its U.S. postretirement health care benefit plans and estimates it will make additional payments of approximately \$8 million to such plans during the remainder of 2018.

14. REVENUES

Revenue from product and sold equipment is recognized when obligations under the terms of a contract with the customer are satisfied, which generally occurs when the transfer of the product or equipment occurs, which is upon delivery. Revenue from service and leased equipment is recognized when the services are provided, or the customer receives the benefit from the leased equipment, which is over time. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing service. Concurrent with the adoption of the new revenue standard, the Company reclassified certain costs from selling, general and administrative expenses to cost of sales, to align the costs of providing the service with the recognition of service revenue.

Contracts with customers may include multiple performance obligations. For contracts with multiple performance obligations, the consideration is allocated between products and services based on their stand-alone selling prices. Stand-alone selling prices are generally based on the prices charged to customers or using an expected cost plus margin. Judgment was used in determining the amount of service that is embedded within the contracts, which is based on the amount of time spent on the performance obligation activities. The level of effort, including the estimated margin that would be charged, is used to determine the amount of service revenue. Depending on the terms of the contract, the Company may defer the recognition of revenue when a future performance obligation has not yet occurred.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Shipping and handling costs associated with outbound freight are recognized in cost of sales when control over the product has transferred to the customer.

Other estimates used in recognizing revenue include allocating variable consideration to customer programs and incentive offerings, including pricing arrangements, promotions and other volume-based incentives at the time the sale is recorded. These estimates are based primarily on historical experience and anticipated performance over the contract period. Based on the certainty in estimating these amounts, they are included in the transaction price of the contracts and the associated remaining performance obligations. The Company also records estimated reserves for anticipated uncollectible accounts and for product returns and credits at the time of sale.

Practical Expedients and Exemptions

The Company elected to apply the portfolio approach primarily within each operating segment by geographical region. The new revenue standard can be applied to a portfolio of contracts with similar characteristics if it is reasonable that the effects of applying the standard at the portfolio would not be significantly different than applying the standard at the individual contract level. Application of the portfolio approach was focused on those characteristics that have the most significant accounting consequences in terms of their effect on the timing of revenue recognition or the amount of revenue recognized. The Company determined the key criteria to assess with respect to the portfolio

approach, included related deliverables, the characteristics of the customers and the timing and transfer of goods and services, which most closely aligned within the operating segments. In addition, the accountability for the business operations, as well as the operational decisions on how to go to market and the product offerings are performed at the operating segment level.

Revenue Recognition

Product and Sold Equipment

Product revenue is generated from cleaning, sanitizing, water and energy products provided to customers in the Global Industrial, Global Institutional and Global Energy segments. In addition, the Company sells equipment which may be used in combination with its specialized products. Revenue recognized from product and sold equipment is recognized at the point in time when the obligations in the contract with the customer are satisfied, which generally occurs with the transfer of the product or delivery of the equipment occurs.

Service and Lease Equipment

Service and lease equipment revenue is generated from providing services or leasing equipment to customers. Service offerings include installing or repairing certain types of equipment, activities that supplement or replace headcount at the customer location, or fulfilling deliverables included in the contract. Services provided in the Other segment include Pest Elimination and, prior to the Equipment Care sale in 2017, kitchen equipment repair and maintenance. Global Energy services include process and water treatment offerings to the global petroleum and petrochemical industries, while services in the Global Industrial segment are associated with water treatment and paper process applications. Global Institutional services include water treatment programs and process applications, and wash process solutions. Revenue recognized from lease equipment primarily relates to warewashing equipment.

Service and leased equipment revenue is recognized over time and aligns with when the services are provided or when the customer receives the benefit of the leased equipment. Service revenue is recognized over time utilizing an input method and aligns with when the services are provided. Typically, revenue is recognized over time using costs incurred to date because the effort provided by the field selling and service organization represents services provided, which corresponds with the transfer of control.

Revenue for leased equipment is recognized over time utilizing an input method as this method aligns most appropriately with when the costs are incurred to provide access to the leased equipment to the customer.

The following table shows principal activities, separated by reportable segments, from which the Company generates its revenue. For more information about the Company's reportable segments, refer to Note 15.

Net sales at public exchange rates by reportable segment for the first quarter ended March 31 are as follows:

| (millions) | First Quarter Ended March 31 | |
|-----------------------------------|---------------------------------|-----------|
| | 2018 | 2017 |
| Global Industrial | | |
| Product and sold equipment | \$1,055.6 | \$963.7 |
| Service and lease equipment | 170.4 | 150.5 |
| Global Institutional | | |
| Product and sold equipment | 1,038.6 | 927.6 |
| Service and lease equipment | 167.6 | 146.9 |
| Global Energy | | |
| Product and sold equipment | 734.4 | 671.0 |
| Service and lease equipment | 108.5 | 86.9 |
| Other | | |
| Product and sold equipment | 18.6 | 42.1 |
| Service and lease equipment | 177.2 | 173.7 |
| Total | | |
| Total product and sold equipment | \$2,847.2 | \$2,604.4 |
| Total service and lease equipment | 623.7 | 558.0 |

Net sales at public exchange rates by geographic region for the first quarter ended March 31 are as follows:

| (millions) | Global Industrial | | Global Institutional | | Global Energy | | Other | |
|---------------|----------------------|---------|-------------------------|---------|------------------|---------|---------|---------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| North America | \$556.8 | \$521.2 | \$816.9 | \$768.4 | \$485.0 | \$430.1 | \$130.0 | \$160.3 |
| Europe | 297.2 | 249.9 | 244.6 | 176.1 | 101.8 | 86.2 | 30.3 | 24.0 |
| Asia Pacific | 160.9 | 149.5 | 60.3 | 55.0 | 67.4 | 57.9 | 8.9 | 8.0 |
| Latin America | 109.3 | 101.7 | 41.2 | 38.5 | 54.6 | 58.5 | 11.7 | 10.7 |
| | 30.7 | 28.5 | 13.9 | 11.5 | 115.8 | 109.3 | 2.9 | 2.7 |

Middle
East and
Africa
Greater

| | | | | | | | | |
|-------|-----------|-----------|-----------|-----------|---------|---------|---------|---------|
| China | 71.1 | 63.4 | 29.3 | 25.0 | 18.3 | 15.9 | 12.0 | 10.1 |
| Total | \$1,226.0 | \$1,114.2 | \$1,206.2 | \$1,074.5 | \$842.9 | \$757.9 | \$195.8 | \$215.8 |

Net sales by geographic region were determined based on origin of sale.

Contract Liability

Payments received from customers are based on invoices or billing schedules as established in contracts with customers. Accounts receivable are recorded when the right to consideration becomes unconditional. The contract liability relates to billings in advance of performance (primarily service obligations) under the contract. Contract liabilities are recognized as revenue when the performance obligation has been performed, which primarily occurs during the subsequent quarter.

| (millions) | March 31 2018 | March 31 2017 |
|---|------------------|------------------|
| Contract liability as of beginning of period | \$79.0 | \$68.6 |
| Revenue recognized in the period from: | | |
| Amounts included in the contract liability at the beginning of the period | (79.0) | (68.6) |
| Increases due to billings excluding amounts recognized as revenue during the period | 88.0 | 71.6 |
| Business combination | 0.2 | 2.2 |
| Contract liability as of end of period | \$88.2 | \$73.8 |

15. OPERATING SEGMENTS

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

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

Comparability of Reportable Segments

Refer to Note 17 for additional information regarding adoption of new accounting standards for the changes presented in the "Revenue Standard Adoption" and "Pension Standard Adoption" columns in the table below.

Effective in the first quarter of 2018, the Company established the Colloidal Technologies Group ("CTG") operating segment. The CTG operating segment has not been aggregated, based on qualitative criteria, and is included in the Other segment. CTG produces and sells colloidal silica, which is comprised of nano-sized particles of silica in water; these products and associated programs are used primarily for binding and polishing applications. CTG was previously recorded in the Water operating segment which is aggregated into the Global Industrial reportable segment. The Company also made insignificant changes to its reportable segments, including the movement of certain customers and cost allocations between reportable segments. These changes are presented in "Segment Change" column of the table below.

The 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 2018.

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The impact of the preceding changes on previously reported full year 2017 reportable segment net sales and operating income is summarized as follows:

| | December 31, 2017 | | | | | 2017 |
|---|-------------------|----------|----------|----------|----------|------------|
| | Reported | Revenue | Pension | | Fixed | Revised |
| | Valued at | Standard | Standard | Segment | Currency | Valued at |
| (millions) | 2017 | Adoption | Adoption | Change | Rate | 2018 |
| | Management | | | | Change | Management |
| | Rates | | | | | Rates |
| Net Sales | | | | | | |
| Global Industrial | \$4,878.5 | \$(0.8) | \$- | \$(56.9) | \$286.0 | \$5,106.8 |
| Global Institutional | 4,744.9 | (1.4) | - | (23.7) | 190.2 | 4,910.0 |
| Global Energy | 3,199.3 | - | - | 0.7 | 81.7 | 3,281.7 |
| Other | 823.5 | - | - | 79.9 | 28.1 | 931.5 |
| Subtotal at fixed currency rates | 13,646.2 | (2.2) | - | - | 586.0 | 14,230.0 |
| Effect of foreign currency translation | 192.1 | (0.2) | - | - | (586.0) | (394.1) |
| Consolidated reported GAAP net sales | \$13,838.3 | \$(2.4) | \$- | \$- | \$- | \$13,835.9 |
| Operating Income | | | | | | |
| Global Industrial | \$722.0 | \$(0.8) | \$(12.8) | \$2.6 | \$47.5 | \$758.5 |
| Global Institutional | 985.7 | (1.4) | (13.1) | (14.9) | 23.5 | 979.8 |
| Global Energy | 338.5 | - | (16.7) | (0.7) | 15.0 | 336.1 |
| Other | 149.3 | - | (24.5) | 13.0 | 4.7 | 142.5 |
| Corporate | (208.6) | - | - | - | (5.3) | (213.9) |
| Subtotal at fixed currency rates | 1,986.9 | (2.2) | (67.1) | - | 85.4 | 2,003.0 |
| Effect of foreign currency translation | 32.9 | (0.2) | (0.2) | - | (85.4) | (52.9) |
| Consolidated reported GAAP operating income | \$2,019.8 | \$(2.4) | \$(67.3) | \$- | \$- | \$1,950.1 |

Reportable Segment Information

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

| (millions) | First Quarter Ended March 31 | |
|---|---------------------------------|-----------|
| | 2018 | 2017 |
| Net Sales | | |
| Global Industrial | \$1,241.4 | \$1,178.3 |
| Global Institutional | 1,218.0 | 1,114.6 |
| Global Energy | 847.1 | 775.7 |
| Other | 197.4 | 221.8 |
| Subtotal at fixed currency rates | 3,503.9 | 3,290.4 |
| Effect of foreign currency translation | (33.0) | (128.0) |
| Consolidated reported GAAP net sales | \$3,470.9 | \$3,162.4 |
| Operating Income | | |
| Global Industrial | \$129.9 | \$135.6 |
| Global Institutional | 198.7 | 186.8 |
| Global Energy | 70.9 | 70.9 |
| Other | 27.1 | 27.1 |
| Corporate | (69.1) | (50.7) |
| Subtotal at fixed currency rates | 357.5 | 369.7 |
| Effect of foreign currency translation | (3.2) | (12.5) |
| Consolidated reported GAAP operating income | \$354.3 | \$357.2 |

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

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

16. 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, income taxes, 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 45 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 Deepwater Horizon Incident Response

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

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

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

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

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

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

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

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

In May 2016, Nalco was named in nine additional complaints filed by individuals alleging, among other things, business and economic loss resulting from the Deepwater Horizon oil spill (“B1” claims). In April 2017, Nalco was named in two additional complaints filed by individuals seeking, among other things, business and economic loss resulting from the Deepwater Horizon oil spill. The plaintiffs in these lawsuits are generally seeking awards of unspecified compensatory and punitive damages, and attorneys’ fees and costs. These actions have been consolidated in the MDL and the Company expects they will be dismissed pursuant to the Court’s November 28, 2012 order granting Nalco’s motion for summary judgment.

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

On July 18, 2017, the Court dismissed with prejudice certain “B3” claims not complying with the February 22, 2017 order. On July 19, 2017, the Court dismissed with prejudice certain “B1” claims not complying with three prior orders pertaining to “B1” claims and requiring, among other things, “B1” Plaintiffs to file sworn statements detailing their claim. On January 11, 2018, the Court entered an order requiring the remaining “B1” Plaintiffs to file sworn statements of causation and damages by no later than April 11, 2018, pursuant to which the Court will determine which “B1” Plaintiffs are entitled to pursue their claims. On April 9, 2018, the Court entered an order requiring the remaining “B3” Plaintiffs to file sworn, particularized statements of their claims no later than July 9, 2018, pursuant to which the Court will then determine which “B3” Plaintiffs are entitled to further pursue their claims. There currently remain nine cases pending against Nalco, all of which are expected to ultimately 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.

17. NEW ACCOUNTING PRONOUNCEMENTS

| Standard | Date of Issuance | Description | Required Date of Adoption | Effect on the Financial Statements |
|--|------------------|--|---------------------------|--|
| Standards that are not yet adopted: | | | | |
| ASU 2018-02 - Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | February 2018 | Amends ASC 220 to allow entities to reclassify stranded tax effects resulting from the Tax Cut and Jobs Act (“the Act”) from accumulated OCI to retained earnings. Tax effects stranded in OCI for reasons other than the impact of the Act cannot be reclassified. | January 1, 2019 | The Company is currently evaluating the impact of adoption. |
| ASU 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities | August 2017 | Amends the hedge accounting recognition and presentation requirements in ASC 815. Simplifies the guidance on the application of hedge accounting and the requirements for hedge documentation and effectiveness testing. Requires presentation of all items that affect earnings in the same income statement line as the hedged item. | January 1, 2019 | The Company is currently evaluating the impact of adoption, and certain transition elections provided for by the ASU. |
| ASU 2017-04 - Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment | January 2017 | Simplifies subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. | January 1, 2020 | The ASU must be applied on a prospective basis upon adoption. Adoption of the ASU is not expected to have a material impact on the Company's financial statements. |
| ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial | June 2016 | Addresses the recognition, measurement, presentation and disclosure of credit losses on trade and reinsurance receivables, loans, debt securities, net investments in | January 1, 2020 | Adoption of the standard will change how the allowance for trade and other |

| | | | | |
|--|---------|--|-----------------|---|
| Instruments | | leases, off-balance-sheet credit exposures and certain other instruments. Amends guidance on reporting credit losses from an incurred model to an expected model for assets held at amortized cost, such as accounts receivable, loans and held-to-maturity debt securities. Additional disclosures will also be required. | | receivables is calculated. The Company is currently evaluating the impact of adoption. |
| Lease ASUs: ASU 2016-02 - Leases (Topic 842) ASU 2018-01 - Leases (Topic 842): Land Easement Practical Expedient | Various | Introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. | January 1, 2019 | See additional information regarding the impact of this guidance on the Company's financial statements at the bottom of this table in note (a). |

- (a) As part of implementing the new standard, the Company has reviewed current accounting policies, and is in the process of developing future policies and electing practical expedients allowed under the new accounting guidance and proposed under the FASB's tentative decision on November 29, 2017. The tentative decision relieves the requirements to restate comparative periods in the period of adoption and to separately disclose lease and nonlease components for lessor accounting when certain conditions are met. The Company is implementing a global lease accounting software, which will be designed to facilitate adoption and reporting in accordance with the standard. The Company is accumulating leases for inclusion into the software, and the project team is designing future processes to identify, accumulate, and report on the Company's leases. The Company expects most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption and is evaluating other impacts on the consolidated financial statements. The standard currently requires a modified retrospective transition to be applied at the beginning of the earliest comparative period presented in the year of adoption; however, this requirement may be relieved based upon the tentative decision.

| Standard | Date of Issuance | Description | Date of Adoption | Effect on the Financial Statements |
|--|------------------|---|------------------|--|
| Standards that were adopted: | | | | |
| ASU 2017-09 - Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting | May 2017 | Clarifies the definition of what's considered a substantive modification related to a change in terms or conditions of a share-based payment award and when it's appropriate to apply modification accounting. The current definition of "modification" is too broad, resulting in diverse interpretations of what's considered a substantive modification. | January 1, 2018 | The adoption of the guidance did not have a material impact on the Company's financial statements. |
| ASU 2017-05 - Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets | February 2017 | Clarifies the scope of guidance on nonfinancial asset derecognition (ASC 610-20) including the accounting for partial sales of nonfinancial assets. The ASU defines "in-substance nonfinancial asset". Also clarifies the derecognition of all businesses should be accounted for in accordance with derecognition and deconsolidation guidance in 810-10. | January 1, 2018 | The adoption of the guidance did not have a material impact on the Company's financial statements. |
| ASU 2017-01 - Business Combinations (Topic 805): Clarifying | January 2017 | Clarifies the definition of a business and provides | January 1, 2018 | The adoption of the guidance did not have a material impact on the Company's financial statements. |

| | | | | |
|--|--------------|--|-----------------|---|
| the Definition of a Business | | guidance on whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. | | |
| 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 | During the first quarter of 2018, the Company adopted the accounting guidance issued in October 2016 that requires recognition of the income tax effects of intercompany sales and transfers of assets, other than inventory, in the period in which the transfer occurs. Under previous guidance the income tax effects of intercompany transfers of assets were deferred until the asset had been sold to an outside party or otherwise recognized (e.g., depreciated, amortized, impaired). Upon adoption of the standard, only the income tax effects of intercompany transfers of inventory are deferred. The standard was adopted using the modified retrospective approach with a cumulative-effective adjustment of \$43.6 million to opening retained earnings on the date of adoption. Income tax effects of intra-entity inventory transfers will continue to be deferred until the inventory is sold. |
| ASU 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments | August 2016 | The guidance's objective is to reduce diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flow. | January 1, 2018 | The adoption of the guidance did not have a material impact on the Company's financial statements and elected to account for distributions received from equity method investees as cash flows from operating activities using the nature of distribution approach accounting policy election. |

ASU 2014-09 – Revenue from Contracts with Customers

On January 1, 2018, the Company retrospectively adopted Accounting Standards Codification Topic 606 Revenue from Contracts with Customers and the related amendments (“the new revenue standard”). The new revenue standard was applied to all periods presented and the cumulative effect of applying the standard is recognized at the beginning of the earliest year presented. The Company identified additional performance obligations primarily related to performing service activities, which were explicitly or implicitly included in contracts with customers. These performance obligations, when aggregated with service revenue currently reported, represent more than 10% of sales. Upon adoption of the new standard, service and lease revenue are reported separately from product and sold equipment revenue. Concurrent with the adoption of the new revenue standard, the Company reclassified certain costs to cost of sales from selling, general and administrative expenses, to align providing the service with the recognition of service revenue. The Company recorded a reduction to opening retained earnings of \$29.3 million, net of tax, as of January 1, 2016 due to the impact of adopting the new revenue standard, with the impact primarily related to deferring service revenue. Further information related to the Company’s adoption of the new revenue standard is included in Note 14.

ASU 2017-07 – Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and the Net Periodic Postretirement Benefit Cost

On January 1, 2018, the Company retrospectively adopted guidance relating to the presentation of the components of net periodic benefit costs for pension and other post-retirement benefits within the Consolidated Statement of Income. Under the new guidance, the non-service cost components of net periodic benefit cost are presented in other (income) expense, while the service cost component will continue to be recorded with compensation cost in cost of sales and selling, general and administrative expenses. The Company elected to use the practical expedient that allows entities to estimate the amount for comparative periods using the information previously disclosed in the pension and postretirement health care benefits footnote. As a result, the Company has changed its accounting principle, and revised prior period presentation related to the presentation of the non-service cost components.

The following table presents the effect of the adoptions of the revenue recognition and pension standards on the Company’s Consolidated Statement of Income:

| (millions, except per share amounts) | First Quarter Ended March 31 | | | |
|--------------------------------------|------------------------------|------------------------------|------------------------------|-----------------|
| | 2017 Reported | Revenue Standard Adoption | Pension Standard Adoption | 2017 Revised |
| Net sales | \$3,161.6 | \$(3,161.6) | \$- | \$- |
| Product and equipment sales | - | 2,604.4 | - | 2,604.4 |
| Service and lease sales | - | 558.0 | - | 558.0 |
| Total net sales | 3,161.6 | 0.8 | - | 3,162.4 |
| Cost of sales | 1,691.5 | (1,691.5) | - | - |

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| | | | | |
|--|---------|---------|--------|---------|
| Product and equipment cost of sales | - | 1,499.8 | 0.9 | 1,500.7 |
| Service and lease cost of sales | - | 350.9 | 0.2 | 351.1 |
| Total cost of sales (including special charges) | 1,691.5 | 159.2 | 1.1 | 1,851.8 |
| Selling, general and administrative expenses | 1,090.6 | (159.1) | 15.7 | 947.2 |
| Special (gains) and charges | 6.2 | - | - | 6.2 |
| Operating income | 373.3 | 0.7 | (16.8) | 357.2 |
| Other (income) expense | - | - | (16.8) | (16.8) |
| Interest expense, net | 62.5 | - | - | 62.5 |
| Income before income taxes | 310.8 | 0.7 | - | 311.5 |
| Provision for income taxes | 54.0 | 0.2 | - | 54.2 |
| Net income including noncontrolling interest | 256.8 | 0.5 | - | 257.3 |
| Net income attributable to noncontrolling interest | 3.3 | - | - | 3.3 |
| Net income attributable to Ecolab | \$253.5 | \$0.5 | \$- | \$254.0 |
| Earnings attributable to Ecolab per common share | | | | |
| Basic | \$ 0.87 | \$ - | | \$ 0.87 |
| Diluted | \$ 0.86 | \$ - | | \$ 0.86 |

The following table presents the effect of the adoption of the new revenue standard on the selected accounts which were impacted in the Consolidated Balance Sheet:

| (millions) | Year ended December 31 | | 2017 |
|--|------------------------|---------------------------|------------|
| | Reported | Revenue Standard Adoption | Revised |
| ASSETS | | | |
| Current assets | | | |
| Accounts receivable, net | \$2,574.1 | \$(2.7) | \$2,571.4 |
| Inventories | 1,445.9 | 0.6 | 1,446.5 |
| Total current assets | 4,596.4 | (2.1) | 4,594.3 |
| Other assets | 474.2 | 3.2 | 477.4 |
| Total assets | 19,962.4 | 1.1 | 19,963.5 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Other current liabilities | 957.3 | 43.4 | 1,000.7 |
| Total current liabilities | 3,431.8 | 43.4 | 3,475.2 |
| Deferred income taxes | 642.8 | (7.4) | 635.4 |
| Total liabilities | 12,273.7 | 36.0 | 12,309.7 |
| Equity | | | |
| Retained earnings | 8,045.4 | (33.8) | 8,011.6 |
| Accumulated other comprehensive loss (a) | (1,642.3) | (1.1) | (1,643.4) |
| Total Ecolab shareholders' equity | 7,618.5 | (34.9) | 7,583.6 |
| Total equity | 7,688.7 | (34.9) | 7,653.8 |
| Total liabilities and equity | \$19,962.4 | \$1.1 | \$19,963.5 |

(a) On a quarterly basis throughout 2017, revenue recognition adjustments had a nominal impact on foreign currency translation within accumulated other comprehensive loss. These revisions have been reflected within the Statement of Comprehensive Income.

ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash

During the first quarter of 2018, the Company adopted the accounting guidance issued in 2016 that requires companies to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The Company's restricted cash is primarily associated with acquisitions, and the escrow payment associated with the proposed acquisition. As a result of the new guidance, the Company has updated the policy so restricted cash will no longer be shown as a transfer on the statement of cash flows, and a reconciliation of restricted cash will be added to the statement of cash flows.

The following table presents the effect of the adoptions of the restricted cash and revenue recognition standards on selected accounts in the Consolidated Statement of Cash Flows:

| (millions) | First Quarter Ended March 31 | | Revenue Standard | 2017 |
|---|------------------------------|--------------------------------------|------------------|---------|
| | 2017 Reported | Restricted Cash Standard Adoption | Adoption | Revised |
| OPERATING ACTIVITIES | | | | |
| Net income including noncontrolling interest | \$256.8 | \$- | \$0.5 | \$257.3 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | | |
| Deferred income taxes | 3.2 | - | 0.1 | 3.3 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | | | |
| Accounts receivable | 76.3 | - | 0.1 | 76.4 |
| Other liabilities | (73.5) | - | (0.7) | (74.2) |
| Cash provided by operating activities | 425.7 | - | - | 425.7 |
| INVESTING ACTIVITIES | | | | |
| Restricted cash activity | 53.8 | (53.8) | - | - |
| Cash used for investing activities | (941.5) | (53.8) | - | (995.3) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 5.0 | 0.8 | - | 5.8 |
| (Decrease) increase in cash, cash equivalents and restricted cash | (115.3) | (53.0) | - | (168.3) |
| Cash, cash equivalents and restricted cash, beginning of period | 327.4 | 53.0 | - | 380.4 |
| Cash, cash equivalents and restricted cash, end of period | \$212.1 | \$- | \$- | \$212.1 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Results of Review of Financial Statements

We have reviewed the accompanying consolidated balance sheet of Ecolab Inc. and its subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, and cash flows for the three-month periods ended March 31, 2018 and 2017, and the consolidated statement of equity for the three-month period ended March 31, 2018, including the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the years then ended (not presented herein), and in our report dated February 23, 2018, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 1 to the accompanying consolidated interim financial statements, the Company changed its method of accounting for the adoption of new accounting standards described in Note 17. The accompanying December 31, 2017 consolidated balance sheet and consolidated statements of equity for the years ended December 31, 2017 and 2016 reflect this change.

Basis for Review Results

These interim financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. 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 PCAOB, 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.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
May 3, 2018

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

The following management discussion and analysis ("MD&A") provides information 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 reportable 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, 2017. 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

Adoption of New Accounting Standards

On January 1, 2018 we retrospectively adopted the Accounting Standards Codification Topic 606 Revenue from Contracts with Customers and the related amendments ("the new revenue standard"). Concurrent with the adoption of the new revenue standard, we reclassified certain costs from selling, general and administrative expenses to cost of sales, to align the cost of providing the service with the recognition of service revenue. The new revenue standard was applied to all periods presented and the cumulative effect of applying the standard is recognized at the beginning of the earliest year presented.

We also retrospectively adopted Accounting Standards Update 2017-07 Compensation – Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, relating to the presentation of the components of net periodic benefit costs for pension and other post-retirement benefits within the Consolidated Statement of Income ("the new pension standard").

All comparisons and discussion throughout the MD&A reflect the adoption of the new revenue standard and new pension standard. Further information about the adoption of the accounting standards is included in Note 17.

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. 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.

Comparability of Reportable Segments

Effective in the first quarter of 2018, we established the Colloidal Technologies Group (“CTG”) operating segment. The CTG operating segment has not been aggregated, based on qualitative criteria, and is included in the Other segment. CTG produces and sells colloidal silica, which is comprised of nano-sized particles of silica in water; these products and associated programs are used primarily for binding and polishing applications. CTG was previously recorded in the Water operating segment which is aggregated into the Global Industrial reportable segment. We also made immaterial changes to our reportable segments, including the movement of certain customers and cost allocations between reportable segments. All comparisons and discussion throughout the MD&A are based on the new operating segment structure effective in the first quarter of 2018.

Impact of Acquisitions and Divestitures

Acquisition adjusted growth rates exclude the results of our acquired businesses from the first twelve months post acquisition, and exclude the results of our divested businesses from the twelve months prior to divestiture.

OVERVIEW OF THE FIRST QUARTER ENDED MARCH 31, 2018

Sales Performance

When comparing first quarter 2018 against first quarter 2017, sales performance was as follows:

- Reported net sales increased 10% to \$3,471 million, fixed currency sales and acquisition adjusted fixed currency sales increased 6% and 6%, respectively.
- Fixed currency sales for our Global Industrial segment increased 5% to \$1,241 million, acquisition adjusted fixed currency sales increased 3%, led by Water and Food and Beverage.
- Fixed currency sales for our Global Institutional segment increased 9% to \$1,218 million, acquisition adjusted fixed currency sales increased 5%, led by growth in Specialty.
- Fixed currency sales for our Global Energy segment increased 9% to \$847 million, acquisition adjusted fixed currency sales increased 10%, reflecting strong growth in the well stimulation business and good gains in the production and downstream businesses.
- Fixed currency sales for our Other segment sales decreased 11% to \$197 million, driven by the divestiture of Equipment Care in 2017, offset by sales growth in Pest Elimination.

Financial Performance

When comparing first quarter 2018 against first quarter 2017, our financial performance was as follows:

- Reported operating income decreased 1% to \$354 million. Excluding the impact of special (gains) and charges from both 2018 and 2017 reported results, adjusted operating income increased 4% and our adjusted fixed currency operating income increased 2%.
- Net income attributable to Ecolab decreased 3% to \$247 million. Excluding the impact of special (gains) and charges and discrete tax items from both 2018 and 2017 reported results, our adjusted net income attributable to Ecolab increased 13%.
- Diluted EPS of \$0.84 decreased 2%. Excluding the impact of special (gains) and charges and discrete tax items from both 2018 and 2017 reported results, adjusted diluted EPS increased 14% to \$0.91 in the first quarter of 2018.
- Our reported tax rate was 21.8% during the first quarter of 2018, compared to 17.4% during the first quarter of 2017. Excluding the tax rate impact of special (gains) and charges and discrete tax items from both 2018 and 2017 results, our adjusted tax rate was 22.0% and 24.9% during the first quarter of 2018 and 2017, respectively.

RESULTS OF OPERATIONS

Net Sales

| (millions) | First Quarter Ended March 31 | | Change | |
|--|---------------------------------|-----------|--------|---|
| | 2018 | 2017 | | |
| Product and equipment sales | \$2,847.2 | \$2,604.4 | | |
| Service and lease sales | 623.7 | 558.0 | | |
| Reported GAAP net sales | \$3,470.9 | \$3,162.4 | 10 | % |
| Effect of foreign currency translation | 33.0 | 128.0 | | |
| Non-GAAP fixed currency sales | \$3,503.9 | \$3,290.4 | 6 | % |

Product and sold equipment revenue is generated from providing cleaning, sanitizing, water and energy products or equipment used in combination with specialized products. Service and lease equipment revenue is generated from providing services or leasing equipment to customers. All of our sales are subject to the same economic conditions.

The percentage components of the period-over-period 2018 sales change are shown below:

| (percent) | First Quarter Ended March 31 | |
|--|---------------------------------|--|
| | 2018 | |
| Volume | 5% | |
| Price changes | 1 | |
| Acquisition adjusted fixed currency sales change | 6 | |
| Acquisitions and divestitures | 1 | |
| Fixed currency sales change | 6 | |
| Foreign currency translation | 3 | |
| Reported GAAP net sales change | 10% | |

Amounts do not necessarily sum due to rounding.

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

| (millions/percent) | First Quarter Ended March 31 2018 | | 2017 | |
|--|---|-----------------|-----------|-----------------|
| | COS | Gross Margin | COS | Gross Margin |
| Product and equipment cost of sales | \$1,696.6 | | \$1,500.7 | |
| Service and lease cost of sales | 385.5 | | 351.1 | |
| Reported GAAP COS and gross margin | \$2,082.1 | 40.0 % | \$1,851.8 | 41.4 % |
| Special (gains) and charges | - | - | 1.5 | 0.1 |
| Non-GAAP adjusted COS and gross margin | \$2,082.1 | 40.0 % | \$1,850.3 | 41.5 % |

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

Our reported gross margin was 40.0% and 41.4% for the first quarter of 2018 and 2017, respectively. Special (gains) and charges included in items impacting COS are shown within the “Special (Gains) and Charges” table on page 37.

Excluding the impact of special (gains) and charges within COS, our first quarter 2018 adjusted gross margin was 40.0% compared against a first quarter 2017 adjusted gross margin of 41.5%. The decrease was driven primarily by higher delivered product costs.

Selling, General and Administrative Expense

Selling, general and administrative (“SG&A”) expenses as a percentage of sales were 29.1% for the first quarter of 2018 compared to 30.0% in 2017. The decreased SG&A ratio to sales across the periods was driven primarily by sales volume leverage and cost savings, which more than offset investments in the business.

Special (Gains) and Charges

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

| (millions) | First Quarter Ended March 31 | |
|-----------------------------------|---------------------------------|-------|
| | 2018 | 2017 |
| Cost of sales | | |
| Acquisition and integration costs | - | 1.5 |
| Special (gains) and charges | | |
| Restructuring activities | 0.3 | (0.3) |
| Acquisition and integration costs | 0.5 | 6.3 |
| Other | 25.2 | 0.2 |
| Subtotal | 26.0 | 6.2 |
| Total special (gains) and charges | \$26.0 | \$7.7 |

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

Restructuring activities

During the second quarter of 2017, we commenced restructuring and other cost-saving actions in order to streamline our operations. These actions include a reduction of our global workforce by approximately 570 positions, as well as asset disposals and lease terminations. Actions were substantially completed in 2017. We also have restructuring plans that commenced prior to 2015. Net restructuring charges were \$0.3 million (\$0.3 million after tax) or less than \$0.01 per diluted share, and net restructuring gains were \$0.3 million (\$0.2 million after tax) or less than \$0.01 per diluted share, in the first quarter of 2018 and 2017, respectively. The restructuring liability balance for all plans was \$34.0 million and \$41.5 million as of March 31, 2018 and December 31, 2017, respectively. The reduction in liability was driven primarily by severance and other cash payments. The majority of pretax charges represent net cash expenditures which are expected to be paid over a period of a few months to several quarters and will continue to be funded from operating activities. Cash payments during 2018, related to restructuring plans were \$7.9 million.

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

Acquisition and integration related costs

Acquisition and integration costs reported in special (gains) and charges on the Consolidated Statement of Income include \$0.5 million (\$0.3 million after tax) or less than \$0.01 per diluted share, and \$6.3 million (\$4.2 million after tax) or \$0.02 per diluted share, in the first quarter of 2018 and 2017, respectively. Charges are related to acquisition costs, advisory and legal fees, and integration charges for the Anios and Swisher acquisitions. Acquisition and integration costs reported in product and equipment cost of sales on the Consolidated Statement of Income in the first quarter of 2017 relate to recognition of fair value step-up in the Anios inventory.

Other

During the first quarter of 2018, we recorded other special charges of \$25.2 million, which primarily consisted of a \$25.0 million (\$18.9 million after tax) or \$0.06 per diluted share, commitment to the Ecolab Foundation. Other charges were minimal in both the first quarter of 2018 and 2017.

Operating Income and Operating Income Margin

| (millions) | First Quarter Ended March 31 | | |
|---|---------------------------------|---------|--------|
| | 2018 | 2017 | Change |
| Reported GAAP operating income | \$354.3 | \$357.2 | (1) % |
| Special (gains) and charges | 26.0 | 7.7 | |
| Non-GAAP adjusted operating income | 380.3 | 364.9 | 4 |
| Effect of foreign currency translation | 3.2 | 12.5 | |
| Non-GAAP adjusted fixed currency operating income | \$383.5 | \$377.4 | 2 % |

| (percent) | First Quarter Ended March 31 | | | |
|--|---------------------------------|---|------|---|
| | 2018 | | 2017 | |
| Reported GAAP operating income margin | 10.2 | % | 11.3 | % |
| Non-GAAP adjusted operating income margin | 11.0 | % | 11.5 | % |
| Non-GAAP adjusted fixed currency operating income margin | 10.9 | % | 11.5 | % |

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

Our reported operating income decreased 1% in the first quarter of 2018 when compared against first quarter of 2017. Our reported operating income for 2018 and 2017 was impacted by special (gains) and charges; excluding the impact of special (gains) and charges from 2018 and 2017 reported results, our adjusted operating income increased 4% in the first quarter of 2018.

As shown in the previous table, foreign currency had minimal impact on adjusted operating income growth for first quarter of 2018. Foreign currency translation had a positive impact on adjusted fixed currency operating income growth for the first quarter of 2017.

Other (Income) Expense

Other (income) expense relates to the income from the non-service components of pension cost which were \$19.4 million and \$16.8 million in the first quarter of 2018 and 2017, respectively. The increase in income is due to expected returns on increased pension assets.

Interest Expense, Net

Net interest expense was \$56.4 million and \$62.5 million in the first quarter of 2018 and 2017, respectively. The decrease in net interest expense when comparing 2018 against 2017 was driven primarily by lower interest rates on debt.

Provision for Income Taxes

The following table provides a summary of our tax rate:

| (percent) | First Quarter Ended March 31 | |
|-----------------------------|---------------------------------|--------|
| | 2018 | 2017 |
| Reported GAAP tax rate | 21.8 % | 17.4 % |
| Tax rate impact of: | | |
| The Tax Act | (3.3) | - |
| Special (gains) and charges | 0.2 | 0.3 |
| Discrete tax items | 3.3 | 7.2 |
| Non-GAAP adjusted tax rate | 22.0 % | 24.9 % |

Our reported tax rate was 21.8% and 17.4% for the first quarter of 2018 and 2017, respectively. The change in our tax rate for the first quarter of 2018 compared to the first quarter of 2017 was driven primarily by discrete tax items and a lower U.S. corporate tax rate, with a lesser impact from special (gains) and charges. The tax impact of special (gains) and charges and discrete tax items will likely continue to impact comparability of our reported tax rate in the future as amounts included in special (gains) and charges are derived from tax jurisdictions with rates that vary from our tax rate, and discrete tax items are not necessarily consistent across periods.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the “Act”), which reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign sourced earnings. The Tax Act added many new provisions including changes to bonus depreciation, the deduction for executive compensation and interest expense, a tax on global intangible low taxed income (“GILTI”), the base erosion anti abuse tax (“BEAT”) and a deduction for foreign derived intangible income (“FDII”). The SEC staff issued Staff Accounting Bulletin (“SAB 118”), which provides a measurement period of up to one year from the Tax Act’s enactment date to complete the accounting for the effects of the Tax Act. We are assessing the impact of the provisions of the Act, and have not yet elected an accounting policy related to GILTI.

We recorded an estimate of the one-time transition tax in the fourth quarter of 2017, and in the first quarter of 2018 recorded additional discrete expense of \$11.3 million, primarily due to the issuance of technical guidance during the quarter. The one-time transition tax is subject to finalization of estimates of assets and liabilities at future dates, the calculation of deemed repatriation of foreign income and the state tax effect of adjustments made to federal temporary differences. Our estimates are subject to continued technical guidance which may change the provisional amounts recorded in the financial statements, and will be evaluated throughout the measurement period, as permitted by SAB 118.

Discrete tax items include excess tax benefits related to share-based compensation and other discrete tax benefits of \$11.4 million in the first quarter of 2018. Excess tax benefits were \$6.8 million and other discrete tax benefits of \$4.6 million related to changes in our state tax profile and changes in reserves in non-U.S. jurisdictions.

Discrete tax items include excess tax benefits related to share-based compensation and other discrete tax items of \$22.8 million in the first quarter of 2017. Excess tax benefits were \$16.0 million in the first quarter of 2017. Other discrete tax benefits in 2017 of \$6.8 million related to the release of reserves for uncertain tax positions due to the expiration of statute of limitation in non-U.S. jurisdictions.

The decrease in the 2018 adjusted tax rate compared to 2017 was primarily due to a lower U.S. corporate tax rate.

Net Income Attributable to Ecolab

| | First Quarter Ended March 31 | | |
|---|---------------------------------|---------|--------|
| (millions) | 2018 | 2017 | Change |
| Reported GAAP net income attributable to Ecolab | \$247.3 | \$254.0 | (3) % |
| Adjustments: | | | |
| Special (gains) and charges, after tax | 19.7 | 5.2 | |
| Discrete tax net expense (benefit) | (0.1) | (22.8) | |
| Non-GAAP adjusted net income attributable to Ecolab | \$266.9 | \$236.4 | 13 % |

Diluted EPS

| | First Quarter Ended March 31 | | |
|------------------------------------|---------------------------------|---------|--------|
| (dollars) | 2018 | 2017 | Change |
| Reported GAAP diluted EPS | \$0.84 | \$ 0.86 | (2) % |
| Adjustments: | | | |
| Special (gains) and charges | 0.07 | 0.02 | |
| Discrete tax net expense (benefit) | - | (0.08) | |
| Non-GAAP adjusted diluted EPS | \$0.91 | \$ 0.80 | 14 % |

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

Currency translation had minimal impact on diluted EPS for the first quarter of 2018, when compared to the first quarter of 2017.

SEGMENT PERFORMANCE

The non-U.S. dollar functional international amounts included within our reportable segments are based on translation into U.S. dollars at the fixed currency exchange rates used by management for 2018. The difference between the fixed currency exchange rates and the actual currency exchange rates is reported as “effect of foreign currency translation” in the following tables. All other accounting policies of the reportable segments are consistent with U.S. GAAP and the accounting policies described in Note 2 of our Annual Report on Form 10-K for the year ended December 31, 2017, with the exception of the new revenue standard and the new pension standard, which are described in Note 17 of this Form 10-Q. Additional information about our reportable segments is included in Note 15.

Fixed currency net sales and operating income for 2018 and 2017 for our reportable segments are shown in the following tables.

| | First Quarter Ended March 31 | | |
|----------------------|---------------------------------|-----------|--------|
| (millions) | 2018 | 2017 | Change |
| Global Industrial | \$1,241.4 | \$1,178.3 | 5 % |
| Global Institutional | 1,218.0 | 1,114.6 | 9 |

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| | | | | |
|--|-----------|-----------|------|---|
| Global Energy | 847.1 | 775.7 | 9 | |
| Other | 197.4 | 221.8 | (11) | |
| Subtotal at fixed currency | 3,503.9 | 3,290.4 | 6 | |
| Effect of foreign currency translation | (33.0) | (128.0) | | |
| Consolidated reported GAAP net sales | \$3,470.9 | \$3,162.4 | 10 | % |

| | | | | |
|---|---------------------|---------|--------|---|
| Operating Income | First Quarter Ended | | | |
| | March 31 | | | |
| (millions) | 2018 | 2017 | Change | |
| Global Industrial | \$129.9 | \$135.6 | (4) | % |
| Global Institutional | 198.7 | 186.8 | 6 | |
| Global Energy | 70.9 | 70.9 | - | |
| Other | 27.1 | 27.1 | - | |
| Corporate | (69.1) | (50.7) | | |
| Subtotal at fixed currency | 357.5 | 369.7 | (3) | |
| Effect of foreign currency translation | (3.2) | (12.5) | | |
| Consolidated reported GAAP operating income | \$354.3 | \$357.2 | (1) | % |

The following tables reconcile the impact of acquisitions and divestitures within our reportable segments.

Net Sales

| | 2018 | | | 2017 | | |
|---|-------------------|---|-------------------------|-------------------|---|-------------------------|
| (millions) | Fixed Currency | Impact of Acquisitions and Divestitures | Acquisition Adjusted | Fixed Currency | Impact of Acquisitions and Divestitures | Acquisition Adjusted |
| Global Industrial | \$1,241.4 | \$(23.9) | \$1,217.5 | \$1,178.3 | \$(1.6) | \$1,176.7 |
| Global Institutional | 1,218.0 | (45.0) | 1,173.0 | 1,114.6 | (0.1) | 1,114.5 |
| Global Energy | 847.1 | (0.3) | 846.8 | 775.7 | (5.3) | 770.4 |
| Other | 197.4 | (8.1) | 189.3 | 221.8 | (46.1) | 175.7 |
| Subtotal at fixed currency | 3,503.9 | (77.3) | 3,426.6 | 3,290.4 | (53.1) | 3,237.3 |
| Effect of foreign currency translation | (33.0) | | | (128.0) | | |
| Total reported net sales | \$3,470.9 | | | \$3,162.4 | | |

Operating Income

| | 2018 | | | 2017 | | |
|---|-------------------|---|-------------------------|-------------------|---|-------------------------|
| (millions) | Fixed Currency | Impact of Acquisitions and Divestitures | Acquisition Adjusted | Fixed Currency | Impact of Acquisitions and Divestitures | Acquisition Adjusted |
| Global Industrial | \$129.9 | \$(0.9) | \$129.0 | \$135.6 | \$(0.3) | \$135.3 |
| Global Institutional | 198.7 | (3.6) | 195.1 | 186.8 | 0.1 | 186.9 |
| Global Energy | 70.9 | 0.7 | 71.6 | 70.9 | (0.7) | 70.2 |
| Other | 27.1 | 0.1 | 27.2 | 27.1 | (3.3) | 23.8 |
| Corporate | (43.1) | - | (43.1) | (43.0) | - | (43.0) |
| Non-GAAP adjusted fixed currency operating income | 383.5 | (3.7) | 379.8 | 377.4 | (4.2) | 373.2 |
| Special (gains) and charges | 26.0 | | | 7.7 | | |
| Subtotal at fixed currency | 357.5 | | | 369.7 | | |
| Effect of foreign currency translation | (3.2) | | | (12.5) | | |
| Total reported operating income | \$354.3 | | | \$357.2 | | |

Unless otherwise noted, the following segment performance commentary compares the first quarter of 2018 against the first quarter of 2017.

Global Industrial

| | First Quarter Ended March 31 | | | |
|---|---------------------------------|-----------|------|---|
| | 2018 | 2017 | | |
| Sales at fixed currency (millions) | \$1,241.4 | \$1,178.3 | | |
| Sales at public currency (millions) | 1,226.0 | 1,114.2 | | |
| Volume | 2 | % | | |
| Price changes | 1 | % | | |
| Acquisition adjusted fixed currency sales change | 3 | % | | |
| Acquisitions and divestitures | 2 | % | | |
| Fixed currency sales change | 5 | % | | |
| Foreign currency translation | 5 | % | | |
| Public currency sales change | 10 | % | | |
| Operating income at fixed currency (millions) | \$129.9 | \$135.6 | | |
| Operating income at public currency (millions) | 127.8 | 125.5 | | |
| Fixed currency operating income change | (4) | % | | |
| Fixed currency operating income margin | 10.5 | % | 11.5 | % |
| Acquisition adjusted fixed currency operating income change | (5) | % | | |
| Acquisition adjusted fixed currency operating income margin | 10.6 | % | 11.5 | % |
| Public currency operating income change | 2 | % | | |

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

Net Sales

Fixed currency sales for Global Industrial increased in the first quarter of 2018, benefitting from volume and pricing gains. At a regional level, the first quarter sales showed good growth in Latin America, North America and Europe.

At an operating segment level, Water fixed currency sales increased 7% (5% acquisition adjusted) in the first quarter of 2018. Light industry sales growth was led by innovative technology and service offerings. Heavy industry sales benefitted from sales force investments and improved market conditions in the quarter. Mining sales were led by new business wins. Food & Beverage fixed currency sales increased 4% in the first quarter of 2018, benefiting from new wins, share gains and pricing, which more than offset generally flat industry trends. Growth was led by the food business and dairy processing operations. Paper fixed currency sales increased 5% in the first quarter of 2018 (flat acquisition adjusted). Textile Care fixed currency sales decreased 2% in the first quarter of 2018. Life Sciences fixed currency sales increased 24% (14% acquisition adjusted) in the first quarter of 2018. Good growth from business wins and pricing execution, led by strong sales of cleaning and disinfection programs in both the pharmaceutical and personal care markets.

Operating Income

Fixed currency operating income for Global Industrial decreased in the first quarter of 2018. Fixed currency operating income margins decreased in the first quarter of 2018. Acquisitions had minimal impact on both the fixed currency operating income growth and fixed currency operating income margins.

Acquisition adjusted fixed currency operating income margins decreased 0.9 percentage points during the first quarter of 2018, negatively impacted by approximately 2.3 percentage points related to higher delivered product costs and investments in the business. Favorable impact of pricing and sales volume gains added approximately 1.3 percentage points during the first quarter of 2018.

Global Institutional

| | First Quarter Ended March 31 | | | |
|---|---------------------------------|-----------|------|---|
| | 2018 | 2017 | | |
| Sales at fixed currency (millions) | \$1,218.0 | \$1,114.6 | | |
| Sales at public currency (millions) | 1,206.2 | 1,074.5 | | |
| Volume | 4 | % | | |
| Price changes | 1 | % | | |
| Acquisition adjusted fixed currency sales change | 5 | % | | |
| Acquisitions and divestitures | 4 | % | | |
| Fixed currency sales change | 9 | % | | |
| Foreign currency translation | 3 | % | | |
| Public currency sales change | 12 | % | | |
| Operating income at fixed currency (millions) | \$198.7 | \$186.8 | | |
| Operating income at public currency (millions) | 197.8 | 184.3 | | |
| Fixed currency operating income change | 6 | % | | |
| Fixed currency operating income margin | 16.3 | % | 16.8 | % |
| Acquisition adjusted fixed currency operating income change | 4 | % | | |
| Acquisition adjusted fixed currency operating income margin | 16.6 | % | 16.8 | % |
| Public currency operating income change | 7 | % | | |

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

Net Sales

Fixed currency sales for Global Institutional increased in the first quarter of 2018, driven by volume growth, acquisitions and pricing gains. At a regional level, the first quarter sales increase was led by good growth in North America and Asia Pacific.

At an operating segment level, Institutional fixed currency sales increased 6% in the first quarter of 2018. Acquisition adjusted fixed currency sales increased 5% in the first quarter of 2018. Global lodging demand continued to show moderate growth while global full service restaurant industry foot traffic remained soft, particularly in North America. Specialty fixed currency sales increased 10% in the first quarter of 2018, led primarily from strong ongoing business and the roll out of new account wins. Healthcare fixed currency sales increased 25% (flat acquisition

adjusted) in the first quarter of 2018, with modest growth in Europe.

Operating Income

Fixed currency operating income for our Global Institutional segment increased in the first quarter of 2018. Fixed currency operating income margins decreased in the first quarter of 2018. Acquisitions had a positive impact on fixed currency operating income growth and negative impact on fixed currency operating income margins.

Acquisition adjusted fixed currency operating income margins decreased 0.2 percentage points during the first quarter of 2018, negatively impacted by approximately 1.8 percentage points from investments in the business, including innovative digital technologies and new customer installations, and higher delivered product costs. Favorable impact of sales volume gains and pricing added approximately 1.7 percentage points during the first quarter of 2018.

Global Energy

| | First Quarter Ended March 31 | | | |
|---|---------------------------------|---|---------|---|
| | 2018 | | 2017 | |
| Sales at fixed currency (millions) | \$847.1 | | \$775.7 | |
| Sales at public currency (millions) | 842.9 | | 757.9 | |
| Volume | 9 | % | | |
| Price changes | 1 | % | | |
| Acquisition adjusted fixed currency sales change | 10 | % | | |
| Acquisitions and divestitures | (1) | % | | |
| Fixed currency sales change | 9 | % | | |
| Foreign currency translation | 2 | % | | |
| Public currency sales change | 11 | % | | |
| Operating income at fixed currency (millions) | \$70.9 | | \$70.9 | |
| Operating income at public currency (millions) | 70.5 | | 69.8 | |
| Fixed currency operating income change | - | % | | |
| Fixed currency operating income margin | 8.4 | % | 9.1 | % |
| Acquisition adjusted fixed currency operating income change | 2 | % | | |
| Acquisition adjusted fixed currency operating income margin | 8.4 | % | 9.1 | % |
| Public currency operating income change | 1 | % | | |

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

Net Sales

Fixed currency sales for Global Energy had strong growth in the well stimulation business, while the production business showed a strong increase, primarily driven by increased North America activity. Sales in our downstream business had solid growth driven by international sales.

Operating Income

Fixed currency operating income for Global Energy was flat during the first quarter and of 2018. Acquisitions had a negative impact on the fixed currency operating income and minimal impact on the fixed currency operating income margins during the first quarter of 2018.

Acquisition adjusted fixed currency operating income margins decreased 0.7 percentage points during the first quarter of 2018, negatively impacted by approximately 1.9 percentage points related to higher delivered product costs and rebuild of compensation cost reductions. Favorable impact of sales volume gains and pricing added approximately 1.6 percentage points during the first quarter of 2018.

Other

| | First Quarter Ended March 31 | | | |
|---|---------------------------------|---------|------|---|
| | 2018 | 2017 | | |
| Sales at fixed currency (millions) | \$197.4 | \$221.8 | | |
| Sales at public currency (millions) | 195.8 | 215.8 | | |
| Volume | 6 | % | | |
| Price changes | 2 | % | | |
| Acquisition adjusted fixed currency sales change | 8 | % | | |
| Acquisitions and divestitures | (19) | % | | |
| Fixed currency sales change | (11) | % | | |
| Foreign currency translation | 2 | % | | |
| Public currency sales change | (9) | % | | |
| Operating income at fixed currency (millions) | \$27.1 | \$27.1 | | |
| Operating income at public currency (millions) | 27.0 | 27.0 | | |
| Fixed currency operating income change | - | % | | |
| Fixed currency operating income margin | 13.7 | % | 12.2 | % |
| Acquisition adjusted fixed currency operating income change | 14 | % | | |
| Acquisition adjusted fixed currency operating income margin | 14.4 | % | 13.5 | % |
| Public currency operating income change | - | % | | |

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

Net Sales

Fixed currency sales for Other decreased in the first quarter of 2018, due to the divestiture of Equipment Care in the fourth quarter of 2017. At a regional level, the first quarter sales results showed good growth in North America.

At an operating segment level, Pest Elimination fixed currency sales increased 14% in the first quarter of 2018. Sales to food beverage and hospitality, and good growth in restaurants led the growth. CTG sales increased 2% in the first quarter of 2018.

Operating Income

Acquisition adjusted fixed currency operating income margins for the Other segment increased 0.9 percentage points during the first quarter of 2018. The favorable impact of sales volume and pricing increases added 1.6 percentage points in the first quarter of 2018. Field investments negatively impacted comparable margins by approximately 0.6 percentage points in the first quarter of 2018.

Corporate

Consistent with our internal management reporting, Corporate amounts in the table on page 40 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 37.

FINANCIAL POSITION, CASH FLOWS AND LIQUIDITY

Financial Position

Total assets were \$20.2 billion and \$20.0 billion as of March 31, 2018 and December 31, 2017, respectively.

Total liabilities were \$12.5 billion as of March 31, 2018 and \$12.3 billion as of December 31, 2017. Total debt was \$7.4 billion as of March 31, 2018 and \$7.3 billion as of December 31, 2017. See further discussion of our debt activity within the “Liquidity and Capital Resources” section of this MD&A.

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.

| | 2018 | 2017 |
|---|-----------|-----------|
| (ratio) | | |
| Net debt to EBITDA | 2.5 | 2.6 |
| Net debt to adjusted EBITDA | 2.4 | 2.5 |
| (millions) | | |
| Total debt | \$7,415.5 | \$7,541.0 |
| Cash | 175.5 | 212.1 |
| Net debt | \$7,240.0 | \$7,328.9 |
| Net income including non-controlling interest | \$1,509.5 | \$1,270.7 |
| Provision for income taxes | 258.7 | 383.3 |
| Interest expense, net | 248.9 | 261.0 |
| Depreciation | 594.4 | 571.7 |
| Amortization | 314.0 | 287.2 |
| EBITDA | 2,925.5 | 2,773.9 |
| Special (gains) and charges impacting EBITDA | 58.6 | 106.9 |
| Adjusted EBITDA | \$2,984.1 | \$2,880.8 |

Cash Flows

Operating Activities

| | First Quarter Ended March 31 | | |
|---------------------------------------|---------------------------------|---------|--------|
| (millions) | 2018 | 2017 | Change |
| Cash provided by operating activities | \$487.2 | \$425.7 | \$61.5 |

We continue to generate strong cash flow from operations, allowing us to fund our ongoing operations, acquisitions, investments in the business and pension obligations along with returning cash to our shareholders through dividend payments and share repurchases.

Comparability of cash generated from operating activities was impacted by fluctuations in accounts receivable, inventories and accounts payable (“working capital”). The cash flow impact from working capital accounts was driven by changes in sales volumes and timing of collections; timing of purchases and production and usage levels; and volume of purchases and timing of payments.

Investing Activities

| | First Quarter Ended March 31 | | |
|------------------------------------|---------------------------------|-----------|---------|
| (millions) | 2018 | 2017 | Change |
| Cash used for investing activities | \$(255.8) | \$(995.3) | \$739.5 |

Cash used for investing activities is primarily impacted by the timing of business acquisitions and dispositions as well as from capital investments in the business.

Total cash paid for acquisitions, net of cash acquired and net of cash received from dispositions, in 2018 and 2017, was \$77 million and \$827 million, respectively. Our acquisitions and divestitures across 2018 and 2017 are discussed further in Note 3. We continue to target strategic business acquisitions which complement our growth strategy and expect to continue to make capital investments and acquisitions in the future to support our long-term growth.

We continue to make capital investments in the business, including merchandising and customer equipment and manufacturing facilities. Total capital expenditures, including software, were \$203 million and \$168 million in 2018 and 2017, respectively.

Financing Activities

| | First Quarter Ended March 31 | | |
|--|---------------------------------|---------|-----------|
| (millions) | 2018 | 2017 | Change |
| Cash (used for) provided by financing activities | \$(265.0) | \$395.5 | \$(660.5) |

Our cash flows from financing activities primarily reflect the issuances and repayment of debt, common stock repurchases, proceeds from common stock issuances related to our equity incentive programs, dividend payments and acquisition-related contingent considerations.

Shares are repurchased for the purpose of partially offsetting the dilutive effect of our equity compensation plans and stock issued in acquisitions, to manage our capital structure and to efficiently return capital to shareholders. We repurchased a total of \$215 million and \$375 million of shares in 2018 and 2017, respectively. These amounts include

\$300 million of shares repurchased in 2017 through an ASR program. See Note 10 for further information regarding ASR program repurchases. Cash proceeds and tax benefits from stock option exercises provide a portion of the funding for repurchase activity.

The impact on financing cash flows of commercial paper and notes payable issuances and long-term debt repayments are shown in the following table:

| (millions) | First Quarter Ended March 31 | | |
|---|---------------------------------|---------|-----------|
| | 2018 | 2017 | Change |
| Net issuances of commercial paper and notes payable | \$354.3 | \$858.8 | \$(504.5) |
| Long-term debt repayments | (300.6) | (0.4) | (300.2) |

Liquidity and Capital Resources

We currently expect to fund 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 as needed, additional short-term and/or long-term borrowings. We continue to expect our operating cash flow to remain strong.

As of March 31, 2018, we had \$175.5 million of cash and cash equivalents on hand, of which \$175.2 million was held outside of the U.S.

As of March 31, 2018, we had in place a \$2.0 billion multi-year credit facility which expires in November 2022. The credit facility has been established with a diverse syndicate of banks and supports our U.S. and Euro commercial paper programs. The maximum aggregate amount of commercial paper that may be issued under our U.S. commercial paper program and our Euro commercial paper program may not exceed \$2.0 billion. At the end of the first quarter of 2018, we had \$170.8 million (€140.0 million) in outstanding Euro commercial paper with an average annual interest rate of less than 1% and \$165.6 million commercial paper outstanding under the U.S. program. As of March 31, 2018, 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 three months of 2018 and 2017 is discussed in the Cash Flows – Financing Activities section of this MD&A.

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

As of March 31, 2018, 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, 2017 disclosed total notes payable and long-term debt due within one year of \$0.6 billion. As of March 31, 2018, the total notes payable and long-term debt due within one year increased to \$1.0 billion. The increase primarily reflected commercial paper borrowings during the first three months of 2018 and reclassification of obligations due within one year to current.

We recorded a provisional amount for the one-time transition tax in the fourth quarter of 2017, and in the first quarter of 2018 recorded additional expense of \$11.3 million, primarily due to the issuance of technical guidance during the quarter. As discussed further in Note 12, this balance is a provisional amount and is subject to adjustment during the measurement period of up to one year following the enactment of the Tax Act, as provided by recent SEC guidance.

Our gross liability for uncertain tax positions was \$71 million as of March 31, 2018 and \$68 million as of December 31, 2017. 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.

During the first three months of 2018, oil industry activity continued the trend from 2017 and has continued to gradually recover from 2016's lows, with strong gains in North America drilling activity. Demand for oil and overall energy consumption has shown modest growth with oil prices rising from their lows in early 2016.

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

Global Economies

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

Brexit Referendum

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

For the three months ended March 31, 2018, net sales of our U.K. operations were approximately 3% of our consolidated net sales.

NEW ACCOUNTING PRONOUNCEMENTS

For information on new accounting pronouncements, see Note 17 to the Consolidated Financial Statements.

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include expectations concerning timing and funding of restructuring cash expenditures; tax deductibility of goodwill; capital investments and acquisitions; amortization expense; non-performance of financial counterparties; payments and contributions to pension and postretirement health care benefit plans; the impact of lawsuits, claims and environmental matters; impact of new accounting pronouncements; cash flows, borrowing capacity and funding of cash requirements; payments related to uncertain tax positions; impact of oil price fluctuations, comparative performance and prospects of businesses in our Global Energy segment; implementation of ERP system; and doing business in Iran.

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

Some of the factors which could cause results to differ from those expressed in any forward-looking statements are set forth under Item 1A, entitled Risk Factors, of our Form 10-K for the year ended December 31, 2017, 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 and foreign currency risk, including reduced sales and earnings in other countries resulting from the weakening of local currencies versus the U.S. dollar; our ability to execute key business initiatives, including upgrades to our information technology systems; potential information technology infrastructure failures and cybersecurity attacks; our ability to attract and retain high caliber management talent to lead our business; exposure to global economic, political and legal risks related to our international operations including trade sanctions; our ability to develop competitive advantages through innovation and to commercialize digital solutions; 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; difficulty in procuring raw materials or fluctuations in raw material costs; pressure on operations from consolidation of customers, vendors or competitors; the occurrence of litigation or claims, including related to the Deepwater Horizon oil spill; restraints on pricing flexibility due to contractual obligations; our ability to acquire complementary businesses and to effectively integrate such businesses; changes in tax law and unanticipated tax liabilities; potential loss of deferred tax assets or increase in deferred tax liabilities; our substantial indebtedness; public health epidemics; potential losses arising from the impairment of goodwill or other assets; potential chemical spill or release; potential class action lawsuits; the loss or insolvency of a major customer or distributor; acts of war or terrorism; natural or man-made disasters; water shortages; severe weather conditions; and other uncertainties or risks

reported from time to time in our reports to the SEC. There can be no assurances that our earnings levels will meet investors' expectations. Except as may be required under applicable law, we do not undertake, and expressly disclaim, any duty to update our Forward-Looking Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We 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 March 31, 2018, we carried out an evaluation, under the supervision and with the participation of our management, including the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chairman of the Board and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective.

During the period January 1 through March 31, 2018, 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.

We are implementing an enterprise resource planning ("ERP") system upgrade, which is occurring in phases over the next several years beginning in 2018. This upgrade, which includes supply chain and certain finance functions, is expected to improve the efficiency of certain financial and related transactional processes. The upgrade of the ERP system will affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Note 16, 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, 2017, filed with the Securities and Exchange Commission on February 23, 2018, 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 37 of this Form 10-Q. We may also refer to such disclosure to identify factors that may cause results to differ from those expressed in other forward-looking statements made in oral presentations, including telephone conferences and/or webcasts open to the public.

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

(c) Issuer Purchases of Equity Securities

| Period | (a) Total number of shares purchased(1) | (b) Average price paid per share(2) | (c) Number of shares purchased as part of publicly announced plans or programs(3) | (d) Maximum number of shares that may yet be purchased under the plans or programs(3) |
|---------------------|---|--|--|--|
| January 1-31, 2018 | 707,733 | 137.1239 | 707,379 | 11,650,731 |
| February 1-28, 2018 | 892,353 | 131.5738 | 775,304 | 10,875,427 |

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| | | | | |
|------------------|-----------|----------|-----------|------------|
| March 1-31, 2018 | 4,810 | 136.2630 | - | 10,875,427 |
| Total | 1,604,896 | 134.0354 | 1,482,683 | 10,875,427 |

- (1) Includes 122,213 shares reacquired from employees and/or directors as swaps for the cost of stock options, or shares surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.
- (2) The average price paid per share includes brokerage commissions associated with publicly announced plan purchases plus the value of such other reacquired shares.
- (3) As announced on February 24, 2015, our Board of Directors authorized the repurchase of up to 20,000,000 shares. Subject to market conditions, we expect to repurchase all shares under the open authorizations, for which no expiration date has been established, in open market or privately negotiated transactions, including pursuant to Rule 10b5-1 and accelerated share repurchase programs.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Iran Threat Reduction and Syria Human Rights Act of 2012

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, the Company is required to disclose in its periodic reports if it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with entities or individuals

designated pursuant to certain Executive Orders. Disclosure is required even where the activities are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and even if the activities are not covered or prohibited by U.S. law. 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 completed the following sales related to businesses in our Energy operating segment pursuant to and in compliance with the terms and conditions of OFAC's General License H: sales of products used for process and water treatment applications in (i) upstream oil and gas production and (ii) petrochemical plants totaling \$1.0 million during the subsidiary's fiscal first quarter ended February 28, 2018, and additional sales of such products totaling \$1.0 million during March 2018, were made to a distributor in Dubai and two distributors in Iran. The net profit before taxes associated with these sales is estimated to be \$0.2 million and \$0.1 million, respectively. Our non-U.S. subsidiary intends to continue doing business in Iran under General License H in compliance with U.S. economic sanctions and export control laws, which sales may require additional disclosure pursuant to the abovementioned statute.

Item 6. Exhibits

Exhibit No. ~~Document~~ Method of Filing:

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

(15.1) ~~File~~ Filed herewith electronically.
Letter
regarding
unaudited
interim
financial
information.

(31.1) ~~File~~ Filed herewith electronically.
Rule
13a
=
14(a)
CEO
Certification.

(31.2) ~~File~~ Filed herewith electronically.
Rule
13a
=
14(a)
CFO
Certification.

(32.1) ~~File~~ Filed herewith electronically.
Section
1350
CEO
and
CFO
Certifications.

(101.1) ~~File~~ Filed herewith electronically.
Data
File.

SIGNATURE

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

ECOLAB INC.

Date: May 3, 2018 By: /s/ Bruno Lavandier
Bruno Lavandier
Senior Vice President and Corporate Controller
(duly authorized officer and
Chief Accounting Officer)