ECOLAB INC.
Form 10-Q
November 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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

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 every Interactive Data File required to be submitted 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 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	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 September 30, 2018.

288,873,052 shares of common stock, par value $1.00 per share.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(millions, except per share amounts)	Third Quarter Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Product and equipment sales	$3,090.3	$2,931.9	$8,985.7	$8,376.9
Service and lease sales	656.9	632.6	1,922.0	1,810.0
Net sales	3,747.2	3,564.5	10,907.7	10,186.9
Product and equipment cost of sales	1,811.4	1,676.9	5,259.9	4,834.2
Service and lease cost of sales	388.8	387.7	1,178.5	1,127.6
Cost of sales (including special charges (a))	2,200.2	2,064.6	6,438.4	5,961.8
Selling, general and administrative expenses	955.2	930.9	2,990.5	2,836.3
Special (gains) and charges	75.6	4.9	113.7	47.9
Operating income	516.2	564.1	1,365.1	1,340.9
Other (income) expense	(21.0)	(16.9)	(60.0)	(50.5)
Interest expense, net	55.7	55.1	168.4	177.2
Income before income taxes	481.5	525.9	1,256.7	1,214.2
Provision for income taxes	43.2	129.3	216.6	264.0
Net income including noncontrolling interest	438.3	396.6	1,040.1	950.2
Net income attributable to noncontrolling interest	2.9	3.4	6.1	8.2
Net income attributable to Ecolab	$435.4	$393.2	$1,034.0	$942.0
Earnings attributable to Ecolab per common share				
Basic	$ 1.51	$ 1.36	$ 3.58	$ 3.25
Diluted	$ 1.48	$ 1.34	$ 3.53	$ 3.20
Dividends declared per common share	$ 0.41	$ 0.37	$ 1.23	$ 1.11
Weighted-average common shares outstanding				
Basic	288.8	289.0	288.8	289.8
Diluted	293.4	293.4	293.1	294.2

(a) Cost of sales includes special (gains) and charges of $3.6 and $0.3 million in the third quarter of 2018 and 2017, respectively, and $3.5 and $26.2 million in the first nine months of 2018 and 2017, respectively, 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)	Third Quarter Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Net income including noncontrolling interest	$438.3	$396.6	$1,040.1	$950.2
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments				
Foreign currency translation	(201.8)	150.0	(218.9)	274.6
Gain (loss) on net investment hedges	9.1	(50.9)	31.9	(103.7)
	(192.7)	99.1	(187.0)	170.9
Derivatives and hedging instruments	11.0	(20.8)	26.3	(29.1)
Pension and postretirement benefits				
Amortization of net actuarial loss and prior service costs included in net periodic pension and postretirement costs	7.8	1.3	24.1	8.2
Postretirement benefits changes	-	-	14.4	-
	7.8	1.3	38.5	8.2
Subtotal	(173.9)	79.6	(122.2)	150.0
Total comprehensive income, including noncontrolling interest	264.4	476.2	917.9	1,100.2
Comprehensive income attributable to noncontrolling interest	1.7	4.0	5.9	10.8
Comprehensive income attributable to Ecolab	$262.7	$472.2	$912.0	$1,089.4

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

CONSOLIDATED BALANCE SHEET

(unaudited)

(millions, except shares and per share amounts)	September 30 2018	December 31 2017
ASSETS		
Current assets		
Cash and cash equivalents	$203.6	$211.4
Accounts receivable, net	2,652.7	2,571.4
Inventories	1,587.9	1,446.5
Other current assets	378.1	365.0
Total current assets	4,822.3	4,594.3
Property, plant and equipment, net	3,778.0	3,707.1
Goodwill	7,078.4	7,167.1
Other intangible assets, net	3,820.4	4,017.6
Other assets	463.5	477.4
Total assets	$19,962.6	$19,963.5
LIABILITIES AND EQUITY		
Current liabilities		
Short-term debt	$769.4	$564.4
Accounts payable	1,195.3	1,177.1
Compensation and benefits	528.2	549.4
Income taxes	50.3	183.6
Other current liabilities	1,046.6	1,000.7
Total current liabilities	3,589.8	3,475.2
Long-term debt	6,334.8	6,758.3
Postretirement health care and pension benefits	966.9	1,025.5
Deferred income taxes	711.8	635.4
Other liabilities	376.3	415.3
Total liabilities	11,979.6	12,309.7
Equity (a)		
Common stock	356.5	354.7
Additional paid-in capital	5,586.0	5,435.7
Retained earnings	8,646.9	8,011.6
Accumulated other comprehensive loss	(1,765.4)	(1,643.4)
Treasury stock	(4,894.6)	(4,575.0)
Total Ecolab shareholders' equity	7,929.4	7,583.6
Noncontrolling interest	53.6	70.2
Total equity	7,983.0	7,653.8
Total liabilities and equity	$19,962.6	$19,963.5

(a) Common stock, 800.0 million shares authorized, $1.00 par value per share, 288.9 million shares outstanding at September 30, 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)	Nine Months Ended September 30 2018	2017
OPERATING ACTIVITIES		
Net income including noncontrolling interest	$1,040.1	$950.2
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	461.5	437.0
Amortization	238.9	228.5
Deferred income taxes	56.6	9.8
Share-based compensation expense	75.5	71.8
Pension and postretirement plan contributions	(46.0)	(131.0)
Pension and postretirement plan expense	23.4	26.5
Restructuring charges, net of cash paid	57.4	13.3
Other, net	20.0	19.9
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(161.3)	(23.2)
Inventories	(171.2)	(116.9)
Other assets	(22.9)	8.4
Accounts payable	52.2	57.0
Other liabilities	(173.8)	(106.4)
Cash provided by operating activities	1,450.4	1,444.9
INVESTING ACTIVITIES		
Capital expenditures	(634.1)	(594.0)
Property and other assets sold	29.5	4.1
Acquisitions and investments in affiliates, net of cash acquired	(77.6)	(831.2)
Divestiture of businesses	9.2	-
Settlement of net investment hedges	14.1	-
Other, net	10.0	(0.8)
Cash used for investing activities	(648.9)	(1,421.9)
FINANCING ACTIVITIES		
Net issuances of commercial paper and notes payable	115.7	187.8
Long-term debt borrowings	-	495.0
Long-term debt repayments	(301.8)	(20.1)
Reacquired shares	(321.4)	(587.7)
Dividends paid	(370.8)	(330.3)
Exercise of employee stock options	85.8	63.0
Acquisition related liabilities and contingent consideration	(10.2)	(8.2)
Acquisition of noncontrolling interests	(13.1)	-
Other, net	(3.7)	-
Cash used for financing activities	(819.5)	(200.5)

Effect of exchange rate changes on cash, cash equivalents and restricted cash	10.2	6.2
Decrease in cash, cash equivalents and restricted cash	(7.8)	(171.3)
Cash, cash equivalents and restricted cash, beginning of period (a)	211.4	380.4
Cash, cash equivalents and restricted cash, end of period (b)	$203.6	$209.1

(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 September 30, 2018 and 2017 and December 31, 2017.

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

CONSOLIDATED STATEMENT OF EQUITY

(unaudited)

(millions)	Ecolab Shareholders Common Stock	Additional Paid-in Capital	Retained Earnings	OCI (Loss)	Treasury Stock	Ecolab Shareholders' Equity	Non-Controll Interest
Balance, December 31, 2015	$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			1,034.0			1,034.0	6.1
Comprehensive income (loss) activity				(122.0)		(122.0)	(0.2)
Cash dividends declared			(355.1)			(355.1)	(15.4)
Changes in noncontrolling interests		(7.7)				(7.7)	(7.1)
Stock options and awards	1.8	158.0			1.8	161.6	
Reacquired shares		-			(321.4)	(321.4)	
Balance, September 30, 2018	$356.5	$5,586.0	$8,646.9	$(1,765.4)	$(4,894.6)	$7,929.4	$53.6

(a) Upon adoption of Topic 606, Revenue from Contracts with Customers and the related amendments, 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 third quarter and nine months ended September 30, 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 third quarter and nine months ended September 30, 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 November 1, 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:

(millions)	Third Quarter Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Cost of sales				
Restructuring activities	$5.9	$-	$6.3	$2.2
Acquisition and integration activities	(0.1)	0.3	(0.6)	12.9
Other	(2.2)	-	(2.2)	11.1
Subtotal	3.6	0.3	3.5	26.2
Special (gains) and charges				
Restructuring activities	73.1	4.1	82.3	34.6
Acquisition and integration activities	2.4	1.8	4.7	12.7
Venezuela related gain	-	(3.2)	-	(8.5)
Other	0.1	2.2	26.7	9.1
Subtotal	75.6	4.9	113.7	47.9
Total special (gains) and charges	$79.2	$5.2	$117.2	$74.1

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

Restructuring activities are comprised of actions taken in 2018 related to Accelerate 2020 (described below) and other actions taken in years prior to 2018. These 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.

Accelerate 2020

During the third quarter of 2018, the Company formally commenced a restructuring plan Accelerate 2020 ("the Plan"), to leverage technology and systems investments and organizational changes. The Company expects that the restructuring activities will be completed by the end of 2020, with total anticipated costs of $170 million ($130 million after tax) over the next three years. The costs are expected to be primarily cash expenditures for severance costs and some facility closure costs relating to team reorganizations. Actual costs may vary from these estimates depending on actions taken.

The Company recorded restructuring charges of $79.4 million ($60.5 million after tax) and $89.5 million ($68.1 million after tax) in the third quarter and first nine months of 2018, respectively. The liability related to this Plan was $75.8 million as of the end of the third quarter.

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

(millions)	Employee Termination Costs	Asset Disposals	Other	Total
2018 Activity				
Recorded expense	88.7	-	0.8	89.5
Net cash payments	(13.3)	-	(0.2)	(13.5)
Non-cash charges	-	-	-	-
Effect of foreign currency translation	(0.2)	-	-	(0.2)
Restructuring liability, September 30, 2018	$ 75.2	$ -	$ 0.6	$ 75.8

Other Restructuring Activities

Prior to 2018, the Company engaged in a number of restructuring plans. 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, 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. During the third quarter and first nine months of 2018, net restructuring gains related to the prior year plans were $0.4 million ($0.3 million after tax) and $0.9 million ($0.6 million after tax), respectively. During the third quarter and first nine months of 2017, the Company recorded restructuring charges of $4.1 million ($1.7 million after tax) and $36.8 million ($25.9 million after tax), respectively, related primarily to employee termination costs. The restructuring liability balance for all plans commencing prior to 2018 was $22.5 million and $41.5 million as of September 30, 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 commencing prior to 2018 were $17.8 million.

Acquisition and integration related costs

Acquisition and integration costs reported in special (gains) and charges on the Consolidated Statement of Income include $2.4 million ($1.6 million after tax) and $4.7 million ($3.3 million after tax) in the third quarter and first nine months of 2018, respectively. Charges are related to Laboratoires Anios ("Anios") integration costs, advisory and legal fees. Acquisition and integration gain reported in product and equipment cost of sales on the Consolidated Statement of Income in the third quarter and first nine months of 2018 relate to changes in estimates related to an early lease exit.

Acquisition and integration costs reported in cost of sales on the Consolidated Statement of Income include $0.3 million ($0.2 million after tax) and $12.9 million ($8.2 million after tax) during the third quarter and first nine months of 2017, respectively, related primarily to recognition of accelerated rent expense upon the closure of Swisher plants and disposal of excess inventory. The first nine months of 2017 also include amounts related to recognition of fair value step-up in the Anios inventory.

Acquisition and integration costs reported in special (gains) and charges on the Consolidated Statement of Income include $1.8 million ($1.2 million after tax) and $12.7 million ($8.5 million after tax) of acquisition costs, advisory and legal fees, and integration charges for the Anios and Swisher acquisitions during the third quarter and first nine months of 2017, respectively.

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

Venezuela related gain

Effective as of the end of the fourth quarter of 2015, the Company deconsolidated its Venezuelan subsidiaries. During the third quarter and first nine months of 2017, the Company recorded gains of $3.2 million ($2.0 million after tax) and $8.5 million ($5.3 million after tax), respectively, resulting from U.S. dollar cash recoveries of intercompany receivables written off at the time of deconsolidation. No such gains occurred in 2018.

Other

During the third quarter and first nine months of 2018, the Company recorded other special charges of $0.1 million ($0.1 million net of tax) and $26.7 million ($20.6 million net of tax) in special (gains) and charges, respectively, 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 third quarter and first nine months of 2018. Other special gains reported in product and equipment cost of sales on the Consolidated Statement of Income in the third quarter of 2018 of $2.2 million ($1.7 million net of tax) relate to changes in estimates for an inventory LIFO reserve.

During the third quarter of 2017, the Company recorded charges of $2.2 million ($1.4 million after tax) related to litigation. During the first nine months of 2017, the Company recorded charges of $20.2 million ($15.9 million after tax) related to litigation and a Global Energy vendor contract termination. These charges have been included as a component of both cost of sales and special (gains) and charges on the Consolidated Statement of Income.

3. ACQUISITIONS AND DISPOSITIONS

Acquisitions

The Company makes business acquisitions that align with its strategic business objectives. The assets and liabilities of the acquired businesses 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 nine months of 2018 and 2017 were not significant to the Company’s consolidated financial statements; therefore, pro forma financial information is not presented.

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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 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 nine months of 2018, the Company paid $77.6 million for business acquisitions, of which $45.9 million was attributed to certain identifiable intangible assets and $30.5 million to goodwill. The weighted average useful life of these identifiable intangible assets acquired was 11 years. There were insignificant purchase price adjustments related to prior year acquisitions.

Excluding the Anios acquisition, during the first nine months of 2017, the Company paid $32.6 million for business 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 nine months of 2018, and there were no business dispositions in the first nine months 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)	September 30 2018	December 31 2017
Accounts receivable, net		
Accounts receivable	$2,721.7	$2,642.9
Allowance for doubtful accounts	(69.0)	(71.5)
Total	$2,652.7	$2,571.4
Inventories		
Finished goods	$1,061.8	$974.9
Raw materials and parts	513.9	438.7
Inventories at FIFO cost	1,575.7	1,413.6
FIFO cost to LIFO cost difference	12.2	32.9
Total	$1,587.9	$1,446.5
Other current assets		
Prepaid assets	$133.2	$153.5
Taxes receivable	174.5	129.2
Derivative assets	33.2	28.8
Other	37.2	53.5
Total	$378.1	$365.0
Property, plant and equipment, net		
Land	$214.7	$224.1
Buildings and leasehold improvements	1,249.0	1,207.4
Machinery and equipment	2,345.9	2,280.9
Merchandising and customer equipment	2,550.3	2,399.4
Capitalized software	653.1	585.8
Construction in progress	443.6	438.7
	7,456.6	7,136.3
Accumulated depreciation	(3,678.6)	(3,429.2)
Total	$3,778.0	$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	3,620.3	3,620.3
Trademarks	382.0	380.6
Patents	467.7	462.7
Other technology	236.7	232.6
	4,706.7	4,696.2
Accumulated amortization		
Customer relationships	(1,560.2)	(1,403.8)
Trademarks	(168.6)	(147.6)
Patents	(201.1)	(187.9)
Other technology	(186.4)	(169.3)

	(2,116.3)	(1,908.6)
Net intangible assets subject to amortization	2,590.4	2,787.6
Total	$3,820.4	$4,017.6
Other assets		
Deferred income taxes	$98.5	$105.4
Pension	48.6	41.7
Other	316.4	330.3
Total	$463.5	$477.4

(millions)	September 30 2018	December 31 2017
Other current liabilities		
Discounts and rebates	$292.0	$267.2
Dividends payable	118.4	118.6
Interest payable	71.4	50.7
Taxes payable, other than income	102.4	129.9
Derivative liabilities	23.7	62.2
Restructuring	93.2	36.0
Contract liability	81.9	79.0
Other	263.6	257.1
Total	$1,046.6	$1,000.7
Accumulated other comprehensive loss		
Unrealized loss on derivative financial instruments, net of tax	$(0.1)	$(26.4)
Unrecognized pension and postretirement benefit expense, net of tax	(517.2)	(555.8)
Cumulative translation, net of tax	(1,248.1)	(1,061.2)
Total	$(1,765.4)	$(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 September 30, 2018 and December 31, 2017.

(millions)	September 30 2018	December 31 2017
Short-term debt		
Commercial paper	$81.2	$-
Notes payable	38.5	14.7
Long-term debt, current maturities	649.7	549.7

Total	$769.4	$564.4

Line of Credit

As of September 30, 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 September 30, 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 September 30, 2018, the Company had $81.2 million (€70.0 million) of commercial paper outstanding under its Euro program and no 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 September 30, 2018 and December 31, 2017.

(millions)	Maturity by Year	September 30 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	398.2	396.1
Five year 2015 senior notes ($300 million)	2020	299.4	299.1
Ten year 2011 senior notes ($1.02 billion)	2021	1,017.2	1,016.6
Five year 2017 senior notes ($500 million)	2022	496.7	496.3
Seven year 2016 senior notes ($400 million)	2023	397.9	397.5
Seven year 2016 senior notes (€575 million)	2024	660.7	676.6
Ten year 2015 senior notes (€575 million)	2025	663.0	679.4
Ten year 2016 senior notes ($750 million)	2026	743.5	742.8
Ten year 2017 144A notes ($500 million)	2027	-	494.7
Ten year 2017 senior notes ($500 million)	2027	494.9	-
Thirty year 2011 senior notes ($458 million)	2041	451.5	451.3
Thirty year 2016 senior notes ($250 million)	2046	246.1	246.0
Thirty year 2017 144A notes ($700 million)	2047	-	607.8
Thirty year 2017 senior notes ($700 million)	2047	608.5	-
Private notes (2018 principal amount)			
Series A private placement senior notes ($250 million)	2018	249.6	248.5
Series B private placement senior notes ($250 million)	2023	249.4	249.3
Capital lease obligations		7.0	4.6
Other		0.9	1.5
Total debt		6,984.5	7,308.0
Long-term debt, current maturities		(649.7)	(549.7)
Total long-term debt		$6,334.8	$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 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 September 30, 2018.

Net Interest Expense

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

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2018	2017	2018	2017
Interest expense	$58.3	$60.7	$179.5	$191.0
Interest income	(2.6)	(5.6)	(11.1)	(13.8)
Interest expense, net	$55.7	$55.1	$168.4	$177.2

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

During the second quarter of 2018, the Company completed its annual assessment for goodwill impairment across its eleven reporting units through a quantitative analysis, utilizing a discounted cash flow approach, which incorporates assumptions regarding future growth rates, terminal values, and discount rates. The two-step quantitative process involved comparing the estimated fair value of each reporting unit to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not to be impaired, and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test would be performed to measure the amount of impairment loss to be recorded, if any. The Company's goodwill impairment assessment for 2018 indicated the estimated fair value of each of its reporting units exceeded its carrying amount by a significant margin.

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

The changes in the carrying amount of goodwill for each of the Company's reportable segments during the nine months ended September 30, 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)	18.8	11.7	-	-	30.5
Dispositions	-	-	(2.9)	-	(2.9)
Effect of foreign currency translation	(44.3)	(16.8)	(51.8)	(3.4)	(116.3)
September 30, 2018	$2,699.8	$1,021.9	$3,149.0	$207.7	$7,078.4

(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 Other. 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.

Other Intangible Assets

The Nalco trade name is the Company's principal indefinite life intangible asset. During the second quarter of 2018, the Company completed its annual test for indefinite life intangible asset impairment using a relief from royalty method of assessment, which incorporates assumptions regarding future sales projections and discount rates. Based on this testing, the estimated fair value of the asset exceeded its carrying value by a significant margin; therefore, no adjustment to the $1.2 billion carrying value of this asset was necessary. There has been no impairment of the Nalco trade name intangible since it was acquired.

The Company's intangible assets subject to amortization primarily include customer relationships, trademarks, patents and other technology. The fair value of identifiable intangible assets is estimated based upon discounted future cash flow projections and other acceptable valuation methods. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. Total amortization expense related to other intangible assets during the third quarter of 2018 and 2017 was $78.6 million and $77.6 million, respectively. Total amortization expense related to other intangible assets during the first nine months of 2018 and 2017 was $238.9 million and $228.5 million, respectively. Estimated amortization for the remaining three month period of 2018 related to other amortizable intangible assets is expected to be approximately $78.1 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:

	September 30, 2018			
(millions)	Carrying	Fair Value Measurements		
	Amount	Level 1	Level 2	Level 3
Assets				
Foreign currency forward contracts	$40.8	$-	$40.8	$-
Liabilities				
Foreign currency forward contracts	53.6	-	53.6	-
Interest rate swap agreements	1.9	-	1.9	-

(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:

	September 30, 2018 Carrying Amount	Fair Value	December 31, 2017 Carrying Amount	Fair Value
Long-term debt, including current maturities	$6,984.5	$7,126.7	$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.

	Asset Derivatives		Liability Derivatives	
(millions)	September 30 2018	December 31 2017	September 30 2018	December 31 2017
Derivatives designated as hedging instruments				
Foreign currency forward contracts	$19.8	$19.6	$36.8	$125.2
Interest rate swap agreements	-	-	1.9	4.2

Derivatives not designated as hedging instruments				
Foreign currency forward contracts	21.0	26.2	16.8	27.9
Gross value of derivatives	40.8	45.8	55.5	157.3
Gross amounts offset in the Consolidated Balance Sheet	(7.6)	(17.0)	(7.6)	(17.0)
Net value of derivatives	$33.2	$28.8	$47.9	$140.3

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

	Notional Values	
(millions)	September 30 2018	December 31 2017
Foreign currency forward contracts	$ 4,311	$ 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:

		Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)		2018	2017	2018	2017
Unrealized gain (loss) recognized into AOCI					
Foreign currency forward contracts	AOCI (equity)	$32.9	$(118.8)	$85.6	$(192.4)
Interest rate swap agreements	AOCI (equity)	-	-	-	-
	Total	$32.9	$(118.8)	$85.6	$(192.4)
Gain (loss) recognized in income					
Foreign currency forward contracts	Cost of sales	$(2.0)	$(0.9)	$(8.7)	$(11.7)
	SG&A	12.4	(99.5)	39.3	(157.3)
	Interest expense, net	10.4	7.4	27.2	16.1
	Subtotal	20.8	(93.0)	57.8	(152.9)
Interest rate swap agreements	Interest expense, net	(1.3)	(1.8)	(4.7)	(5.4)
	Total	$19.5	$(94.8)	$53.1	$(158.3)

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

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)		Third Quarter Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Gain (loss) on derivative recognized income					
Interest rate swap	Interest expense, net	$2.0	$0.3	$2.3	$(0.1)
Gain (loss) on hedged item recognized income					
Interest rate swap	Interest expense, net	$(2.0)	$(0.3)	$(2.3)	$0.1

Net Investment Hedges

The Company designates its outstanding $1,324 million (€1,150 million at the end of the third quarter of 2018) senior notes ("euronotes") and related accrued interest as hedges of existing foreign currency exposures related to investments the Company has in certain euro denominated functional currency subsidiaries. Certain Euro commercial paper was also designated as a hedge of existing foreign currency exposures and matured in the third quarter ended September 2018. 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)	Third Quarter Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Revaluation gains (losses), net of tax	$9.1	$(50.9)	$31.9	$(103.7)

Derivatives Not Designated as Hedging Instruments

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

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

		Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)		2018	2017	2018	2017
Gain (loss) recognized in income					
Foreign currency forward contracts	SG&A	$7.1	$(29.4)	$5.0	$(38.1)
	Interest expense, net	0.8	(0.2)	4.5	(3.5)
	Total	$7.9	$(29.6)	$9.5	$(41.6)

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.

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2018	2017	2018	2017
Derivative and Hedging Instruments				
Unrealized gains (losses) on derivative & hedging instruments				
Amount recognized in AOCI	$32.9	$(118.8)	$85.6	$(192.4)
(Gains) losses reclassified from AOCI into income				
Cost of sales	2.0	0.9	8.7	11.7
SG&A	(12.4)	99.5	(39.3)	157.3
Interest (income) expense, net	(9.1)	(5.6)	(22.5)	(10.7)
	(19.5)	94.8	(53.1)	158.3
Other activity	0.1	(0.6)	-	(0.1)
Tax impact	(2.5)	3.8	(6.2)	5.1
Net of tax	$11.0	$(20.8)	$26.3	$(29.1)
Pension and Postretirement Benefits				
Amount reclassified from AOCI into income				
Amortization of net actuarial loss and prior service costs	6.0	5.2	21.4	15.2
Postretirement benefits changes	-	-	18.9	-
	6.0	5.2	40.3	15.2
Other activity	3.3	-	7.9	-
Tax impact	(1.5)	(3.9)	(9.7)	(7.0)
Net of tax	$7.8	$1.3	$38.5	$8.2

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

(millions)	Third Quarter Ended September 30 2018	2017	Nine Months Ended September 30 2018	2017
Derivative (gains) losses reclassified from AOCI into income, net of tax	$(16.0)	$72.7	$(42.3)	$120.3
Pension and postretirement benefits net actuarial losses and prior services costs reclassified from AOCI into income, net of tax	$4.5	$1.3	$16.2	$8.2

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 September 30, 2018, 10,228,727 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 nine months of 2018, the Company reacquired 2,315,345 shares of its common stock, of which 2,129,383 related to share repurchases through open market or private purchases, and 185,962 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:

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions, except per share)	2018	2017	2018	2017
Net income attributable to Ecolab	$435.4	$393.2	$1,034.0	$942.0
Weighted-average common shares outstanding				
Basic	288.8	289.0	288.8	289.8
Effect of dilutive stock options and units	4.6	4.4	4.3	4.4
Diluted	293.4	293.4	293.1	294.2
Basic EPS	$ 1.51	$ 1.36	$ 3.58	$ 3.25
Diluted EPS	$ 1.48	$ 1.34	$ 3.53	$ 3.20
Anti-dilutive securities excluded from the computation of diluted EPS	1.4	0.1	1.4	1.7

12. INCOME TAXES

The Company's tax rate was 9.0% and 24.6% for the third quarter of 2018 and 2017, respectively and 17.2% and 21.7% for the first nine months of 2018 and 2017, respectively. The change in the Company's tax rate for the third quarter and first nine months of 2018 compared to the third quarter and first nine months of 2017 was driven primarily by discrete tax items, tax planning, and a lower U.S. corporate tax rate.

The Company recognized total net benefits related to discrete tax items of $47.2 million during the third quarter and $35.2 million during the first nine months of 2018. In the third quarter of 2018, the Company filed U.S. federal tax returns which resulted in favorable adjustments of $39.9 million related to changes in estimates and an IRS approved method change. U.S. tax reform (as described further below) resulted in $4.8 million expense for the third quarter of 2018 and $34.2 million expense for the first nine months of 2018. Share-based compensation excess tax benefit contributed $10.7 million and $23.5 million in the third quarter and first nine months of 2018, respectively. The remaining discrete tax benefits were primarily related to changes in reserves in non-U.S. jurisdictions and international changes in estimates.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted, 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 continues to assess the impact of the provisions of the Act, and has not yet elected an accounting policy related to GILTI.

The Company initially recorded an estimate of the one-time transition tax in the fourth quarter of 2017. In the third quarter and first nine months of 2018 the Company recorded additional discrete expense of $4.8 million and $34.2 million, respectively, primarily due to the issuance of technical guidance during the respective quarters and finalization of certain estimates as a result of filing the 2017 U.S. federal tax return. The one-time transition tax remains 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.

The Company recognized net expenses related to discrete tax items of $8.3 million and net tax benefits related to discrete tax items of $24.2 million during the third quarter and first nine months of 2017, respectively. The third quarter net expenses were driven primarily by recognizing adjustments from filing the Company's 2016 U.S. federal income tax return and international adjustments due to changes in estimates, partially offset by the release of reserves for uncertain tax positions due to the expiration of statute of limitations in state tax matters. Net benefits for the first nine months of 2017 was also impacted by the recognition of $29.2 million of share-based compensation excess tax benefits.

13. PENSION AND POSTRETIREMENT PLANS

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

The components of net periodic pension and postretirement health care benefit costs for the third quarter ended September 30 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	$8.4	$7.7	$0.5	$0.7
Interest cost on benefit obligation	20.8	20.9	7.5	7.0	1.3	1.5
Expected return on plan assets	(40.5)	(37.4)	(16.1)	(13.9)	(0.1)	(0.1)
Recognition of net actuarial (gain) loss	9.8	7.2	4.4	4.5	(0.5)	(0.6)
Amortization of prior service cost (benefit)	(1.7)	(1.7)	(0.2)	(0.2)	(5.8)	(4.2)
Total expense (benefit)	$7.0	$6.5	$4.0	$5.1	$(4.6)	$(2.7)

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

	U.S. Pension		International Pension		U.S. Postretirement Health Care	
(millions)	2018	2017	2018	2017	2018	2017
Service cost	$55.8	$52.6	$25.4	$23.0	$2.3	$2.0
Interest cost on benefit obligation	62.4	62.6	22.4	21.1	4.3	4.4
Expected return on plan assets	(121.5)	(112.3)	(48.8)	(41.7)	(0.3)	(0.4)
Recognition of net actuarial (gain) loss	29.4	21.5	13.2	13.6	(1.5)	(1.8)
Amortization of prior service cost (benefit)	(5.1)	(5.1)	(0.6)	(0.5)	(14.0)	(12.5)
Total expense (benefit)	$21.0	$19.3	$11.6	$15.5	$(9.2)	$(8.3)

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 September 30, 2018, the Company is in compliance with all funding requirements of its U.S. pension and postretirement health care plans. During the first nine months of 2018, the Company made payments of $5 million to its U.S. non-contributory non-qualified defined benefit plans and estimates it will make additional payments of approximately $1 million to such plans during the remainder of 2018.

The Company contributed $33 million to its international pension benefit plans during the first nine months of 2018. The Company estimates it will contribute approximately an additional $10 million to such plans during the remainder of 2018.

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

During the second quarter ended June 30, 2018, an amendment to eligibility requirements of the U.S. retiree death benefit plan was approved and communicated to all eligible participants. As a result of the approval and communication to the beneficiaries, the plan was re-measured, resulting in an $18.9 million ($14.4 million after tax), reduction of postretirement benefit obligations, with a corresponding impact to accumulated other comprehensive income (AOCI). The re-measurement was completed using a discount rate of 4.36%. As a result of this action, the Company’s U.S. postretirement healthcare costs decreased by $2.3 million in the third quarter 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 recognizes revenue when collection of the consideration expected to be received in exchange for transferring goods or providing services is probable.

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, including the 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.

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 leased 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 accounted for under Topic 840 Leases and recognized on a straight-line basis over the length of the lease contract.

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 third quarter and nine months ended September 30 are as follows:

	Third Quarter Ended September 30		Nine Months Ended September 30	
(millions)	2018	2017	2018	2017
Global Industrial				
Product and sold equipment	$1,176.8	$1,101.8	$3,380.9	$3,110.6
Service and lease equipment	175.4	171.0	524.5	485.2
Global Institutional				
Product and sold equipment	1,130.8	1,075.6	3,297.8	3,060.2
Service and lease equipment	174.3	165.9	510.2	473.5
Global Energy				
Product and sold equipment	761.7	712.6	2,246.6	2,079.7
Service and lease equipment	100.5	93.9	303.7	282.1
Other				
Product and sold equipment	21.0	41.9	60.4	126.4
Service and lease equipment	206.7	201.8	583.6	569.2
Total				
Total product and sold equipment	$3,090.3	$2,931.9	$8,985.7	$8,376.9
Total service and lease equipment	656.9	632.6	1,922.0	1,810.0

Net sales at public exchange rates by geographic region for the third quarter ended September 30 are as follows:

	Global Industrial		Global Institutional		Global Energy		Other	
(millions)	2018	2017	2018	2017	2018	2017	2018	2017
North America	$628.0	$573.7	$898.1	$845.9	$502.1	$445.4	$156.9	$178.1
Europe	326.0	314.2	260.2	250.0	96.7	102.5	33.2	31.0
Asia Pacific	171.4	168.9	62.3	60.2	65.7	68.8	10.5	8.8
Latin America	121.6	113.7	40.9	41.7	55.5	62.1	11.5	11.4

Middle East and Africa	34.4	32.7	15.3	17.5	123.5	109.9	2.8	2.8
Greater China	70.9	69.7	28.3	26.3	18.7	17.9	12.7	11.3
Total	$1,352.3	$1,272.9	$1,305.1	$1,241.6	$862.2	$806.6	$227.6	$243.4

Net sales at public exchange rates by geographic region for the nine months ended September 30 are as follows:

(millions)	Global Industrial 2018	2017	Global Institutional 2018	2017	Global Energy 2018	2017	Other 2018	2017
North America	$1,780.7	$1,643.7	$2,592.4	$2,450.2	$1,474.8	$1,323.6	$436.3	$512.3
Europe	959.5	852.3	774.9	666.5	302.5	287.0	97.0	84.2
Asia Pacific	503.7	483.1	186.8	174.7	200.1	190.6	29.4	24.7
Latin America	350.8	326.5	124.5	122.8	163.7	183.2	35.2	33.4
Middle East and Africa	99.0	93.3	44.5	44.7	354.1	326.8	8.5	8.4
Greater China	211.8	196.8	84.9	74.9	55.1	50.7	37.5	32.5
Total	$3,905.5	$3,595.7	$3,808.0	$3,533.8	$2,550.3	$2,361.9	$643.9	$695.5

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)	September 30 2018	September 30 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	81.7	82.5
Business combination	0.2	2.2
Contract liability as of end of period	$81.9	$84.7

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 Other. 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 eliminates 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.

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					
(millions)	2017 Reported Valued at 2017 Management Rates	Revenue Standard Adoption	Pension Standard Adoption	Segment Change	Fixed Currency Rate Change	2017 Revised Valued at 2018 Management 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	