ASHLAND INC.
Form 10-Q
April 30, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _________ to ___________

Commission file number 1-32532

ASHLAND INC.

(a Kentucky corporation)
I.R.S. No. 20-0865835

50 E. RiverCenter Boulevard
P.O. Box 391
Covington, Kentucky 41012-0391
Telephone Number (859) 815-3333

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 þ No o

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 Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes þ No o

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

Large Accelerated Filer þ Accelerated Filer o
Non-Accelerated Filer o Smaller Reporting Company o
(Do not check if a smaller reporting company.)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
At March 31, 2015, there were 67,576,297 shares of Registrant’s Common Stock outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

	Three months ended March 31		Six months ended March 31	
(In millions except per share data - unaudited)	2015	2014	2015	2014
Sales	$1,350	$1,545	$2,741	$2,977
Cost of sales	925	1,168	1,906	2,216
Gross profit	425	377	835	761
Selling, general and administrative expense	203	370	429	605
Research and development expense	25	36	50	63
Equity and other income (loss)	(4)	(35)	6	(14)
Operating income (loss)	193	(64)	362	79
Net interest and other financing expense	40	41	81	83
Net gain (loss) on divestitures	(33)	1	(118)	6
Income (loss) from continuing operations before income taxes	120	(104)	163	2
Income tax expense (benefit) - Note I	25	(43)	27	(25)
Income (loss) from continuing operations	95	(61)	136	27
Income from discontinued operations (net of tax) - Note C	129	17	121	39
Net income (loss)	$224	$(44)	$257	$66
PER SHARE DATA				
Basic earnings per share - Note L				
Income (loss) from continuing operations	$1.40	$(0.78)	$1.97	$0.35
Income from discontinued operations	1.90	0.21	1.76	0.50
Net income (loss)	$3.30	$(0.57)	$3.73	$0.85
Diluted earnings per share - Note L				
Income (loss) from continuing operations	$1.39	$(0.78)	$1.95	$0.35
Income from discontinued operations	1.87	0.21	1.73	0.49
Net income (loss)	$3.26	$(0.57)	$3.68	$0.84
DIVIDENDS PAID PER COMMON SHARE	$0.34	$0.34	$0.68	$0.68
COMPREHENSIVE INCOME (LOSS)				
Net income (loss)	$224	$(44)	$257	$66
Other comprehensive income (loss), net of tax - Note M				
Unrealized translation gain (loss)	(255)	(25)	(382)	14
Pension and postretirement obligation adjustment	(6)	(5)	(11)	(9)

Other comprehensive income (loss)	(261)	(30)	(393)	5
Comprehensive income (loss)	$(37)	$(74)	$(136)	$71

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions - unaudited)	March 31 2015	September 30 2014
ASSETS		
Current assets		
Cash and cash equivalents	$911	$1,393
Accounts receivable (a)	1,046	1,202
Inventories - Note F	714	765
Deferred income taxes	121	118
Other assets	110	83
Total current assets	2,902	3,561
Noncurrent assets		
Property, plant and equipment		
Cost	4,061	4,275
Accumulated depreciation	1,898	1,861
Net property, plant and equipment	2,163	2,414
Goodwill - Note G	2,480	2,643
Intangibles - Note G	1,188	1,309
Restricted investments - Note A	300	—
Asbestos insurance receivable - Note K	193	433
Equity and other unconsolidated investments	69	81
Other assets	501	510
Total noncurrent assets	6,894	7,390
Total assets	$9,796	$10,951
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt - Note H	$233	$329
Current portion of long-term debt - Note H	9	9
Trade and other payables	500	674
Accrued expenses and other liabilities	508	675
Total current liabilities	1,250	1,687
Noncurrent liabilities		
Long-term debt - Note H	2,943	2,942
Employee benefit obligations - Note J	1,415	1,468
Asbestos litigation reserve - Note K	677	701
Deferred income taxes	51	110
Other liabilities	441	460
Total noncurrent liabilities	5,527	5,681
Commitments and contingencies - Note K		
Stockholders' equity	3,019	3,583
Total liabilities and stockholders' equity	$9,796	$10,951

(a) Accounts receivable includes an allowance for doubtful accounts of $13 million at March 31, 2015 and September 30, 2014, respectively.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY

(In millions - unaudited)	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive income (loss) (a)	Total
BALANCE AT SEPTEMBER 30, 2014	$1	$—	$3,475	$107	$3,583
Total comprehensive income (loss)			257	(393)	(136)
Regular dividends, $.68 per common share			(46)		(46)
Common shares issued under stock incentive and other plans (b)		23	(8)		15
Repurchase of common shares (c)			(397)		(397)
BALANCE AT MARCH 31, 2015	$1	$23	$3,281	$(286)	$3,019

(a) At March 31, 2015 and September 30, 2014, the after-tax accumulated other comprehensive loss of $286 million and gain of $107 million, respectively, was comprised of unrecognized prior service credits as a result of certain employee benefit plan amendments of $48 million and $59 million, respectively, and net unrealized translation loss of $334 million and gain of $48 million, respectively.

(b) Common shares issued were 359,086 for the six months ended March 31, 2015 and includes the impact of the modification of certain performance shares. See Note N of the Notes to Condensed Consolidated Financial Statements for further information.

(c) Common shares repurchased were 3,078,136 for the six months ended March 31, 2015. See Note M of the Notes to Condensed Consolidated Financial Statements.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS

	Six months ended March 31	
(In millions - unaudited)	2015	2014
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	$257	$66
Income from discontinued operations (net of tax)	(121)	(39)
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	170	183
Debt issuance cost amortization	7	7
Purchased in-process research and development impairment	—	9
Deferred income taxes	(13)	(4)
Equity income from affiliates	(7)	(14)
Distributions from equity affiliates	10	6
Stock based compensation expense	15	17
Net loss (gain) on divestitures	118	(6)
Impairment of equity investments	14	46
Losses on pension plan remeasurements	9	105
Change in operating assets and liabilities (a)	(363)	(182)
Total cash flows provided by operating activities from continuing operations	96	194
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(86)	(96)
Proceeds from disposal of property, plant and equipment	1	4
Purchase of operations - net of cash acquired	—	(2)
Proceeds from sale of operations or equity investments	106	6
Funds restricted for specific transactions	(320)	—
Total cash flows used by investing activities from continuing operations	(299)	(88)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Repayment of long-term debt	—	(12)
Proceeds (repayment) from short-term debt	(96)	93
Repurchase of common stock	(397)	—
Cash dividends paid	(46)	(53)
Excess tax benefits related to share-based payments	7	7
Total cash flows provided (used) by financing activities from continuing operations	(532)	35
CASH PROVIDED (USED) BY CONTINUING OPERATIONS	(735)	141
Cash provided (used) by discontinued operations		
Operating cash flows	277	20
Investing cash flows	10	(15)
Total cash provided by discontinued operations	287	5
Effect of currency exchange rate changes on cash and cash equivalents	(34)	(1)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(482)	145

CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,393	346
CASH AND CASH EQUIVALENTS - END OF PERIOD	$911	$491

(a) Excludes changes resulting from operations acquired or sold.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and Securities and Exchange Commission regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. These statements omit certain information and footnote disclosures required for complete annual financial statements and, therefore, should be read in conjunction with Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 2014. Results of operations for the period ended March 31, 2015 are not necessarily indicative of the expected results for the remaining quarters in the fiscal year.

Ashland is composed of three reportable segments: Ashland Specialty Ingredients (Specialty Ingredients), Ashland Performance Materials (Performance Materials) and Valvoline. On July 31, 2014, Ashland completed the sale of the assets and liabilities of Ashland Water Technologies (Water Technologies). As a result of this sale, all prior period operating results and cash flows related to Water Technologies have been reflected as discontinued operations in the Statements of Consolidated Comprehensive Income and Statements of Condensed Consolidated Cash Flows. In addition to the sale of Water Technologies, Ashland sold certain components remaining in its portfolio of businesses, which includes divesting its Casting Solutions joint venture on June 30, 2014 and the Elastomers division within the Performance Materials reportable segment on December 1, 2014. See Notes B, C, D and O for additional information on this activity and related results as well as Ashland's current reportable segment results.

Use of estimates, risks and uncertainties

The preparation of Ashland's Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities as well as qualifying subsequent events. Significant items that are subject to such estimates and assumptions include, but are not limited to, long-lived assets (including goodwill and intangible assets), employee benefit obligations, income taxes and liabilities and receivables associated with asbestos litigation and environmental remediation. Although management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, actual results could differ significantly from the estimates under different assumptions or conditions.

Ashland's results are affected by domestic and international economic, political, legislative, regulatory and legal actions. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, government fiscal policies and changes in the prices of certain key raw materials, can have a significant effect on operations. While Ashland maintains reserves for anticipated liabilities and carries various levels of insurance, Ashland could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings relating to asbestos, environmental remediation or other matters.

Restricted investments

On January 13, 2015, Ashland and Hercules entered into a comprehensive settlement agreement related to certain insurance coverage for asbestos bodily injury claims with Underwriters at Lloyd's, certain London Companies and Chartis (AIG) member companies, along with National Indemnity and Resolute Management, Inc., under which Ashland and Hercules received a total of $398 million (the January 2015 asbestos insurance settlement). During the March 2015 quarter, Ashland placed $335 million of the settlement funds into a renewable annual trust restricted for the purpose of paying ongoing and future litigation defense and claim settlement costs incurred in conjunction with asbestos claims. These funds are presented primarily as noncurrent

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (continued)

assets, with $35 million classified within other current assets in the Condensed Consolidated Balance Sheets. As of March 31, 2015, these assets are currently invested in cash equivalents but are expected to be diversified in future periods. See Note K for additional information regarding the January 2015 asbestos insurance settlement.

New accounting standards

A description of new U.S. GAAP accounting standards issued and adopted during the current year is required in interim financial reporting. As of March 31, 2015, no new standards significant to Ashland have been issued since Ashland's most recent Form 10-K filing. A detailed listing of all new accounting standards relevant to Ashland is included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2014. The following standards were either adopted in the current period or will become effective in a subsequent period.

In May 2014, the FASB issued accounting guidance outlining a single comprehensive five step model for entities to use in accounting for revenue arising from contracts with customers (ASC 606 Revenue from Contracts with Customers). The new guidance supersedes most current revenue recognition guidance, in an effort to converge the revenue recognition principles within U.S. GAAP. This new guidance also requires entities to disclose certain quantitative and qualitative information regarding the nature, amount, timing and uncertainty of qualifying revenue and cash flows arising from contracts with customers. Entities have the option of using a full retrospective or a modified retrospective approach to adopt the new guidance. Currently, this guidance will become effective for Ashland on October 1, 2017. However, in April 2015 the FASB proposed a one-year deferral of the effective date, which is currently going through the comment period process. Ashland is currently evaluating the new accounting standard and the available implementation options the standard allows as well as the impact this new guidance will have on Ashland's Condensed Consolidated Financial Statements.

In April 2014, the FASB issued accounting guidance amending the requirements for reporting discontinued operations (ASC 205 Presentation of Financial Statements and ASC 360 Property, Plant and Equipment). This guidance limits the requirement for discontinued operations treatment to the disposal of a component of an entity, or a group of components of an entity, that represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. Additionally, this new guidance no longer precludes discontinued operations presentation based on continuing involvement or cash flows following the disposal. Ashland adopted this guidance on October 1, 2014, which is applicable only to divestitures subsequent to the adoption date, and has evaluated each divestiture under this new guidance during the current year.

NOTE B - DIVESTITURES

Valvoline Car Care Products

In April 2015, Ashland entered into a definitive sale agreement to sell Valvoline's car care product assets, including Car Brite™ and Eagle One™ automotive appearance products. The asset values were recorded at $32 million, which primarily included property, plant, and equipment, goodwill and other intangible assets. Ashland recognized a loss of $26 million before tax in the quarter ended March 31, 2015 to recognize the assets at fair value less cost to sell since the assets met the U.S. GAAP held for sale criteria at March 31, 2015. The loss is reported within the net gain (loss) on divestitures caption within the Statements of Consolidated Comprehensive Income.

The sale of Valvoline's car care product assets did not qualify for discontinued operations treatment since it did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results. Any additional gain or loss recognized as a result of the transaction is expected to be nominal and would be recognized in the period that the transaction closes.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE B – DIVESTITURES (continued)

Valvoline Joint Venture
During April 2015, Ashland sold a Valvoline joint venture equity investment in Venezuela. During the current quarter, Ashland recognized a $14 million impairment, for which there was no tax effect, within the equity and other income (loss) caption of the Statements of Consolidated Comprehensive Income.
Ashland’s decision to sell the equity investment and the resulting charge recorded in the current quarter is reflective of the continued devaluation of the Venezuelan currency (bolivar) based on changes to the Venezuelan currency exchange rate mechanisms during the current quarter. In addition, the continued lack of exchangeability between the Venezuelan bolivar and U.S. dollar had restricted the joint venture’s ability to pay dividends and obligations denominated in U.S. dollars. These exchange regulations and cash flow limitations, combined with other recent Venezuelan regulations and the impact of declining oil prices on the Venezuelan economy, had significantly restricted Ashland’s ability to conduct normal business operations through the joint venture arrangement. Ashland determined this divestiture does not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results, and thus it does not qualify for discontinued operations treatment.
MAP Transaction
As part of the 2005 transfer of Ashland's 38% interest in the Marathon Ashland Petroleum joint venture and two other small businesses to Marathon Oil Corporation (Marathon) (the MAP Transaction), Marathon is entitled to the tax deductions for Ashland's future payments of certain contingent liabilities, including asbestos liabilities, related to previously owned businesses of Ashland. Marathon agreed to compensate Ashland for these tax deductions and Ashland established a discounted receivable, which represented the estimated present value of probable recoveries from Marathon for the portion of their future tax deductions. As a result of the January 2015 asbestos insurance settlement, Ashland recorded a $7 million charge within the net gain (loss) on divestitures caption of the Statements of Consolidated Comprehensive Income and accordingly reduced the discounted receivable by the same amount. The total MAP receivable remaining as of March 31, 2015 was $10 million. See Note K for more information related to the January 2015 asbestos insurance settlement.
Elastomers
On October 9, 2014, Ashland entered into a definitive agreement to sell the Elastomers division of the Performance Materials reportable segment, which operated a 250-person manufacturing facility in Port Neches, Texas, to Lion Copolymer Holdings, LLC. The Elastomers division, which primarily served the North American replacement tire market, accounted for approximately 5% of Ashland's 2014 sales of $6.1 billion and 18% of Ashland Performance Materials' $1.6 billion in sales in 2014. The sale was completed on December 1, 2014 in a transaction valued at approximately $120 million which was subject to working capital adjustments. The total post-closing adjusted cash proceeds received before taxes by Ashland during the six months ended March 31, 2015 was $106 million, which includes estimates for working capital adjustments and transaction costs, as defined in the definitive agreement. Elastomers' net assets as of November 30, 2014 were $191 million which primarily included accounts receivable, inventory, property, plant and equipment, non-deductible goodwill and other intangibles and payables. Since the net proceeds received were less than book value, Ashland recorded a loss of $86 million pre-tax within the net gain (loss) on divestiture caption within the Statements of Consolidated Comprehensive Income during the six months ended March 31, 2015. The related tax effect was a benefit of $28 million included in the income tax expense (benefit) caption within the Statements of Consolidated Comprehensive Income.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE B – DIVESTITURES (continued)

As part of this definitive agreement, Ashland will provide certain transition services to Lion Copolymer Holdings, LLC for a fee. While the transition services vary in duration depending upon the type of service provided, Ashland expects to reduce any legacy costs as the transition services are completed.

As a result of the adoption of the new discontinued operations accounting guidance discussed in Note A, Ashland determined that the sale of Elastomers did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results. As such, Elastomers' results were included in the Performance Materials reportable segment results of operations and financial position within the Statements of Consolidated Comprehensive Income and Condensed Consolidated Balance Sheet, respectively, until its December 1, 2014 sale. Certain indirect corporate costs included within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income that were previously allocated to the Elastomers division are now reported as selling, general and administrative expense within continuing operations on a consolidated basis within the Unallocated and other segment. These costs were $3 million and $4 million during the three and six months ended March 31, 2015, respectively.

Water Technologies

On July 31, 2014, Ashland sold the Water Technologies business to a fund managed by Clayton, Dubilier & Rice (CD&R) in a transaction valued at approximately $1.8 billion. The total post-closing adjusted cash proceeds received by Ashland during 2014, before taxes, was $1.6 billion, which includes estimates for certain working capital and other post-closing adjustments, as defined in the definitive agreement. During the three months ended March 31, 2015, Ashland received approximately $30 million of the $48 million of delayed purchase price funds related to a foreign entity which completed certain regulatory closing requirements during the current quarter. Ashland expects to receive the remainder of these funds in the third quarter of fiscal 2015. Final settlement of working capital and other post-closing adjustments occurred during the three months ended March 31, 2015 resulting in a payment of approximately $20 million to CD&R.

Since this transaction signified Ashland’s exit from the Water Technologies business, Ashland has classified Water Technologies’ results of operations and cash flows within the Statements of Consolidated Comprehensive Income and Statements of Condensed Consolidated Cash Flows as discontinued operations for all periods presented. Certain indirect corporate costs included within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income that were previously allocated to the Water Technologies reportable segment do not qualify for classification within discontinued operations and are now reported as selling, general and administrative expense within continuing operations on a consolidated basis and within the Unallocated and other segment. These costs were $9 million and $18 million during the three and six months ended March 31, 2014, respectively.

Ashland retained and agreed to indemnify CD&R for certain liabilities of the Water Technologies business arising prior to the closing of the sale, including certain pension and postretirement liabilities, environmental remediation liabilities and certain legacy liabilities relating to businesses disposed or discontinued by the Water Technologies business. Costs directly related to these retained liabilities have been included within the discontinued operations caption of the Statements of Consolidated Comprehensive Income during the three and six months ended March 31, 2014. The ongoing effects of the pension and postretirement plans for former Water Technologies employees are reported within the Unallocated and other segment.

Ashland provides certain transition services to CD&R for a fee. During the three and six months ended March 31, 2015, Ashland recognized transition service fees of $8 million and $18 million, respectively, which offset costs within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. While the transition services vary in duration depending upon the type of service provided, Ashland will continue to reduce costs as the transition services are completed. See Note C for further information on the results of operations of Water Technologies for all periods presented.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE B – DIVESTITURES (continued)

Casting Solutions joint venture

During 2014, Ashland, in conjunction with its partner, initiated a process to sell the ASK Chemicals GmbH (ASK) joint venture, in which Ashland had 50% ownership. As part of the sale process, Ashland determined that the fair value of its investment in the ASK joint venture was less than the carrying value and that an other than temporary impairment had occurred. As a result, Ashland recognized an impairment of $46 million related to its investment in the ASK joint venture during the three and six months ended March 31, 2014. The charge was recognized within the equity and other income (loss) caption of the Statements of Consolidated Comprehensive Income.

On June 30, 2014, Ashland, in conjunction with its partner, sold the ASK joint venture to investment funds affiliated with Rhône Capital, LLC (Rhône), a London and New York-based private equity investment firm. From the sale, total pre-tax proceeds to the sellers, which were split evenly between Ashland and its partner under the terms of the 50/50 joint venture, were $205 million, which included $176 million in cash and a $29 million note from Rhône due in calendar year 2022.

NOTE C – DISCONTINUED OPERATIONS

In previous periods, Ashland has divested certain businesses that have qualified as discontinued operations. The operating results from these divested businesses and subsequent adjustments related to ongoing assessments of certain retained liabilities and tax items have been recorded within the discontinued operations caption in the Statements of Consolidated Comprehensive Income for all periods presented and are discussed further within this note.

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Such claims result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation (Riley), a former subsidiary of Ashland, which qualified as a discontinued operation, and from the 2009 acquisition of Hercules, a wholly-owned subsidiary of Ashland. Adjustments to the recorded litigation reserves and related insurance receivables are recorded within discontinued operations. During the three and six months ended March 31, 2015, Ashland recorded an after-tax gain of $120 million within discontinued operations due to the January 2015 asbestos insurance settlement. See Note K for more information related to the adjustments on asbestos liabilities and receivables.

As previously described in Note B, on July 31, 2014, Ashland completed the sale of the Water Technologies business to CD&R. Sales for the three and six months ended March 31, 2014 were $431 million and $867 million, respectively. The results of operations for the three and six months ended March 31, 2014 are included in the table below. Ashland has made post-closing adjustments, including the pension plan remeasurement discussed in Note J, as defined by the definitive agreement during the three and six months ended March 31, 2015.

Components of amounts reflected in the Statements of Consolidated Comprehensive Income related to discontinued operations are presented in the following table for the three and six months ended March 31, 2015 and 2014.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE C – DISCONTINUED OPERATIONS (continued)

	Three months ended March 31		Six months ended March 31	
(In millions)	2015	2014	2015	2014
Income (loss) from discontinued operations (net of tax)				
Asbestos-related litigation	$122	$—	$120	$(1)
Water Technologies (a)	—	17	(2)	40
Gain on disposal of discontinued operations (net of tax)				
Water Technologies	7	—	3	—
Total income from discontinued operations (net of tax)	$129	$17	$121	$39

(a) For the three and six months ended March 31, 2014, pretax operating income recorded for Water Technologies was $19 million and $55 million, respectively.

NOTE D – RESTRUCTURING ACTIVITIES

Ashland periodically implements company-wide restructuring programs related to acquisitions, divestitures or other cost reduction programs in order to enhance profitability through streamlined operations and an improved overall cost structure for each business.

During 2014, Ashland announced a global restructuring program to streamline the resources used across the organization. As part of this global restructuring program, Ashland announced a voluntary severance offer (VSO) to certain U.S. employees. Approximately 400 employees were formally approved for the VSO. Additionally, during 2014, an involuntary program for employees was also initiated as part of the global restructuring program. Substantially all payments related to the VSO and involuntary programs will be paid by the end of fiscal 2015. The VSO and involuntary programs resulted in $75 million of expense being recognized during the three and six months ended March 31, 2014, $13 million within the cost of sales caption and $62 million within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. In addition, the employee reductions resulted in a pension curtailment being recorded during the prior year quarter. See Note J for further information. As of March 31, 2015 and September 30, 2014, the remaining restructuring reserve for this global restructuring program was $14 million and $53 million, respectively.

As of March 31, 2015 and September 30, 2014, the remaining $2 million and $3 million, respectively, in restructuring reserves for other previously announced programs principally consisted of expected future severance payments for programs implemented during 2011.

During the March 2014 quarter, Ashland incurred an additional $3 million lease abandonment charge related to its exit from an office facility that was obtained as part of the Hercules acquisition. The costs related to the reserve will be paid over the remaining lease term through May 2016. As of March 31, 2015 and September 30, 2014, the remaining restructuring reserve for all qualifying facility costs totaled $7 million and $9 million, respectively.

The following table summarizes the related activity in these reserves for the six months ended March 31, 2015 and 2014. The severance reserves are included in accrued expenses and other liabilities while facility costs reserves are primarily within other noncurrent liabilities in the Condensed Consolidated Balance Sheets.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE D – RESTRUCTURING ACTIVITIES (continued)

(In millions)	Severance	Facility costs	Total
Balance as of September 30, 2014	$56	$9	$65
Reserve adjustments	(2)	—	(2)
Utilization (cash paid or otherwise settled)	(38)	(2)	(40)
Balance at March 31, 2015	$16	$7	$23
Balance as of September 30, 2013	$17	$8	$25
Restructuring reserve	75	3	78
Utilization (cash paid or otherwise settled)	(10)	(1)	(11)
Balance at March 31, 2014	$82	$10	$92

Specialty Ingredients Restructuring

During the March 2015 quarter, Specialty Ingredients committed to a restructuring plan within an existing manufacturing facility. As a result, during the current quarter, restructuring charges of $18 million were recorded within the cost of sales caption of the Statements of Consolidated Comprehensive Income. The restructuring plan is expected to be implemented during fiscal 2015 and completed during fiscal 2016.

NOTE E – FAIR VALUE MEASUREMENTS

As required by U.S. GAAP, Ashland uses applicable guidance for defining fair value, the initial recording and periodic remeasurement of certain assets and liabilities measured at fair value and related disclosures for instruments measured at fair value. Fair value accounting guidance establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument’s fair value measurement.

For assets that are measured using quoted prices in active markets (Level 1), the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using significant other observable inputs (Level 2) are primarily valued by reference to quoted prices of similar assets or liabilities in active markets (market approach), adjusted for any terms specific to that asset or liability. For all other assets and liabilities for which unobservable inputs are used (Level 3), fair value is derived through the use of fair value models, such as a discounted cash flow model or other standard pricing models that Ashland deems reasonable. During the March 2015 quarter, Ashland recorded two impairments which represent nonrecurring fair value measurements relating to Valvoline assets using observable inputs considered Level 2 fair values within the fair value hierarchy.

The following table summarizes financial instruments subject to recurring fair value measurements as of March 31, 2015.

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NOTE E – FAIR VALUE MEASUREMENTS (continued)

(In millions)	Carrying value	Total fair value	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets					
Cash and cash equivalents	$911	$911	$911	$—	$—
Restricted investments (a)	335	335	335	—	—
Deferred compensation investments (b)	187	187	43	144	—
Investments of captive insurance company (b)	3	3	3	—	—
Foreign currency derivatives	15	15	—	15	—
Total assets at fair value	$1,451	$1,451	$1,292	$159	$—
Liabilities					
Foreign currency derivatives	$13	$13	$—	$13	$—

(a) Included in restricted investments and $35 million within other current assets in the Condensed Consolidated Balance Sheets.
(b) Included in other noncurrent assets in the Condensed Consolidated Balance Sheets.

The following table summarizes financial asset instruments subject to recurring fair value measurements as of September 30, 2014.

(In millions)	Carrying value	Total fair value	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets					
Cash and cash equivalents	$1,393	$1,393	$1,393	$—	$—
Deferred compensation investments (a)	184	184	45	139	—
Investments of captive insurance company (a)	3	3	3	—	—
Foreign currency derivatives	11	11	—	11	—
Total assets at fair value	$1,591	$1,591	$1,441	$150	$—
Liabilities					
Foreign currency derivatives	$9	$9	$—	$9	$—

(a) Included in other noncurrent assets in the Condensed Consolidated Balance Sheets.

Derivative and hedging activities

Currency hedges

Ashland conducts business in a variety of foreign currencies. Accordingly, Ashland regularly uses foreign currency derivative instruments to manage exposure on certain transactions denominated in foreign currencies to curtail potential earnings volatility effects of certain assets and liabilities, including short-term inter-company loans, denominated in currencies other than Ashland's functional currency of an entity. These derivative contracts generally require exchange of one foreign currency for another at a fixed rate at a future date and

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – FAIR VALUE MEASUREMENTS (continued)

generally have maturities of less than twelve months. All contracts are marked-to-market with net changes in fair value recorded within the selling, general and administrative expense caption. The impacts of these contracts were largely offset by gains and losses resulting from the impact of changes in exchange rates on transactions denominated in non-functional currencies. The following table summarizes the gains and losses recognized during the three and six months ended March 31, 2015 and 2014 within the Statements of Consolidated Comprehensive Income.

	Three months ended March 31		Six months ended March 31	
(In millions)	2015	2014	2015	2014
Foreign currency derivative gain (loss)	$(12)	$2	$(16)	$5

The following table summarizes the fair values of the outstanding foreign currency derivatives as of March 31, 2015 and September 30, 2014 included in accounts receivable and accrued expenses and other liabilities of the Condensed Consolidated Balance Sheets.

	March 31	September 30
(In millions)	2015	2014
Foreign currency derivative assets	$6	$2
Notional contract values	183	88
Foreign currency derivative liabilities	$9	$4
Notional contract values	341	281

Net investment hedges

During 2014, Ashland entered into foreign currency contracts in order to manage the foreign currency exposure of the net investment in certain foreign operations, as a result of certain proceeds from the sale of Water Technologies being received in non-U.S. denominated currencies. During the six months ended March 31, 2015, these foreign currency contracts were settled and Ashland entered into new foreign currency contracts. Ashland designated the foreign currency contracts as hedges of net investment in its foreign subsidiaries. As a result, Ashland records these hedges at fair value using forward rates, with the effective portion of the gain or loss reported as a component of the cumulative translation adjustment within accumulated other comprehensive income (AOCI) and subsequently recognized in the Statements of Consolidated Comprehensive Income when the hedged item affects net income. There was no hedge ineffectiveness with these instruments during the three and six months ended March 31, 2015.

As of March 31, 2015 and September 30, 2014, the total notional value of foreign currency contracts equaled $190 million and $206 million, respectively. The fair value of Ashland's net investment hedge assets and liabilities are calculated using forward rates. Accordingly, these instruments are deemed to be Level 2 measurements within the fair value hierarchy. Counterparties to these net investment hedges are highly rated financial institutions which Ashland believes carry only a nominal risk of nonperformance. The following table summarizes the fair value of the outstanding net investment hedge instruments as of March 31, 2015 and September 30, 2014.

		March 31	September 30
(In millions)	Consolidated balance sheet caption	2015	2014
Net investment hedge assets	Accounts receivable	$9	$9
Net investment hedge liabilities	Accrued expenses and other liabilities	4	5

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the unrealized gain on the net investment hedge instruments recognized within the cumulative translation adjustment within AOCI during the three and six months ended March 31, 2015. No portion of the gain was reclassified to income during the quarter.

	Three months ended March 31	Six months ended March 31
(In millions)	2015	2015
Change in unrealized gain in AOCI	$5	$5
Tax impact of change in unrealized gain in AOCI	(3)	(4)

Other financial instruments

At March 31, 2015 and September 30, 2014, Ashland's long-term debt had a carrying value of $2,952 million and $2,951 million, respectively, compared to a fair value of $3,179 million and $3,102 million, respectively. The fair values of long-term debt are based on quoted market prices or, if market prices are not available, the present values of the underlying cash flows discounted at Ashland's incremental borrowing rates, which are deemed to be Level 2 measurements within the fair value hierarchy.

NOTE F – INVENTORIES

Inventories are carried at the lower of cost or market. Inventories are primarily stated at cost using the weighted-average cost method. In addition, certain chemicals, plastics and lubricants are valued at cost using the last-in, first-out (LIFO) method.

The following table summarizes Ashland's inventories as of the reported Condensed Consolidated Balance Sheet dates.

	March 31	September 30
(In millions)	2015	2014
Finished products	$545	$557
Raw materials, supplies and work in process	212	239
LIFO reserve	(43)	(31)
	$714	$765

NOTE G – GOODWILL AND OTHER INTANGIBLES

Goodwill

Ashland reviews goodwill and indefinite-lived intangible assets for impairment annually or when events and circumstances indicate an impairment may have occurred. This annual assessment is performed as of July 1 and consists of Ashland determining each reporting unit's current fair value compared to its current carrying value. For its July 1, 2014 assessment, Ashland determined that its reporting units for allocation of goodwill included the Specialty Ingredients and Valvoline reportable segments, and the Composites, Intermediates/Solvents, and Elastomers reporting units within the Performance Materials reportable segment, and determined at that time that no impairment existed. As discussed in Note B, Ashland sold the Elastomers division on December 1, 2014 and as a result, Elastomers is no longer a reporting unit as of March 31, 2015.

The following is a progression of goodwill by reportable segment for the six months ended March 31, 2015.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – GOODWILL AND OTHER INTANGIBLES (continued)

(In millions)	Specialty Ingredients	Performance Materials (a)	Valvoline	Total
Balance at September 30, 2014	$2,129	$346	$168	$2,643
Divestiture (b)	—	(10)	(1)	(11)
Currency translation adjustment	(136)	(16)	—	(152)
Balance at March 31, 2015	$1,993	$320	$167	$2,480

(a) As of March 31, 2015, goodwill consisted of $172 million for the Intermediates/Solvents reporting unit and $148 million for the Composites reporting unit.
(b) Divestiture caption represents the amounts of goodwill for the sale of Elastomers and Valvoline car care products. See Note B for additional information.

Other intangible assets

Intangible assets principally consist of trademarks and trade names, intellectual property, customer relationships, and in-process research and development (IPR&D). Intangible assets classified as finite are amortized on a straight-line basis over their estimated useful lives. The cost of trademarks and trade names is amortized principally over 4 to 25 years, intellectual property over 5 to 20 years, and customer relationships over 3 to 24 years.

IPR&D and certain intangible assets within trademarks and trade names have been classified as indefinite-lived and had a balance of $322 million as of March 31, 2015 and September 30, 2014. During the three and six months ended March 31, 2014, Ashland incurred a $9 million impairment related to certain IPR&D assets associated with the acquisition of International Specialty Products Inc. (ISP). This charge was included in the research and development expense caption of the Statements of Consolidated Comprehensive Income. Ashland annually reviews indefinite-lived intangible assets for possible impairment or whenever events or changes in circumstances indicate that carrying amounts may not be recoverable.

Intangible assets were comprised of the following as of March 31, 2015 and September 30, 2014.

	March 31, 2015		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets			
Trademarks and trade names (a) (b)	$59	$(43)	$16
Intellectual property (a)	809	(244)	565
Customer relationships (b)	418	(133)	285
Total definite-lived intangible assets	1,286	(420)	866
Indefinite-lived intangible assets			
IPR&D	19	—	19
Trademarks and trade names	303	—	303
Total intangible assets	$1,608	$(420)	$1,188

(a) Elastomers had a gross carrying amount for trademarks/trade names and intellectual property of $6 million and $18 million, respectively, with $5 million of accumulated amortization for each caption.
(b)

Valvoline car care products intangibles were included in the loss to recognize the fair value of assets less cost of sale during the March 2015 quarter. These intangibles included trademarks/trade names and customer relationships with gross carrying amounts of $7 million and $1 million, respectively, with $3 million and $1 million, respectively, of accumulated amortization. See Note B for additional information.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – GOODWILL AND OTHER INTANGIBLES (continued)

	September 30, 2014		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets			
Trademarks and trade names	$72	$(49)	$23
Intellectual property	827	(226)	601
Customer relationships	481	(118)	363
Total definite-lived intangible assets	1,380	(393)	987
Indefinite-lived intangible assets			
IPR&D	19	—	19
Trademarks and trade names	303	—	303
Total intangible assets	$1,702	$(393)	$1,309

Amortization expense recognized on intangible assets was $20 million and $22 million for the three months ended March 31, 2015 and 2014, respectively, and $41 million and $44 million for the six months ended March 31, 2015 and 2014, respectively, and is included in the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. Estimated amortization expense for future periods is $80 million in 2015 (includes six months actual and six months estimated), $78 million in 2016, $78 million in 2017, $77 million in 2018 and $74 million in 2019.

NOTE H – DEBT

The following table summarizes Ashland’s current and long-term debt as of the reported Condensed Consolidated Balance Sheet dates.

(In millions)	March 31 2015	September 30 2014
4.750% notes, due 2022	$1,120	$1,120
3.875% notes, due 2018	700	700
3.000% notes, due 2016	600	600
6.875% notes, due 2043	376	376
Accounts receivable securitization (a)	165	255
6.50% junior subordinated notes, due 2029	135	134
Revolving credit facility	40	45
Other international loans, interest at a weighted-average rate of 6.7% at March 31, 2015 (5.9% to 10.0%)	28	29
Medium-term notes, due 2015-2019, interest at a weighted-average rate of 8.7% at March 31, 2015 (8.4% to 9.4%)	14	14
Other	7	7
Total debt	3,185	3,280
Short-term debt	(233)	(329)
Current portion of long-term debt	(9)	(9)
Long-term debt (less current portion)	$2,943	$2,942

(a)

During the December 2014 quarter, the potential funding for qualified receivables was reduced from $275 million to $250 million.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE H – DEBT (continued)

The scheduled aggregate maturities of debt by year are as follows: $194 million remaining in 2015, $608 million in 2016, none in 2017, $740 million in 2018 and $5 million in 2019. The borrowing capacity remaining under the $1.2 billion senior unsecured revolving credit facility (the 2013 Senior Credit Facility) was $1,088 million, due to an outstanding balance of $40 million, as well as a reduction of $72 million for letters of credit outstanding at March 31, 2015. Ashland's total borrowing capacity at March 31, 2015 was $1,156 million, which includes $68 million from the accounts receivable securitization facility.

Covenant restrictions

Ashland's debt contains usual and customary representations, warranties and affirmative and negative covenants, including financial covenants for leverage and interest coverage ratios, limitations on liens, additional indebtedness, further negative pledges, investments, mergers, sale of assets and restricted payments and other customary limitations. As of March 31, 2015, Ashland is in compliance with all debt agreement covenant restrictions.

Financial covenants

The maximum consolidated leverage ratio permitted under the 2013 Senior Credit Facility during its entire duration is 3.25. At March 31, 2015, Ashland’s calculation of the consolidated leverage ratio was 2.2, which is below the maximum consolidated leverage ratio of 3.25.

The minimum required consolidated interest coverage ratio under the 2013 Senior Credit Facility during its entire duration is 3.0. At March 31, 2015, Ashland’s calculation of the interest coverage ratio was 6.9, which exceeds the minimum required consolidated ratio of 3.0.

NOTE I – INCOME TAXES

Current fiscal year

Ashland’s estimated annual effective income tax rate used to determine income tax expense in interim financial reporting for the year ending September 30, 2015 is 24%. Ashland’s effective tax rate in any interim period is subject to adjustments related to discrete items and changes within foreign effective tax rates resulting from income or loss fluctuations. The overall effective tax rate was 21% for the three months ended March 31, 2015 and includes $15 million of discrete tax benefits on pretax charges of $58 million, primarily related to the loss of the Valvoline car care product assets, restructuring charges relating to a manufacturing facility, impairment of the Valvoline joint venture equity investment within Venezuela, the loss on the pension plan remeasurement, and MAP Transaction receivable adjustment related to the January 2015 asbestos insurance settlement. These charges are partially offset by the non taxable benefit of recording a $16 million tax indemnity from a third party. In addition, the tax rate was impacted by net favorable items of $4 million, primarily related to release of a valuation reserve on certain deferred taxes.

The overall effective tax rate of 17% for the six months ended March 31, 2015 includes certain discrete items such as the current quarter discrete items discussed previously, as well as $31 million discrete tax benefits on pretax charges of $93 million, primarily related to the sale of the Elastomers division.

Prior fiscal year

Ashland’s annual effective income tax rate used to determine income tax expense in interim financial reporting for the year ending September 30, 2014 was 21%. The overall effective tax rate was 41% for the three months ended March 31, 2014 and includes $80 million of discrete tax benefits recorded to the quarter on pretax charges of $247 million related to pension charges, global restructuring program costs and impairments related to the investment in the ASK joint venture and certain IPR&D assets. In addition, the rate was impacted by net charges for discrete items of $7 million, which consisted of $15 million in a foreign income tax rate change

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE I – INCOME TAXES (continued)

and other divestiture-related deferred tax adjustments, partially offset by $8 million for the reversal of unrecognized tax benefits.

The overall effective tax rate of negative 1,250% for the six months ended March 31, 2014 includes certain discrete items such as the current quarter discrete items discussed previously, as well as a net benefit for discrete items of $5 million primarily related to the release of a foreign valuation allowance and certain non-taxable pretax income amounts.

Unrecognized tax benefits

Changes in unrecognized tax benefits are summarized as follows for the six months ended March 31, 2015.

(In millions)	
Balance at October 1, 2014	$155
Increases related to positions taken on items from prior years	5
Decreases related to positions taken on items from prior years (a)	(15)
Increases related to positions taken in the current year	11
Lapse of the statute of limitations	(1)
Settlement of uncertain tax positions with tax authorities	(8)
Balance at March 31, 2015	$147

(a) Includes $4 million of currency translation adjustment.

In the next twelve months, Ashland expects a decrease in the amount accrued for uncertain tax positions of up to $10 million for continuing operations and $8 million for discontinued operations related primarily to audit settlements and statute of limitations expirations in various tax jurisdictions. It is reasonably possible that there could be other material changes to the amount of uncertain tax positions due to activities of the taxing authorities, settlement of audit issues or the reassessment of existing uncertain tax positions; however, Ashland is not able to estimate the impact of these items at this time.

As of March 31, 2015, Ashland has recorded valuation allowances related to state net operating loss carry forwards and other state deferred tax asset balances. Ashland will continue to assess, based upon all available evidence both positive and negative, whether the valuation allowances are supportable and it is possible that an amount equal to $20 million to $30 million could be reversed in fiscal year 2015.

Other matters

During the March 2015 quarter, Ashland received funds as a result of a tax indemnity settlement. As a result, Ashland recognized $16 million of income during the three months ended March 31, 2015 within selling, general and administrative expenses in the Statements of Consolidated Comprehensive Income.

NOTE J – EMPLOYEE BENEFIT PLANS

For the six months ended March 31, 2015, Ashland contributed $19 million to its U.S. pension plans and $10 million to its non-U.S. pension plans. Ashland expects to make additional contributions to the U.S. plans of approximately $63 million and to the non-U.S. plans of approximately $6 million during the remainder of 2015.

During the three and six months ended March 31, 2015, Ashland was required to remeasure a non-U.S. pension plan due to the exit of Water Technologies' employees from the plan. As a result of the remeasurement, Ashland recognized a curtailment gain of $7 million and actuarial loss of $11 million during the three and six months

NOTE J – EMPLOYEE BENEFIT PLANS (continued)

ended March 31, 2015. Of these amounts, all of the curtailment gain and $2 million of the actuarial loss were attributable to the Water Technologies business and therefore included in the discontinued operations caption of the Statements of Consolidated Comprehensive Income for the three and six months ended March 31, 2015.

During 2014, due to the global restructuring plan, Ashland was required to remeasure certain pension plan obligations, which included updating assumptions related to these plans such as the discount rate, asset values and demographic data. As a result of the remeasurement, Ashland recognized a curtailment loss of $7 million and actuarial loss of $83 million during the three and six months ended March 31, 2014. In accordance with U.S. GAAP, $14 million of the actuarial loss was attributable to the Water Technologies business and included in the discontinued operations caption of the Statements of Consolidated Comprehensive Income for the three and six months ended March 31, 2014.

Also during 2014, Ashland settled a non-U.S. pension plan, which in accordance with U.S. GAAP required the plan to be remeasured. The remeasurement resulted in Ashland recognizing a settlement loss of $21 million and an actuarial loss of $13 million during the three and six months ended March 31, 2014. Of these amounts, $3 million of the settlement loss and $2 million of the actuarial loss were attributable to the Water Technologies business and therefore included in the discontinued operations caption of the Statements of Consolidated Comprehensive Income for the three and six months ended March 31, 2014.

For segment reporting purposes, service cost for continuing operations is proportionately allocated to each segment, excluding the Unallocated and other segment, while all other costs for continuing operations are recorded within the Unallocated and other segment. In accordance with U.S. GAAP, during 2014, a portion of the other components of pension and other postretirement benefit costs (i.e. interest cost, expected return on assets, and amortization of prior service credit) related to Water Technologies was reclassified from the Unallocated and other segment to the discontinued operations caption of the Statements of Consolidated Comprehensive Income. For the three and six months ended March 31, 2014, income of $2 million and $4 million, respectively, was classified within discontinued operations.

The following table details the components of pension and other postretirement benefit costs for both continuing and discontinued operations.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE J – EMPLOYEE BENEFIT PLANS (continued)

	Pension benefits		Other postretirement benefits	
(In millions)	2015	2014	2015	2014
Three months ended March 31				
Service cost (a)	$6	$10	$—	$—
Interest cost	44	50	2	2
Expected return on plan assets	(55)	(60)	—	—
Amortization of prior service credit	(1)	(1)	(4)	(5)
Curtailment, settlement and other	(7)	28	—	—
Actuarial loss	11	96	—	—
	$(2)	$123	$(2)	$(3)
Six months ended March 31				
Service cost	$13	$21	$1	$1
Interest cost	88	99	3	4
Expected return on plan assets	(109)	(119)	—	—
Amortization of prior service credit	(1)	(1)	(8)	(11)
Curtailment, settlement and other	(7)	28	—	—
Actuarial loss	11	96	—	—
	$(5)	$124	$(4)	$(6)

(a) Service cost and net pension benefit costs of $0 denote values less than $1 million.

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES

Asbestos litigation

Ashland and Hercules, a wholly-owned subsidiary of Ashland that was acquired in 2009, have liabilities from claims alleging personal injury caused by exposure to asbestos. To assist in developing and annually updating independent reserve estimates for future asbestos claims and related costs given various assumptions, Ashland retained Hamilton, Rabinovitz & Associates, Inc. (HR&A). The methodology used by HR&A to project future asbestos costs is based largely on recent experience, including claim-filing and settlement rates, disease mix, enacted legislation, open claims and litigation defense. The claim experience of Ashland and Hercules are separately compared to the results of previously conducted third party epidemiological studies estimating the number of people likely to develop asbestos-related diseases. Those studies were undertaken in connection with national analyses of the population expected to have been exposed to asbestos. Using that information, HR&A estimates a range of the number of future claims that may be filed, as well as the related costs that may be incurred in resolving those claims. Changes in asbestos-related liabilities and receivables are recorded on an after-tax basis within the discontinued operations caption in the Statements of Consolidated Comprehensive Income.

Ashland asbestos-related litigation

The claims alleging personal injury caused by exposure to asbestos asserted against Ashland result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley, a former subsidiary. The amount and timing of settlements and number of open claims can fluctuate from period to period. A summary of Ashland asbestos claims activity, excluding Hercules claims, follows.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

	Six months ended March 31		Years ended September 30		
(In thousands)	2015	2014	2014	2013	2012
Open claims - beginning of period	65	65	65	66	72
New claims filed	1	1	2	2	2
Claims settled	—	—	(1)	(1)	(1)
Claims dismissed	(1)	—	(1)	(2)	(7)
Open claims - end of period	65	66	65	65	66

Ashland asbestos-related liability

From the range of estimates, Ashland records the amount it believes to be the best estimate of future payments for litigation defense and claim settlement costs, which generally approximates the mid-point of the estimated range of exposure from model results. Ashland reviews this estimate and related assumptions quarterly and annually updates the results of a non-inflated, non-discounted approximate 50-year model developed with the assistance of HR&A. As a result of the most recent annual update of this estimate, completed during the June 2014 quarter, it was determined that the liability for asbestos claims should be increased by $4 million. Total reserves for asbestos claims were $422 million at March 31, 2015 compared to $438 million at September 30, 2014.

A progression of activity in the asbestos reserve is presented in the following table.

	Six months ended March 31		Years ended September 30		
(In millions)	2015	2014	2014	2013	2012
Asbestos reserve - beginning of period	$438	$463	$463	$522	$543
Reserve adjustment	—	—	4	(28)	11
Amounts paid	(16)	(16)	(29)	(31)	(32)
Asbestos reserve - end of period	$422	$447	$438	$463	$522

Ashland asbestos-related receivables

Ashland has insurance coverage for certain litigation defense and claim settlement costs incurred in connection with its asbestos claims, and coverage-in-place agreements exist with the insurance companies that provide most of the coverage currently being accessed.

For the Ashland asbestos-related obligations, Ashland has estimated the value of probable insurance recoveries associated with its asbestos reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage, including an assumption that all solvent insurance carriers remain solvent. Substantially all of the estimated receivables from insurance companies are expected to be due from domestic insurers. Of the insurance companies rated by A. M. Best, all have a credit rating of B+ or higher as of March 31, 2015. The remainder of the insurance receivable is due from London insurance companies, which generally have lower credit quality ratings.

In October 2012, Ashland and Hercules initiated various arbitration proceedings against Underwriters at Lloyd's, certain London companies and/or Chartis (AIG) member companies seeking to enforce these insurers' contractual obligations to provide indemnity for asbestos liabilities and defense costs under existing coverage-in-place agreements. In addition, Ashland and Hercules initiated a lawsuit in Kentucky state court against certain Berkshire Hathaway entities (National Indemnity Company and Resolute Management, Inc.) on grounds that these Berkshire entities wrongfully interfered with Underwriters' and Chartis' performance of their

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

respective contractual obligations to provide asbestos coverage by directing the insurers to reduce and delay certain claim payments.

On January 13, 2015, Ashland and Hercules entered into a comprehensive settlement agreement related to certain insurance coverage for asbestos bodily injury claims with Underwriters at Lloyd’s, certain London Companies and Chartis (AIG) member companies, along with National Indemnity and Resolute Management, Inc., under which Ashland and Hercules received a total of $398 million. In exchange, all claims were released against these entities for past, present and future coverage obligations arising out of the asbestos coverage-in-place agreements that were the subject of the pending arbitration proceedings. In addition, as part of this settlement, Ashland and Hercules released all claims against National Indemnity and Resolute Management, Inc. in the Kentucky state court action. As a result, the arbitration proceedings and the Kentucky state court action have been terminated.

As a result of this settlement, Ashland recorded an after-tax gain of $120 million within the discontinued operations caption of the Statements of Consolidated Comprehensive Income during the three months ended March 31, 2015. The Ashland insurance receivable balance was also reduced as a result of this settlement by $227 million within the Condensed Consolidated Balance Sheets.

In addition, Ashland placed $335 million of the settlement funds received into a renewable annual trust restricted for the purpose of paying for ongoing and future litigation defense and claim settlement costs incurred in conjunction with asbestos claims.

At March 31, 2015, Ashland’s receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to $162 million, of which $18 million relates to costs previously paid. Receivables from insurers amounted to $402 million at September 30, 2014. During the June 2014 quarter, the annual update of the model used for purposes of valuing the asbestos reserve described above, and its impact on valuation of future recoveries from insurers, was updated. This model update resulted in a $7 million increase in the receivable for probable insurance recoveries. In 2014, subsequent to the model update, a $15 million increase to the receivable was recorded to reflect a change to certain model assumptions related to the timing of receipts.

A progression of activity in the Ashland insurance receivable is presented in the following table.

	Six months ended March 31		Years ended September 30		
(In millions)	2015	2014	2014	2013	2012
Insurance receivable - beginning of period	$402	$408	$408	$423	$431
Receivable adjustment	—	—	22	(3)	19
Insurance settlement	(227)	—	—	—	—
Amounts collected	(13)	(5)	(28)	(12)	(27)
Insurance receivable - end of period	$162	$403	$402	$408	$423

Hercules asbestos-related litigation

Hercules has liabilities from claims alleging personal injury caused by exposure to asbestos. Such claims typically arise from alleged exposure to asbestos fibers from resin encapsulated pipe and tank products which were sold by one of Hercules’ former subsidiaries to a limited industrial market. The amount and timing of settlements and number of open claims can fluctuate from period to period. A summary of Hercules’ asbestos claims activity follows.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

	Six months ended March 31		Years ended September 30		
(In thousands)	2015	2014	2014	2013	2012
Open claims - beginning of period	21	21	21	21	21
New claims filed	1	—	1	1	1
Claims dismissed	(1)	—	(1)	(1)	(1)
Open claims - end of period	21	21	21	21	21

Hercules asbestos-related liability

From the range of estimates, Ashland records the amount it believes to be the best estimate of future payments for litigation defense and claim settlement costs, which generally approximates the mid-point of the estimated range of exposure from model results. Ashland reviews this estimate and related assumptions quarterly and annually updates the results of a non-inflated, non-discounted approximate 50-year model developed with the assistance of HR&A. As a result of the most recent annual update of this estimate, completed during the June 2014 quarter, it was determined that the liability for Hercules asbestos-related claims should be increased by $10 million. Total reserves for asbestos claims were $320 million at March 31, 2015 compared to $329 million at September 30, 2014.

A progression of activity in the asbestos reserve is presented in the following table.

	Six months ended March 31		Years ended September 30		
(In millions)	2015	2014	2014	2013	2012
Asbestos reserve - beginning of period	$329	$342	$342	$320	$311
Reserve adjustment	—	—	10	46	30
Amounts paid	(9)	(11)	(23)	(24)	(21)
Asbestos reserve - end of period	$320	$331	$329	$342	$320

Hercules asbestos-related receivables

For the Hercules asbestos-related obligations, certain reimbursement obligations pursuant to coverage-in-place agreements with insurance carriers exist. As a result, any increases in the asbestos reserve have been partially offset by probable insurance recoveries. Ashland has estimated the value of probable insurance recoveries associated with its asbestos reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage, including an assumption that all solvent insurance carriers remain solvent. The estimated receivable consists exclusively of domestic insurers. Of the insurance companies rated by A. M. Best, all have a credit rating of A+ or higher as of March 31, 2015.

As of March 31, 2015 and September 30, 2014, the receivables from insurers amounted to $55 million and $77 million, respectively. During the June 2014 quarter, the annual update of the model used for purposes of valuing the asbestos reserve and its impact on valuation of future recoveries from insurers was completed. This model update caused a $3 million increase in the receivable for probable insurance recoveries.

As a result of the January 2015 asbestos insurance settlement previously described, Hercules has resolved all disputes with Chartis (AIG) member companies under their existing coverage-in-place agreement for past, present and future Hercules asbestos claims. As a result, during the March 2015 quarter, a $22 million reduction in the insurance receivable balance within the Condensed Consolidated Balance Sheets was recorded.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

A progression of activity in the Hercules insurance receivable is presented in the following table.

	Six months ended March 31		Years ended September 30		
(In millions)	2015	2014	2014	2013	2012
Insurance receivable - beginning of period	$77	$75	$75	$56	$48
Receivable adjustment	—	—	3	19	9
Insurance settlement	(22)	—	—	—	—
Amounts collected	—	(1)	(1)	—	(1)
Insurance receivable - end of period	$55	$74	$77	$75	$56

Asbestos liability projection

Projecting future asbestos costs is subject to numerous variables that are extremely difficult to predict. In addition to the significant uncertainties surrounding the number of claims that might be received, other variables include the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, Ashland believes that the asbestos reserves for Ashland and Hercules represent the best estimate within a range of possible outcomes. As a part of the process to develop these estimates of future asbestos costs, a range of long-term cost models was developed. These models are based on national studies that predict the number of people likely to develop asbestos-related diseases and are heavily influenced by assumptions regarding long-term inflation rates for indemnity payments and legal defense costs, as well as other variables mentioned previously. Ashland has currently estimated in various models ranging from approximately 40 to 50 year periods that it is reasonably possible that total future litigation defense and claim settlement costs on an inflated and undiscounted basis could range as high as approximately $870 million for the Ashland asbestos-related litigation and approximately $670 million for the Hercules asbestos-related litigation (or approximately $1.5 billion in the aggregate), depending on the combination of assumptions selected in the various models. If actual experience is worse than projected, relative to the number of claims filed, the severity of alleged disease associated with those claims or costs incurred to resolve those claims, Ashland may need to further increase the estimates of the costs associated with asbestos claims and these increases could be material over time.

Environmental remediation and asset retirement obligations

Ashland is subject to various federal, state and local environmental laws and regulations that require environmental assessment or remediation efforts (collectively environmental remediation) at multiple locations. At March 31, 2015, such locations included 82 waste treatment or disposal sites where Ashland has been identified as a potentially responsible party under Superfund or similar state laws, 139 current and former operating facilities (including certain operating facilities conveyed to Marathon Ashland Petroleum LLC (MAP) in 2005) and about 1,225 service station properties, of which 82 are being actively remediated.

Ashland's reserves for environmental remediation amounted to $190 million at March 31, 2015 compared to $197 million at September 30, 2014, of which $151 million at March 31, 2015 and $158 million at September 30, 2014 were classified in other noncurrent liabilities on the Condensed Consolidated Balance Sheets.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

The following table provides a reconciliation of the changes in the environmental contingencies and asset retirement obligations during the six months ended March 31, 2015 and 2014.

	Six months ended March 31	
(In millions)	2015	2014
Reserve - beginning of period	$197	$211
Disbursements	(22)	(20)
Revised obligation estimates and accretion	15	11
Reserve - end of period	$190	$202

The total reserves for environmental remediation reflect Ashland's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated reserves for environmental remediation. Ashland continues to discount certain environmental sites and regularly adjusts its reserves as environmental remediation continues. Ashland has estimated the value of its probable insurance recoveries associated with its environmental reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage. At March 31, 2015 and September 30, 2014, Ashland's recorded receivable for these probable insurance recoveries was $24 million which were classified in other noncurrent assets on the Condensed Consolidated Balance Sheets.

Components of environmental remediation expense included within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income are presented in the following table for the three and six months ended March 31, 2015 and 2014.

	Three months ended March 31		Six months ended March 31	
(In millions)	2015	2014	2015	2014
Environmental expense	$9	$5	$14	$9
Accretion	—	1	1	2
Legal expense	2	2	3	2
Total expense	11	8	18	13
Insurance receivable	(1)	(1)	(1)	(2)
Total expense, net of receivable activity (a)	$10	$7	$17	$11

(a) Net expense of $2 million for the three and six months ended March 31, 2015 and $1 million for the six months ended March 31, 2014 relates to divested businesses which qualified for treatment as discontinued operations and for which certain environmental liabilities were retained by Ashland. These amounts are classified within the income from discontinued operations caption of the Statements of Consolidated Comprehensive Income.

Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Although it is not possible to predict with certainty the ultimate costs of environmental remediation, Ashland currently estimates that the upper end of the reasonably possible range

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

of future costs for identified sites could be as high as approximately $420 million. No individual remediation location is significant, as the largest reserve for any site is 13% or less of the remediation reserve.

Other legal proceedings and claims

In addition to the matters described above, there are other various claims, lawsuits and administrative proceedings pending or threatened against Ashland and its current and former subsidiaries. Such actions are with respect to commercial matters, product liability, toxic tort liability, and other environmental matters, which seek remedies or damages, some of which are for substantial amounts. While Ashland cannot predict with certainty the outcome of such actions, it believes that adequate reserves have been recorded and losses already recognized with respect to such actions were immaterial as of March 31, 2015 and September 30, 2014. There is a reasonable possibility that a loss exceeding amounts already recognized may be incurred related to these actions; however, Ashland believes that such potential losses were immaterial as of March 31, 2015.

NOTE L – EARNINGS PER SHARE

The following is the computation of basic and diluted earnings per share (EPS) from continuing operations. Stock appreciation rights (SARs) and warrants available to purchase shares outstanding for each reporting period whose grant price was greater than the average market price of Ashland Common Stock for each applicable period were not included in the computation of income (loss) from continuing operations per diluted share because the effect of these instruments would be antidilutive. The total number of these shares outstanding was approximately 0.6 million at March 31, 2015 and 2014. Earnings per share is reported under the treasury stock method.

	Three months ended March 31		Six months ended March 31	
(In millions except per share data)	2015	2014	2015	2014
Numerator				
Numerator for basic and diluted EPS – Income (loss) from continuing operations	$95	$(61)	$136	$27
Denominator				
Denominator for basic EPS – Weighted-average common shares outstanding	68	78	69	78
Share-based awards convertible to common shares (a)	1	—	1	1
Denominator for diluted EPS – Adjusted weighted-average shares and assumed conversions	69	78	70	79
EPS from continuing operations				
Basic	$1.40	$(0.78)	$1.97	$0.35
Diluted	1.39	(0.78)	1.95	0.35

(a) As a result of the loss from continuing operations during the three months ended March 31, 2014, the effect of the share-based awards convertible to common shares would be antidilutive. As such, they were excluded from the diluted EPS calculation.

NOTE M – STOCKHOLDERS' EQUITY ITEMS

Stock repurchase programs

During the March 2014 quarter, the Board of Directors of Ashland authorized a $1.35 billion common stock repurchase program. Under the program, Ashland’s common shares may be repurchased in open market

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE M – STOCKHOLDERS' EQUITY ITEMS (continued)

transactions, privately negotiated transactions or pursuant to one or more accelerated stock repurchase programs or Rule 10b5-1 plans. This repurchase program will expire on December 31, 2015.

In April 2015, Ashland's Board of Directors approved a new $1 billion share repurchase authorization that will expire on December 31, 2017.

The following stock repurchase agreements were entered into as part of the $1.35 billion common stock repurchase program.

Accelerated share repurchase agreements

Ashland announced in the September 2014 quarter that it had entered into accelerated share repurchase agreements (2014 ASR Agreements) with Deutsche Bank AG, London Branch (Deutsche Bank) and JPMorgan Chase Bank, N.A. (JPMorgan) to repurchase an aggregate of $750 million of Ashland's common stock. Under the 2014 ASR Agreements, Ashland paid an initial purchase price of $750 million, split evenly between the financial institutions. As of September 30, 2014, Ashland received an initial delivery of approximately 5.9 million shares of common stock under the 2014 ASR Agreements. The 2014 ASR Agreements have a variable maturity, at the financial institutions option, with a scheduled termination date of no later than June 30, 2015. No shares were received during the three and six months ended March 31, 2015 under the 2014 ASR Agreements.

During the three months ended March 31, 2015, Ashland announced that it entered into accelerated share repurchase agreements (2015 ASR Agreements) with Deutsche Bank and JPMorgan to repurchase an aggregate of $270 million of Ashland's common stock. Under the 2015 ASR Agreements, Ashland paid an initial purchase price of $270 million, split evenly between the financial institutions. As of March 31, 2015, Ashland received an initial delivery of approximately 1.9 million shares of common stock under the 2015 ASR Agreements. The 2015 ASR Agreements have a variable maturity, at the financial institutions option, with a scheduled termination date of no later than July 31, 2015.

Additional stock repurchase agreements

Ashland entered into and completed a $125 million prepaid variable share repurchase agreement during 2014. The settlement price, which represents the weighted average price of Ashland's common stock over the pricing period less a discount, was $105.22 per share. Ashland received 0.8 million shares and $45 million in cash for the unused portion of the $125 million prepayment, for a net cash outlay of $80 million.

Ashland announced in the September 30, 2014 quarter that it had entered into an agreement with each of Deutsche Bank Securities Inc. and JPMorgan to repurchase an aggregate of $250 million of Ashland's common stock. Under the terms of the agreement, the financial institutions purchased a pre-determined number of shares on various trading days dependent upon Ashland's prevailing stock price on that date. During fiscal 2014, Ashland received 1.2 million shares of common stock for a total cost of $124 million. During the six months ended March 31, 2015, Ashland completed these agreements, receiving an additional 1.2 million shares of common stock for a total cost of $127 million. The settlement price, which represents the average amount spent after commissions over the common shares repurchased throughout the program, was $104.51 per share. In total, Ashland paid $250 million and received 2.4 million shares of common stock under the agreements.

Stockholder dividends

During the three months ended March 31, 2015, the Board of Directors of Ashland announced and paid a quarterly cash dividend of 34 cents per share to eligible shareholders of record. The same amount was paid for quarterly dividends in the December 2014 quarter as well as each quarter of fiscal 2014.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE M – STOCKHOLDERS' EQUITY ITEMS (continued)

Accumulated other comprehensive income
Components of other comprehensive income recorded in the Statements of Consolidated Comprehensive Income are presented below, before tax and net of tax effects.

(In millions)	2015 Before tax	2015 Tax (expense) benefit	2015 Net of tax	2014 Before tax	2014 Tax (expense) benefit	2014 Net of tax
Three months ended March 31						
Other comprehensive income (loss)						
Unrealized translation loss	$(256)	$1	$(255)	$(24)	$(1)	$(25)
Pension and postretirement obligation adjustment:						
Amortization of unrecognized prior service credits included in net income (loss) (a)	(8)	2	(6)	(6)	1	(5)
Total other comprehensive loss	$(264)	$3	$(261)	$(30)	$—	$(30)
Six months ended March 31						
Other comprehensive income (loss)						
Unrealized translation gain (loss)	$(382)	$—	$(382)	$15	$(1)	$14
Pension and postretirement obligation adjustment:						
Amortization of unrecognized prior service credits included in net income (a)	(12)	1	(11)	(12)	3	(9)
Total other comprehensive income (loss)	$(394)	$1	$(393)	$3	$2	$5

(a) Amortization of unrecognized prior service credits are included in the calculation of net periodic benefit costs (income) for pension and other postretirement plans. For specific financial statement captions impacted by the amortization see the table below.

In accordance with U.S. GAAP, as discussed in the table above, certain pension and postretirement costs (income) are amortized from accumulated other comprehensive income and recognized in net income. The captions on the Statements of Consolidated Comprehensive Income impacted by the amortization of unrecognized prior service credits for pension and other postretirement plans are disclosed below. See Note J for more information.

(In millions)	Three months ended March 31 2015	Three months ended March 31 2014	Six months ended March 31 2015	Six months ended March 31 2014
Cost of sales	$(2)	$(2)	$(3)	$(3)
Selling, general and administrative expense	(3)	(3)	(6)	(7)
Discontinued operations	(3)	(1)	(3)	(2)
Total amortization of unrecognized prior service credits	$(8)	$(6)	$(12)	$(12)

NOTE N – STOCK INCENTIVE PLANS

Ashland has stock incentive plans under which key employees or directors are granted stock-settled stock appreciation rights (SARs), performance share awards or nonvested stock awards. Each program is typically a long-term incentive plan designed to link employee compensation with increased shareholder value or reward superior performance and encourage continued employment with Ashland. Ashland recognizes compensation

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE N – STOCK INCENTIVE PLANS (continued)

expense for the grant date fair value of stock-based awards over the applicable vesting period within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. Stock-based compensation expense was $8 million and $9 million for the three months ended March 31, 2015 and 2014, respectively. For the six months ended March 31, 2015 and 2014, stock-based compensation expense was $23 million and $17 million, respectively. The six months ended March 31, 2015 included a $7 million award modification within performance shares that was designated as a cash item and $1 million of expense related to cash-settled restricted stock awards.

SARs

SARs are granted to employees or directors at a price equal to the fair market value of the stock on the date of grant and typically become exercisable over periods of one to three years. Unexercised SARs lapse ten years and one month after the date of grant. SARs granted for the three months ended March 31, 2015 were 0.05 million, while no SARS were granted for the three months ended March 31, 2014. SARs granted for the six months ended March 31, 2015 and 2014 were 0.3 million and 0.4 million, respectively. As of March 31, 2015, there was $14 million of total unrecognized compensation costs related to SARs. That cost is expected to be recognized over a weighted-average period of 1.9 years. Ashland estimates the fair value of SARs granted using the Black-Scholes option-pricing model. This model requires several assumptions, which Ashland has developed and updates based on historical trends and current market observations. The accuracy of these assumptions is critical to the estimate of fair value for these equity instruments.

Nonvested stock awards

Nonvested stock awards are granted to employees or directors at a price equal to the fair market value of the stock on the date of grant and generally vest over a one-to-five-year period. However, such shares are subject to forfeiture upon termination of service before the vesting period ends. Nonvested stock awards entitle employees or directors to vote the shares. Dividends on nonvested stock awards granted are in the form of additional shares of nonvested stock awards, which are subject to vesting and forfeiture provisions. Nonvested stock awards granted were 62,850 and 167,600 for the three and six months ended March 31, 2015, respectively, and 133,300 were granted for the six months ended March 31, 2014. No nonvested stock awards were granted for the three months ended March 31, 2014. As of March 31, 2015, there was $22 million of total unrecognized compensation costs related to nonvested stock awards. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Performance shares

Ashland sponsors a long-term incentive plan that awards performance shares/units to certain key employees that are tied to Ashland’s overall financial performance relative to the financial performance of selected industry peer groups and/or internal targets. Awards are granted annually, with each award covering a three-year performance cycle. Each performance share/unit is convertible to one share of Ashland Common Stock. These plans are recorded as a component of stockholders’ equity in the Condensed Consolidated Balance Sheets. Performance measures used to determine the actual number of performance shares issuable upon vesting include an equal weighting of Ashland’s total shareholder return (TSR) performance and Ashland’s return on investment (ROI) performance as compared to the internal targets over the three-year performance cycle. TSR relative to peers is considered a market condition while ROI is considered a performance condition under applicable U.S. GAAP. Nonvested performance shares/units do not entitle employees to vote the shares or to receive any dividends thereon. Performance shares/units granted for the three months ended March 31, 2015 were 21,150. Performance shares/units granted for the six months ended March 31, 2015 and 2014 were 0.1 million. No performance shares/units were granted for the three months ended March 31, 2014. As of March 31, 2015, there was $11 million of total unrecognized compensation costs related to performance shares/units. That cost is expected to be recognized over a weighted-average period of 2.1 years.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE N – STOCK INCENTIVE PLANS (continued)

During the December 2014 quarter, Ashland modified certain awards of its performance shares. The awards were modified to provide that the instruments be paid in cash instead of stock. This change in payment designation caused Ashland to recognize $7 million in incremental stock-based compensation expense related to this award modification during the six months ended March 31, 2015.

NOTE O – REPORTABLE SEGMENT INFORMATION

Ashland determines its reportable segments based on how operations are managed internally for the products and services sold to customers and does not aggregate operating segments to arrive at these reportable segments. Subsequent to the sale of Water Technologies and a business realignment during 2014, Ashland's businesses are managed within three reportable segments: Specialty Ingredients, Performance Materials and Valvoline.

Reportable segment business descriptions

Specialty Ingredients is a global leader of cellulose ethers and vinyl pyrrolidones. It offers industry-leading products, technologies and resources for solving formulation and product-performance challenges. Specialty Ingredients uses natural, synthetic and semisynthetic polymers derived from plant and seed extract, cellulose ethers and vinyl pyrrolidones, as well as acrylic and polyurethane-based adhesives. Specialty Ingredients includes two divisions; Consumer Specialties and Industrial Specialties that offer comprehensive and innovative solutions for today's demanding consumer and industrial applications. Key customers include: pharmaceutical companies; makers of personal care products, food and beverages; manufacturers of paint, coatings and construction materials; packaging and converting; and oilfield service companies.

Subsequent to the sale of Elastomers on December 1, 2014, Performance Materials is comprised of two divisions: Composites and Intermediates/Solvents. Elastomers results were included in Performance Materials' results of operations within the Statements of Consolidated Comprehensive Income until its December 1, 2014 sale. Performance Materials is the global leader in unsaturated polyester resins and vinyl ester resins. The commercial unit has leading positions in gelcoats, maleic anhydride, butanediol, tetrahydrofuran, N-Methylpyrolidone, and other intermediates and solvents. Key customers include: manufacturers of residential and commercial building products; infrastructure engineers; wind blade and pipe manufacturers; automotive and truck OEM suppliers; boatbuilders; adhesives, engineered plastics and electronic producers; and specialty chemical manufacturers.

The Performance Materials commercial unit also provided metal casting consumables and design services for effective foundry management through its 50% ownership in the ASK Chemicals GmbH joint venture, which was sold on June 30, 2014. See Note B for information on the divestiture of this investment and the Elastomers division.

Valvoline is a leading, worldwide producer and distributor of premium-branded automotive, commercial and industrial lubricants, automotive chemicals and car-care products. It ranks as the #2 quick-lube chain and #3 passenger car motor oil brand in the United States. The brand operates and franchises approximately 930 Valvoline Instant Oil Change℠ centers in the United States. It also markets Valvoline™ lubricants and automotive chemicals; MaxLife™ lubricants created for higher-mileage engines; NextGen™ motor oil, created with recycled, re-refined base oil; SynPower™ synthetic motor oil; Car Brite™ automotive appearance products; and Zerex™ antifreeze. Key customers include: retail auto parts stores and mass merchandisers who sell to consumers; installers, such as car dealers, repair shops and quick lubes; commercial fleets; and distributors.

Subsequent to the March 2015 quarter, Ashland entered into a definitive agreement to sell its Valvoline car care product assets, including Car Brite™ and Eagle One™ automotive appearance products, and sold its joint venture equity investment within Venezuela.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE O – REPORTABLE SEGMENT INFORMATION (continued)

Unallocated and Other generally includes items such as components of pension and other postretirement benefit plan expenses (excluding service costs, which are allocated to the reportable segments), certain significant company-wide restructuring activities and legacy costs or adjustments that relate to divested businesses that are no longer operated by Ashland, including the Water Technologies business.

Reportable segment results

Results of Ashland's reportable segments are presented based on its management structure and internal accounting practices. The structure and practices are specific to Ashland; therefore, the financial results of Ashland's reportable segments are not necessarily comparable with similar information for other comparable companies. Ashland allocates all costs to its reportable segments except for certain significant company-wide restructuring activities, such as the restructuring plans described in Note D, and other costs or adjustments that generally relate to former businesses that Ashland no longer operates. The service cost component of pension and other postretirement benefits costs is allocated to each reportable segment on a ratable basis; while the remaining components of pension and other postretirement benefits costs are recorded to Unallocated and other. Ashland refines its expense allocation methodologies to the reportable segments from time to time as internal accounting practices are improved, more refined information becomes available and businesses change. Revisions to Ashland's methodologies that are deemed insignificant are applied on a prospective basis.

The following table presents various financial information for each reportable segment, reflective of the 2014 business realignment, for the three and six months ended March 31, 2015 and 2014. As part of this realignment, historical financial results for both the Specialty Ingredients and Performance Materials reportable segments have been revised to account for this new alignment.

	Three months ended March 31		Six months ended March 31	
(In millions - unaudited)	2015	2014	2015	2014
SALES				
Specialty Ingredients	$583	$629	$1,144	$1,209
Performance Materials	286	413	623	779
Valvoline	481	503	974	989
	$1,350	$1,545	$2,741	$2,977
OPERATING INCOME (LOSS)				
Specialty Ingredients	$65	$61	$125	$113
Performance Materials	30	(35)		