ASHLAND INC.
Form 10-Q
April 27, 2016

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, 2016

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, 2016, there were 62,060,722 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)	2016	2015	2016	2015
Sales	$1,247	$1,350	$2,410	$2,741
Cost of sales	823	925	1,595	1,906
Gross profit	424	425	815	835
Selling, general and administrative expense	258	203	483	429
Research and development expense	25	25	49	50
Equity and other income (loss)	6	(4)	15	6
Operating income	147	193	298	362
Net interest and other financing expense	43	40	85	81
Net loss on divestitures	(2)	(33)	—	(118)
Income from continuing operations before income taxes	102	120	213	163
Income tax expense - Note J	15	25	35	27
Income from continuing operations	87	95	178	136
Income (loss) from discontinued operations (net of tax) - Note D	—	129	(2)	121
Net income	$87	$224	$176	$257
PER SHARE DATA				
Basic earnings per share - Note M				
Income from continuing operations	$1.39	$1.40	$2.79	$1.97
Income (loss) from discontinued operations	—	1.90	(0.03)	1.76
Net income	$1.39	$3.30	$2.76	$3.73
Diluted earnings per share - Note M				
Income from continuing operations	$1.38	$1.39	$2.76	$1.95
Income (loss) from discontinued operations	—	1.87	(0.03)	1.73
Net income	$1.38	$3.26	$2.73	$3.68
DIVIDENDS PAID PER COMMON SHARE	$0.39	$0.34	$0.78	$0.68
COMPREHENSIVE INCOME (LOSS)				
Net income	$87	$224	$176	$257
Other comprehensive income (loss), net of tax - Note N				
Unrealized translation gain (loss)	80	(255)	19	(382)
Pension and postretirement obligation adjustment	24	(6)	21	(11)
Unrealized gain on available-for-sale securities	3	—	9	—

Other comprehensive income (loss)	107	(261)	49	(393)
Comprehensive income (loss)	$194	$(37)	$225	$(136)

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions - unaudited)	March 31 2016	September 30 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,136	$ 1,257
Accounts receivable (a)	935	961
Inventories - Note G	726	706
Other assets	115	169
Total current assets	2,912	3,093
Noncurrent assets		
Property, plant and equipment		
Cost	4,252	4,144
Accumulated depreciation	2,086	1,962
Net property, plant and equipment	2,166	2,182
Goodwill - Note H	2,578	2,486
Intangibles - Note H	1,110	1,142
Restricted investments - Note F	280	285
Asbestos insurance receivable - Note L	171	180
Equity and other unconsolidated investments	64	65
Deferred income taxes	213	212
Other assets	407	409
Total noncurrent assets	6,989	6,961
Total assets	$ 9,901	$ 10,054
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt - Note I	$ 694	$ 326
Current portion of long-term debt - Note I	55	55
Trade and other payables	519	573
Accrued expenses and other liabilities	434	488
Total current liabilities	1,702	1,442
Noncurrent liabilities		
Long-term debt - Note I	3,328	3,348
Employee benefit obligations - Note K	1,013	1,076
Asbestos litigation reserve - Note L	636	661
Deferred income taxes	85	85
Other liabilities	414	405
Total noncurrent liabilities	5,476	5,575
Commitments and contingencies - Note L		
Stockholders' equity	2,723	3,037
Total liabilities and stockholders' equity	$ 9,901	$ 10,054

(a) Accounts receivable includes an allowance for doubtful accounts of $11 million at March 31, 2016 and September 30, 2015.

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, 2015	$ 1	$ 46	$ 3,281	$ (291)	$ 3,037
Total comprehensive income			176	49	225
Regular dividends, $.78 per common share			(48)		(48)
Common shares issued under stock incentive and other plans (b)		9			9
Repurchase of common shares (c)		(49)	(451)		(500)
BALANCE AT MARCH 31, 2016	$ 1	$ 6	$ 2,958	$ (242)	$ 2,723

(a) At March 31, 2016 and September 30, 2015, the after-tax accumulated other comprehensive loss of $242 million and $291 million, respectively, was comprised of unrecognized prior service credits as a result of certain employee benefit plan amendments of $62 million and $41 million, respectively, net unrealized translation loss of $302 million and $321 million, respectively, and net unrealized loss on available-for-sale securities of $2 million and $11 million, respectively.

(b) Common shares issued were 318,033 for the six months ended March 31, 2016.

(c) Common shares repurchased were 5,049,911 for the six months ended March 31, 2016. See Note N 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)	2016	2015
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	$176	$257
Loss (income) from discontinued operations (net of tax)	2	(121)
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	168	170
Debt issuance cost amortization	6	7
Deferred income taxes	1	(13)
Equity income from affiliates	(8)	(7)
Distributions from equity affiliates	9	10
Stock based compensation expense	17	15
Gain on available-for-sale securities	(4)	—
Net loss on divestitures	—	118
Impairment of equity investment	—	14
Pension contributions	(15)	(29)
Losses on pension and other postretirement plan remeasurements	23	9
Change in operating assets and liabilities (a)	(125)	(334)
Total cash flows provided by operating activities from continuing operations	250	96
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(103)	(86)
Proceeds from disposal of property, plant and equipment	3	1
Purchase of operations - net of cash acquired	(66)	—
Proceeds from sale of operations or equity investments	12	106
Funds restricted for specific transactions	—	(320)
Reimbursements from restricted investments	23	—
Proceeds from the settlement of derivative instruments	7	—
Purchase of available-for-sale securities	(4)	—
Proceeds from sales of available-for-sale securities	4	—
Total cash flows used by investing activities from continuing operations	(124)	(299)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Repayment of long-term debt	(36)	—
Proceeds (repayment) from short-term debt	368	(96)
Repurchase of common stock	(500)	(397)
Cash dividends paid	(48)	(46)
Excess tax benefits related to share-based payments	(1)	7
Total cash flows used by financing activities from continuing operations	(217)	(532)
CASH USED BY CONTINUING OPERATIONS	(91)	(735)

Cash provided (used) by discontinued operations		
Operating cash flows	(19)	277
Investing cash flows	—	10
Total cash provided (used) by discontinued operations	(19)	287
Effect of currency exchange rate changes on cash and cash equivalents	(11)	(34)
DECREASE IN CASH AND CASH EQUIVALENTS	(121)	(482)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,257	1,393
CASH AND CASH EQUIVALENTS - END OF PERIOD	$1,136	$911

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

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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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, 2015. Results of operations for the period ended March 31, 2016 are not necessarily indicative of the expected results for the remaining quarters in the fiscal year. Additionally, certain prior period data has been reclassified in the Condensed Consolidated Financial Statements to conform to the current period presentation, including the adoption of new accounting guidance during the current quarter related to the classification as noncurrent of all deferred tax assets and liabilities in the Condensed Consolidated Balance Sheet.

Ashland is composed of three reportable segments: Ashland Specialty Ingredients (Specialty Ingredients), Ashland Performance Materials (Performance Materials) and Valvoline.

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.

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. A detailed listing of new accounting standards relevant to Ashland is included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2015. The following standards relevant to Ashland were either issued or adopted in the current period, or will become effective in a subsequent period.

In March 2016, the Financial Accounting Standards Board (FASB) issued new accounting guidance for certain aspects of share-based payments to employees. This guidance requires all excess tax benefits and tax deficiencies related to share-based payments to be recognized as income tax expense in the income statement instead of additional paid in capital, and changes the classification of excess tax benefits from a financing activity to an operating activity within the statement of cash flows. This guidance also allows entities to make an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. Lastly, this guidance increases the amount an employer can withhold to cover income taxes on awards and still qualify for equity classification and requires that cash paid by an employer

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (continued)

when directly withholding shares for tax-withholding purposes be classified as a financing activity within the statement of cash flows. The guidance will become effective for Ashland on October 1, 2017. Early adoption is permitted in any interim or annual period. Ashland is currently evaluating the impact this guidance may have on Ashland's Condensed Consolidated Financial Statements.

In February 2016, the FASB issued new accounting guidance related to lease transactions. The main objective of this guidance is to increase transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases and to disclose key information about leasing arrangements. The presentation of the statements of comprehensive income and the statements of cash flows is largely unchanged under this guidance. This guidance retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the current accounting literature. The guidance will become effective for Ashland on October 1, 2019. Ashland is currently evaluating the impact this guidance may have on Ashland's Condensed Consolidated Financial Statements.

In January 2016, the FASB issued accounting guidance related to the recognition and measurement of financial assets and financial liabilities. The main objective of this guidance is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this guidance address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance requires the following:

- equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;
- a qualitative assessment to identify impairment of equity investments without readily determinable fair values;
- the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; and
- separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements.

The guidance also eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The guidance will become effective for Ashland on October 1, 2018. Early application to financial statements of fiscal years or interim periods that have not yet been issued is permitted as of the beginning of the fiscal year of adoption. Ashland is currently evaluating the impact this guidance may have on Ashland's Condensed Consolidated Financial Statements.

In November 2015, the FASB issued accounting guidance requiring all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. During the current quarter, Ashland adopted this new guidance and applied it retrospectively to the September 30, 2015 Condensed Consolidated Balance Sheet. The impact of this new guidance within this statement resulted in the elimination of net current deferred taxes of $149 million with an increase to noncurrent deferred tax assets of $145 million and a decrease to noncurrent deferred tax liabilities of $4 million.

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

NOTE B – ACQUISITIONS

Oil Can Henry's
On December 11, 2015, Ashland announced that it signed a definitive agreement to acquire OCH International, Inc. (Oil Can Henry's), which was the 14th largest quick-lube network in the United States, servicing approximately 1 million vehicles annually with 89 quick-lube stores, consisting of 47 company-owned stores and 42 franchise locations, in Oregon, Washington, California, Arizona, Idaho and Colorado. On February 1, 2016, Ashland completed the acquisition.
The acquisition of Oil Can Henry's was valued at $72 million, which included acquired indebtedness of $11 million and other working capital adjustments. Net of acquired indebtedness and certain purchase price adjustments, the net cash outlay was approximately $60 million during the March 2016 quarter. The preliminary purchase price allocation primarily included $82 million of goodwill.
Zeta Fraction™
In September 2015, Specialty Ingredients completed the acquisition of the patented Zeta Fraction™ technology from AkzoNobel for $8 million. The acquisition broadens Ashland’s value-added portfolio in the personal care, pharmaceutical, food and beverage, and agriculture markets. The patented Zeta Fraction™ process and technology selectively isolates efficacious components from living plants and marine sources to produce a wide range of biofunctional ingredients. The purchase price allocation primarily included intellectual property and property, plant and equipment.
NOTE C - DIVESTITURES
Ashland Separation of Valvoline
On September 22, 2015, Ashland announced that the Board of Directors approved proceeding with a plan to separate Ashland into two independent, publicly traded companies comprising of the new Ashland and Valvoline. Ashland has continued the process to separate its Valvoline business from its Specialty Ingredients and Performance Materials businesses while it finalizes the transaction structure and obtains customary regulatory and other approvals. Subject to market conditions, Ashland plans to pursue an initial public offering (IPO) of up to 20% of the common stock of Valvoline. Ashland expects to file a registration statement for the common stock of Valvoline with the Securities and Exchange Commission in mid-calendar year 2016 and complete the IPO during the fourth quarter of calendar year 2016. Ashland currently expects that it would distribute the remaining common stock of Valvoline to Ashland's shareholders upon expiration of the IPO lock-up (typically six months after completion of the IPO). Ashland intends for the separation, which is subject to final board approval prior to completion, to be tax free for Ashland shareholders. For the three and six months ended March 31, 2016, Ashland recognized separation costs of $12 million and $18 million, respectively, which are primarily related to consulting and legal fees and employee retention awards. Separation costs are recorded within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income.
The new Ashland will be a global leader in providing specialty chemical solutions to customers in a wide range of consumer and industrial markets. These markets are currently served by Specialty Ingredients and Performance Materials. Key markets and applications include pharmaceutical, personal care, food and beverage, architectural coatings, adhesives, automotive, construction and energy.
Valvoline will focus on building the world's leading engine and automotive maintenance business by providing hands-on expertise to customers in each of its primary market channels: Do-It-Yourself (DIY); Installers; Valvoline Instant Oil Change℠; and International.

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

NOTE C – DIVESTITURES (continued)

Industrial Biocides
During May 2015, Ashland entered into a definitive sale agreement to sell the industrial biocides assets within Specialty Ingredients, which closed on July 1, 2015. As a result of the sale, Ashland received net cash proceeds of approximately $30 million and recognized a nominal gain before tax during the September 2015 quarter.
The sale of Specialty Ingredient's industrial biocides 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.
Valvoline Car Care Products
In April 2015, Ashland entered into a definitive sale agreement to sell Valvoline's car care product assets for $24 million, which included Car Brite™ and Eagle One™ automotive appearance products. Prior to the sale, Ashland recognized a loss of $26 million before tax to recognize the assets at fair value less cost to sell, using Level 2 nonrecurring fair value measurements. The loss was reported within the net loss on divestitures caption within the Statements of Consolidated Comprehensive Income during the March 2015 quarter. The transaction closed on June 30, 2015 and Ashland received net proceeds of $19 million after adjusting for certain customary closing costs and final working capital totals during the June 2015 quarter.
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.
Valvoline Joint Venture
During April 2015, Ashland sold a Valvoline joint venture equity investment in Venezuela. Prior to the sale, Ashland recognized a $14 million impairment in the March 2015 quarter, for which there was no tax effect, using Level 2 nonrecurring fair value measurements 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 prior year was reflective of the continued devaluation of the Venezuelan currency (bolivar) based on changes to the Venezuelan currency exchange rate mechanisms during the prior year. 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 did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results, and thus it did not qualify for discontinued operations treatment.
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 2015 was $105 million, which included working capital adjustments and transaction costs, as defined in the definitive agreement.

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

NOTE C – DIVESTITURES (continued)

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, using Level 2 nonrecurring fair value measurements, within the net loss on divestitures caption within the Statements of Consolidated Comprehensive Income during 2015. The related tax effect was a benefit of $28 million included in the income tax expense caption within the Statements of Consolidated Comprehensive Income.

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 Sheets, respectively, until its December 1, 2014 sale.

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. During January 2015, as a result of an asbestos settlement, Ashland recorded a $7 million charge within the net loss on divestitures caption of the Statements of Consolidated Comprehensive Income. See Note L for more information related to this asbestos insurance settlement.

NOTE D – 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 L for more information related to the adjustments on asbestos liabilities and receivables.

On July 31, 2014, Ashland completed the sale of the Ashland Water Technologies (Water Technologies) business to Clayton, Dubilier & Rice. Ashland has made certain post-closing adjustments as defined by the definitive agreement during the three and six months ended March 31, 2016 and 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, 2016 and 2015.

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

NOTE D – DISCONTINUED OPERATIONS (continued)

	Three months ended March 31		Six months ended March 31	
(In millions)	2016	2015	2016	2015
Income (loss) from discontinued operations (net of tax)				
Asbestos-related litigation	$—	$122	$—	$120
Water Technologies	(1)	—	(1)	(2)
Gain (loss) on disposal of discontinued operations (net of tax)				
Water Technologies	1	7	(1)	3
Total income (loss) from discontinued operations (net of tax)	$—	$129	$(2)	$121

NOTE E – 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.

Severance costs

During 2014, Ashland announced a global restructuring program to streamline the resources used across the organization. As part of this global restructuring program, Ashland executed a voluntary severance offer (VSO) to certain U.S. employees and an involuntary program for certain employees. Substantially all payments related to the VSO and involuntary programs were paid by the end of fiscal year 2015. As of March 31, 2016 and September 30, 2015, the remaining restructuring reserve for this global restructuring program was $1 million and $7 million, respectively. Additional restructuring reserves of $1 million for other previously announced programs also remained as of March 31, 2016 and September 30, 2015.

Facility costs

In prior years, Ashland incurred lease abandonment charges 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, 2016 and September 30, 2015, the remaining restructuring reserve for all qualifying facility costs totaled $1 million and $3 million, respectively.

The following table summarizes the related activity in these reserves for the six months ended March 31, 2016 and 2015. The severance reserves and facility costs reserves are included in accrued expenses and other liabilities in the Condensed Consolidated Balance Sheets.

(In millions)	Severance	Facility costs	Total
Balance as of September 30, 2015	$ 8	$ 3	$ 11
Utilization (cash paid)	(6)	(2)	(8)
Balance as of March 31, 2016	$ 2	$ 1	$ 3
Balance as of September 30, 2014	$ 56	$ 9	$ 65
Reserve adjustments	(2)	—	(2)
Utilization (cash paid)	(38)	(2)	(40)
Balance as of March 31, 2015	$ 16	$ 7	$ 23

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

NOTE E – RESTRUCTURING ACTIVITIES (continued)

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 three months ended March 31, 2015, restructuring charges of $18 million were recorded within the cost of sales caption of the Statements of Consolidated Comprehensive Income. As of March 31, 2016 and September 30, 2015, the remaining restructuring reserve related to severance for the Specialty Ingredients manufacturing facility totaled $1 million and $13 million, respectively. During the six months ended March 31, 2016, as the structure of the program was finalized, the severance reserve was reduced by a $5 million reversal of the accrual as well as reclassifications of certain non-severance related costs. The restructuring plan is expected to be completed during fiscal 2016. The severance reserve is included in accrued expenses and other liabilities in the Condensed Consolidated Balance Sheets.

NOTE F – 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. The three levels within the fair value hierarchy are described as follows.

Level 1 – Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 – Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect Ashland's own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include Ashland's own financial data such as internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

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, 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.

The following table summarizes financial instruments subject to recurring fair value measurements as of March 31, 2016.

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NOTE F – 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	$ 1,136	$ 1,136	$ 1,136	$ —	$ —
Restricted investments (a)	310	310	310	—	—
Deferred compensation investments (b)	186	186	40	146	—
Investments of captive insurance company (b)	3	3	3	—	—
Foreign currency derivatives	8	8	—	8	—
Total assets at fair value	$ 1,643	$ 1,643	$ 1,489	$ 154	$ —
Liabilities					
Foreign currency derivatives	$ 8	$ 8	$ —	$ 8	$ —

(a) Included in restricted investments and $30 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, 2015.

(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	$ 1,257	$ 1,257	$ 1,257	$ —	$ —
Restricted investments (a)	315	315	315	—	—
Deferred compensation investments (b)	180	180	40	140	—
Investments of captive insurance company (b)	4	4	4	—	—
Foreign currency derivatives	13	13	—	13	—
Total assets at fair value	$ 1,769	$ 1,769	$ 1,616	$ 153	$ —
Liabilities					
Foreign currency derivatives	$ 16	$ 16	$ —	$ 16	$ —

(a) Included in restricted investments and $30 million within other current assets in the Condensed Consolidated Balance Sheets.

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

Restricted investments

On January 13, 2015, Ashland and Hercules, a wholly owned subsidiary of Ashland that was acquired in 2009, 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 Company 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – FAIR VALUE MEASUREMENTS (continued)

quarter, Ashland placed $335 million of the settlement funds from the January 2015 asbestos insurance settlement 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 were classified primarily as noncurrent restricted investment assets, with $30 million classified within other current assets, in the Condensed Consolidated Balance Sheets as of March 31, 2016 and September 30, 2015.
During the June 2015 quarter, Ashland diversified the restricted investments received from the January 2015 asbestos insurance settlement into primarily equity and corporate bond mutual funds that are designated as available-for-sale securities, classified as Level 1 measurements within the fair value hierarchy. Available-for-sale securities are reported at fair value with unrealized gains and losses, net of related deferred income taxes, included in the stockholders' equity section of the Condensed Consolidated Balance Sheets as a component of accumulated other comprehensive income (AOCI). Investment income and realized gains and losses on the available-for-sale securities are reported in the net interest and other financing expense caption in the Statements of Consolidated Comprehensive Income. The following table provides a summary of the available-for-sale securities portfolio as of March 31, 2016 and September 30, 2015:

(In millions)	Demand Deposit	Equity Mutual Fund	Corporate Bond Mutual Fund	Total
As of March 31, 2016				
Original cost	$ 20	$ 195	$ 120	$ 335
Accumulated investment income and disbursements	(3)	—	—	(3)
Adjusted cost (a)	17	195	120	332
Investment income (b)	4	—	—	4
Unrealized loss	—	(3)	—	(3)
Purchases (Sales)	4	(4)	—	—
Disbursements	(23)	—	—	(23)
Fair value	$ 2	$ 188	$ 120	$ 310
As of September 30, 2015				
Original cost	$ 20	$ 195	$ 120	$ 335
Investment income (b)	3	—	—	3
Unrealized loss	—	(14)	(3)	(17)
Disbursements	(6)	—	—	(6)
Fair value	$ 17	$ 181	$ 117	$ 315

(a) The adjusted cost of the demand deposit includes accumulated investment income and disbursements recorded in previous periods.
(b) Investment income for the demand deposit includes interest income as well as dividend income transferred from the equity and corporate bond mutual funds.
The unrealized losses as of March 31, 2016 and September 30, 2015 were recognized within AOCI. At March 31, 2016, Ashland considered the decline in market value of its restricted investment portfolio, which is less than twelve months in duration, to be temporary in nature and does not consider any of its investments other-than-temporarily

impaired. Ashland invests in highly-rated mutual funds comprised principally of investment grade securities. No realized gain or loss was reclassified out of AOCI and no other-than-temporary impairment was recognized in AOCI during the three and six months ended March 31, 2016.

The following table presents the investment income and disbursements related to the demand deposit for the three and six months ended March 31, 2016.

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NOTE F – FAIR VALUE MEASUREMENTS (continued)

(In millions)	Three months ended March 31 2016	Six months ended March 31 2016
Investment income	$ 2	$ 4
Disbursements	(16)	(23)

Deferred compensation investments

Deferred compensation investments consist of Level 1 and Level 2 measurements within the fair value hierarchy. Level 1 investments consist primarily of fixed income U.S. government bonds while Level 2 investments are comprised primarily of a guaranteed interest fund, a common stock index fund and an intermediate government bond fund. Gains and losses related to deferred compensation investments are immediately recognized within the Statements of Consolidated Comprehensive Income.

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 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, 2016 and 2015 within the Statements of Consolidated Comprehensive Income.

	Three months ended March 31		Six months ended March 31	
(In millions)	2016	2015	2016	2015
Foreign currency derivative gain (loss)	$1	$(12)	$4	$(16)

The following table summarizes the fair values of the outstanding foreign currency derivatives as of March 31, 2016 and September 30, 2015 included in accounts receivable and accrued expenses and other liabilities of the Condensed Consolidated Balance Sheets.

(In millions)	March 31 2016	September 30 2015
Foreign currency derivative assets	$ 7	$ 5
Notional contract values	307	192
Foreign currency derivative liabilities	$ 5	$ 16
Notional contract values	202	673

Net investment hedges

Since 2014, Ashland has entered into foreign currency contracts in order to manage the foreign currency exposure of the net investment in certain foreign operations. These foreign currency contracts were primarily

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

NOTE F – FAIR VALUE MEASUREMENTS (continued)

the result of certain proceeds from the sale of Water Technologies being received in non-U.S. denominated currencies during 2014 and ongoing management of the volatility in foreign currency exchange rates. Ashland designated the foreign currency contracts as hedges of net investments 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 AOCI and subsequently recognized in the Statements of Consolidated Comprehensive Income when the hedged item affects net income. During 2016, these foreign currency contracts were settled and Ashland entered into new foreign currency contracts designated as hedges of net investments in foreign subsidiaries. These settlements resulted in gains, within the cumulative translation adjustment within AOCI, of $7 million for the six months ended March 31, 2016.

As of March 31, 2016 and September 30, 2015, the total notional value of foreign currency contracts equaled $95 million and $175 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, 2016 and September 30, 2015.

(In millions)	Consolidated balance sheet caption	March 31 2016	September 30 2015
Net investment hedge assets	Accounts receivable	$ 1	$ 8
Net investment hedge liabilities (a)	Accrued expenses and other liabilities	3	—

(a) Fair value of $0 denotes a value less than $1 million.

The following table summarizes the change in the unrealized gain (loss) on the net investment hedge instruments recognized within the cumulative translation adjustment within AOCI during the three and six months ended March 31, 2016 and 2015. No portion of the gain or loss was reclassified to income during the three and six months ended March 31, 2016 and 2015. There was no hedge ineffectiveness with these instruments during the three and six months ended March 31, 2016 and 2015.

	Three months ended		Six months ended	
	March 31		March 31	
(In millions)	2016	2015	2016	2015
Change in unrealized gain (loss) in AOCI	$ (2)	$ 5	$ (2)	$ 5
Tax impact of change in unrealized (gain) loss in AOCI	1	(3)	1	(4)

Other financial instruments

At March 31, 2016 and September 30, 2015, Ashland’s long-term debt (including the current portion and excluding debt issuance cost discounts) had a carrying value of $3,409 million and $3,431 million, respectively, compared to a fair value of $3,533 million and $3,484 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.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
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NOTE G - 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.

(In millions)	March 31 2016	September 30 2015
Finished products	$ 559	$ 542
Raw materials, supplies and work in process	194	198
LIFO reserve	(27)	(34)
	$ 726	$ 706

NOTE H - 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, 2015 assessment, Ashland determined that its reporting units for allocation of goodwill included the Specialty Ingredients and Valvoline reportable segments, and the Composites and Intermediates/Solvents reporting units within the Performance Materials reportable segment, and determined at that time that no impairment existed.
The following is a progression of goodwill by reportable segment for the six months ended March 31, 2016.

(In millions)	Specialty Ingredients	Performance Materials (a)	Valvoline	Total
Balance as of September 30, 2015	$ 2,004	$ 313	$ 169	$2,486
Acquisitions (b)	—	—	84	84
Currency translation adjustment	5	3	—	8
Balance as of March 31, 2016	$ 2,009	$ 316	$ 253	$2,578

(a) As of March 31, 2016, goodwill consisted of $171 million for the Intermediates/Solvents reporting unit and $145 million for the Composites reporting unit.
(b) Relates to $82 million for the acquisition of Oil Can Henry's and $2 million for Valvoline Instant Oil Change[SM] center acquisitions during the six months ended March 31, 2016. See Note B for more information on the acquisition of Oil Can Henry's.

Other intangible assets
Intangible assets principally consist of trademarks and trade names, intellectual property and customer relationships. 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 3 to 25 years, intellectual property over 5 to 20 years, and customer relationships over 3 to 24 years.
As of September 30, 2015, in-process research and development (IPR&D) and certain intangible assets within trademarks and trade names were classified as indefinite-lived and had a balance of $311 million. During the six months ended March 31, 2016, Ashland started amortizing the remaining IPR&D assets since the technology was commercialized during this period. As a result, as of March 31, 2016, the indefinite-lived intangible assets consisted only of certain trademarks and trade names of $301 million. Ashland annually reviews indefinite-

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

NOTE H – GOODWILL AND OTHER INTANGIBLES (continued)

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, 2016 and September 30, 2015.

	March 31, 2016		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets			
Trademarks and trade names (a)	$ 52	$ (42)	$ 10
Intellectual property	821	(289)	532
Customer relationships	428	(161)	267
Total definite-lived intangible assets	1,301	(492)	809
Indefinite-lived intangible assets			
Trademarks and trade names	301	—	301
Total intangible assets	$ 1,602	$ (492)	$ 1,110

(a) Acquired trade names during the six months ended March 31, 2016 had gross carrying amounts of $2 million for Oil Can Henry's. See Note B for more information on the acquisition of Oil Can Henry's.

	September 30, 2015		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets			
Trademarks and trade names	$ 48	$ (41)	$ 7
Intellectual property	813	(266)	547
Customer relationships	424	(147)	277
Total definite-lived intangible assets	1,285	(454)	831
Indefinite-lived intangible assets			
IPR&D	8	—	8
Trademarks and trade names	303	—	303
Total intangible assets	$ 1,596	$ (454)	$ 1,142

Amortization expense recognized on intangible assets was $19 million and $20 million for the three months ended March 31, 2016 and 2015, respectively, and $38 million and $41 million for the six months ended March 31, 2016 and 2015, 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 $76 million in 2016 (includes six months actual and six months estimated), $76 million in 2017, $76 million in 2018, $72 million in 2019 and $71 million in 2020. The amortization expense for future periods is an estimate. Actual amounts may change from such estimated amounts due to fluctuations in foreign currency exchange rates, additional intangible asset acquisitions and divestitures, potential impairment, accelerated amortization, or other events.

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

NOTE I – DEBT

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

(In millions)	March 31 2016	September 30 2015
4.750% notes, due 2022	$ 1,121	$ 1,120
Term Loan, due 2020	1,059	1,086
3.875% notes, due 2018	700	700
Revolving credit facility	550	110
6.875% notes, due 2043	376	376
6.50% junior subordinated notes, due 2029	138	136
Accounts receivable securitization	120	190
Other international loans, interest at a weighted-average rate of 5.4% at March 31, 2016 (4.8% to 9.4%)	24	25
Medium-term notes, due 2019, interest of 9.4% at March 31, 2016	5	5
Other (a)	(16)	(19)
Total debt	4,077	3,729
Short-term debt	(694)	(326)
Current portion of long-term debt	(55)	(55)
Long-term debt (less current portion and debt issuance cost discounts)	$ 3,328	$ 3,348

(a) Other includes $26 million and $28 million of debt issuance cost discounts as of March 31, 2016 and September 30, 2015, respectively.

The scheduled aggregate maturities of long-term debt by year (including the current portion and excluding debt issuance costs) are as follows: $28 million remaining in 2016, $69 million in 2017, $810 million in 2018, $143 million in 2019 and $715 million in 2020. The borrowing capacity remaining under the $1.2 billion senior unsecured revolving credit facility (the 2015 revolving credit facility) was $575 million, due to an outstanding balance of $550 million, as well as a reduction of $75 million for letters of credit outstanding at March 31, 2016. Ashland's total borrowing capacity at March 31, 2016 was $654 million, which includes $79 million of available capacity from the accounts receivable securitization facility.

Accounts receivable securitization

During the December 2015 quarter, the Transfer and Administration Agreement was amended to extend the termination date of the accounts receivable securitization facility from December 31, 2015 to March 22, 2017. No other changes to the agreement within the current year amendments are expected to have a significant impact to Ashland's results of operations and financial position.

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 subsidiary indebtedness, restrictions on subsidiary distributions, investments, mergers, sale of assets and restricted payments and other customary limitations. As of March 31, 2016, Ashland is in compliance with all debt agreement covenant restrictions.

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

NOTE I – DEBT (continued)

Financial covenants
The maximum consolidated leverage ratios permitted under Ashland's most recent credit agreement (the 2015 Senior Credit Agreement) are as follows: 3.75 from June 30, 2015 through December 31, 2016 and 3.5 from March 31, 2017 and each fiscal quarter thereafter. At March 31, 2016, Ashland’s calculation of the consolidated leverage ratio was 3.2, which is below the maximum consolidated leverage ratio of 3.75.
The minimum required consolidated interest coverage ratio under the 2015 Senior Credit Agreement during its entire duration is 3.0. At March 31, 2016, Ashland’s calculation of the interest coverage ratio was 5.8, which exceeds the minimum required consolidated ratio of 3.0.
NOTE J – 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, 2016 is 26%. 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 15% and 16% for the three and six months ended March 31, 2016, respectively. The current quarter and period tax rate was impacted by net favorable tax discrete items of $7 million and $13 million, respectively, primarily related to the law change from the reinstatement of the research and development credit, a favorable tax liquidation resolution and the reversal of unrecognized tax benefits due to lapse of the statute of limitations.
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, 2015 was 25%. The overall effective tax rate was 21% and 17% for the three and six months ended March 31, 2015, respectively. The prior year quarter and period tax rate was impacted by $4 million of discrete tax benefits primarily related to the release of a valuation reserve on certain deferred taxes.
Unrecognized tax benefits
Changes in unrecognized tax benefits are summarized as follows for the six months ended March 31, 2016.

(In millions)	
Balance at October 1, 2015	$144
Increases related to positions taken on items from prior years	3
Decreases related to positions taken on items from prior years	(3)
Increases related to positions taken in the current year	8
Lapse of the statute of limitations	(3)
Settlement of uncertain tax positions with tax authorities	(2)
Balance at March 31, 2016	$147

In the next twelve months, Ashland expects a decrease in the amount accrued for uncertain tax positions of up to $3 million for continuing operations and $1 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.

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

NOTE J – INCOME TAXES (continued)

On September 22, 2015, Ashland announced that the Board of Directors approved proceeding with a plan to separate Ashland into two independent, publicly traded companies comprising of the new Ashland and Valvoline. Ashland intends for the separation to be tax free for Ashland shareholders; however, there could be material one-time tax costs incurred by Ashland associated with internal restructuring steps that will be recorded in subsequent quarters when the plans are finalized.

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 K – EMPLOYEE BENEFIT PLANS

For the six months ended March 31, 2016, Ashland contributed $8 million to its non-qualified U.S. pension plans and $7 million to its non-U.S. pension plans. No contributions were made to Ashland's qualified U.S. pension plans during the six months ended March 31, 2016. Ashland expects to make additional contributions to the non-qualified U.S. plans of approximately $7 million and to the non-U.S. plans of approximately $8 million during the remainder of 2016.

Plan Amendments and Remeasurements

During March 2016, Ashland announced plans to amend the majority of its U.S. pension plans, with the exception of certain union plans, to freeze the accrual of pension benefits for participants. The freezing of pension benefits will be effective September 30, 2016. Additionally, Ashland announced that it will reduce retiree life and medical benefits effective October 1, 2016 and January 1, 2017, respectively. The net effect of the current quarter remeasurements resulted in a loss of $23 million within the Statements of Consolidated Comprehensive Income for the three and six months ended March 31, 2016. The following details the components of the remeasurement impact:

- As a result of the remeasurement the affected U.S. pension plans, Ashland recognized a curtailment gain of $65 million and actuarial loss of $123 million during the three and six months ended March 31, 2016.
- As a result of the remeasurement of other postretirement benefit plans, Ashland recognized a curtailment gain of $39 million and actuarial loss of $7 million during the three and six months ended March 31, 2016. This remeasurement reduced the benefit obligations by $86 million, which will be amortized to income in future periods.
- Ashland was also required to remeasure a non-U.S. pension plan during the quarter and as a result recognized a curtailment gain of $6 million and actuarial loss of $3 million during the three and six months ended March 31, 2016.

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 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.

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.

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

NOTE K – EMPLOYEE BENEFIT PLANS (continued)

Components of net periodic benefit costs (income)
The following table details the components of pension and other postretirement benefit costs.

	Pension benefits		Other postretirement benefits	
(In millions)	2016	2015	2016	2015
Three months ended March 31				
Service cost (a)	$6	$6	$ —	$ —
Interest cost	31	44	1	2
Expected return on plan assets	(48)	(55)	—	—
Amortization of prior service credit (a)	—	(1)	(4)	(4)
Curtailment	(71)	(7)	(39)	—
Actuarial loss	126	11	7	—
	$44	$(2)	$ (35)	$ (2)
Six months ended March 31				
Service cost (a)	$13	$13	$ —	$ 1
Interest cost	62	88	3	3
Expected return on plan assets	(96)	(109)	—	—
Amortization of prior service credit	(1)	(1)	(8)	(8)
Curtailment	(71)	(7)	(39)	—
Actuarial loss	126	11	7	—
	$33	$(5)	$ (37)	$ (4)

(a) Activity of $0 denote values less than $1 million.

Change in Applying Discount Rate to Measure Benefit Costs

During the three months ended December 31, 2015, Ashland changed the method used to estimate the service and interest cost components of net periodic benefit cost for pension and other postretirement benefits. This change compared to the previous method resulted in a decrease in the service and interest cost components for pension and other postretirement benefit costs during the quarter. Historically, Ashland estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Ashland has elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. Ashland has made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change does not affect the measurement of Ashland's total benefit obligations or annual net periodic benefit costs as the change in the service and interest costs will be offset in the actuarial gain or loss reported, which typically occurs during the fourth fiscal quarter. Ashland has accounted for this change as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly has accounted for it prospectively.

The impact of this discount rate change compared to the previous method will decrease estimated pension and other postretirement benefits service and interest cost by approximately $33 million for the full year 2016. The decrease during the three and six months ended March 31, 2016 was approximately $8 million and $16 million, respectively, with substantially all of the decrease attributable to interest cost. The impact on service cost is not significant due to the nature of Ashland’s largest U.S. pension plan, which is closed to new entrants and has curtailed other benefits. Of this expected annual decrease and based on plan demographics,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE K – EMPLOYEE BENEFIT PLANS (continued)

approximately $13 million will be reported in cost of sales and approximately $20 million will be reported in selling, general, and administrative expense on a full year basis, or approximately $3 million and $5 million on a quarterly basis, respectively, within the Statements of Consolidated Comprehensive Income in the Unallocated and other segment. Service and interest cost, as well as the other components of net periodic benefit costs, are subject to change for such reasons as an event requiring a remeasurement. Ashland's total projected benefit obligations will not be impacted by these reductions in service and interest costs as the decrease will be substantially offset within the actuarial gain or loss caption when the plans are remeasured during the fiscal year.

NOTE L – LITIGATION, CLAIMS AND CONTIGENCIES

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.

	Six months ended March 31		Years ended September 30		
(In thousands)	2016	2015	2015	2014	2013
Open claims - beginning of period	60	65	65	65	66
New claims filed	1	1	2	2	2
Claims settled	—	—	—	(1)	(1)
Claims dismissed	(3)	(1)	(7)	(1)	(2)
Open claims - end of period	58	65	60	65	65

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

NOTE L – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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 2015 quarter, it was determined that the liability total for asbestos claims did not need to be adjusted. Total reserves for asbestos claims were $392 million at March 31, 2016 compared to $409 million at September 30, 2015.
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)	2016	2015	2015	2014	2013
Asbestos reserve - beginning of period	$409	$438	$438	$463	$522
Reserve adjustment	—	—	—	4	(28)
Amounts paid	(17)	(16)	(29)	(29)	(31)
Asbestos reserve - end of period	$392	$422	$409	$438	$463

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 substantially all of the coverage that will be 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, all of which are solvent.
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 Hathaway entities had wrongfully interfered with Underwriters' and Chartis' performance of their 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 Company 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 Company 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.

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

NOTE L – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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 March 2015 quarter. 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, during 2015, 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, 2016, Ashland's receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to $139 million, of which $7 million relates to costs previously paid. Receivables from insurers amounted to $150 million at September 30, 2015. During the June 2015 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 resulted in a $3 million decrease in the receivable for probable insurance recoveries. During the March 2016 quarter, Ashland entered into settlement agreements totaling $4 million with certain insurers, which resulted in a reduction of the Ashland insurance receivable within the Condensed Consolidated Balance Sheets by the same amount.

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)	2016	2015	2015	2014	2013
Insurance receivable - beginning of period	$150	$402	$402	$408	$423
Receivable adjustment	—	—	(3)	22	(3)
Insurance settlement	(4)	(227)	(227)	—	—
Amounts collected	(7)	(13)	(22)	(28)	(12)
Insurance receivable - end of period	$139	$162	$150	$402	$408

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.

	Six months ended March 31		Years ended September 30		
(In thousands)	2016	2015	2015	2014	2013
Open claims - beginning of period	20	21	21	21	21
New claims filed	1	1	1	1	1
Claims dismissed	(1)	(1)	(2)	(1)	(1)
Open claims - end of period	20	21	20	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

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

NOTE L – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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 2015 quarter, it was determined that the liability for Hercules asbestos-related claims should be increased by $4 million. Total reserves for asbestos claims were $303 million at March 31, 2016 compared to $311 million at September 30, 2015.

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)	2016	2015	2015	2014	2013
Asbestos reserve - beginning of period	$311	$329	$329	$342	$320
Reserve adjustment	—	—	4	10	46
Amounts paid	(8)	(9)	(22)	(23)	(24)
Asbestos reserve - end of period	$303	$320	$311	$329	$342

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 solvent domestic insurers.

As of March 31, 2016 and September 30, 2015, the receivables from insurers amounted to $56 million. During the June 2015 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 resulted in a $1 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.

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)	2016	2015	2015	2014	2013
Insurance receivable - beginning of period	$56	$ 77	$77	$75	$ 56
Receivable adjustment	—	—	1	3	19
Insurance settlement	—	(22)	(22)	—	—
Amounts collected	—	—	—	(1)	—
Insurance receivable - end of period	$56	$ 55	$56	$77	$ 75

Asbestos litigation cost 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

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

NOTE L – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

include the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, mortality rates, 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 $880 million for the Ashland asbestos-related litigation (current reserve of $392 million) and approximately $560 million for the Hercules asbestos-related litigation (current reserve of $303 million), 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, or actuarial refinements or improvements to the assumptions used within these models are initiated, 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, 2016, such locations included 84 waste treatment or disposal sites where Ashland has been identified as a potentially responsible party under Superfund or similar state laws, 133 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 63 are being actively remediated.

Ashland’s reserves for environmental remediation and related environmental litigation amounted to $176 million at March 31, 2016 compared to $186 million at September 30, 2015, of which $130 million at March 31, 2016 and $139 million at September 30, 2015 were classified in other noncurrent liabilities on the Condensed Consolidated Balance Sheets.

The following table provides a reconciliation of the changes in the environmental remediation reserves during the six months ended March 31, 2016 and 2015.

	Six months ended March 31	
(In millions)	2016	2015
Reserve - beginning of period	$186	$197
Disbursements	(24)	(22)
Revised obligation estimates and accretion	14	15
Reserve - end of period	$176	$190

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

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

NOTE L – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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, 2016 and September 30, 2015, Ashland's recorded receivable for these probable insurance recoveries was $22 million and $23 million, respectively, of which $15 million at March 31, 2016 and $16 million at September 30, 2015 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, 2016 and 2015.

	Three months ended		Six months ended	
	March 31		March 31	
(In millions)	2016	2015	2016	2015
Environmental expense	$9	$9	$13	$14
Accretion (a)	1	—	1	1
Legal expense	3	2	5	3
Total expense	13	11	19	18
Insurance receivable	(1)	(1)	(1)	(1)
Total expense, net of receivable activity	$12	$10	$18	$17

(a) Activity of $0 denotes value less than $1 million.

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 of future costs for identified sites could be as high as approximately $375 million. No individual remediation location is significant, as the largest reserve for any site is 15% 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, 2016 and September 30, 2015. 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, 2016.

NOTE M – 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

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

NOTE M – EARNINGS PER SHARE (continued)

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 from continuing operations per diluted share because the effect of these instruments would be antidilutive. The total number of these shares outstanding was approximately 1.2 million and 0.6 million at March 31, 2016 and 2015, respectively. 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)	2016	2015	2016	2015
Numerator				
Numerator for basic and diluted EPS – Income from continuing operations	$87	$95	$178	$136
Denominator				
Denominator for basic EPS – Weighted-average common shares outstanding	62	68	63	69
Share-based awards convertible to common shares	1	1	1	1
Denominator for diluted EPS – Adjusted weighted-average shares and assumed conversions	63	69	64	70
EPS from continuing operations				
Basic	$1.39	$1.40	$2.79	$1.97
Diluted	1.38	1.39	2.76	1.95

NOTE N – STOCKHOLDERS’ EQUITY ITEMS

Stock repurchase programs

In April 2015, Ashland's Board of Directors approved a new $1 billion share repurchase authorization that will expire on December 31, 2017 (the 2015 stock repurchase program). This authorization replaced the March 2014 authorization of a $1.35 billion common stock repurchase program (the 2014 stock repurchase program), which was completed during the June 2015 quarter, with delivery of the final shares occurring in July 2015. Under both programs, Ashland’s common shares could be repurchased in open market transactions, privately negotiated transactions or pursuant to one or more accelerated stock repurchase programs or Rule 10b5-1 plans. The following summarizes the stock repurchases under these authorizations.

2015 stock repurchase program agreement

In November 2015, under the 2015 stock repurchase program, Ashland announced that it entered into an accelerated share repurchase agreement (2016 ASR Agreement) with Goldman, Sachs & Co. Under the 2016 ASR Agreement, Ashland paid an initial purchase price of $500 million and received an initial delivery of approximately 3.9 million shares of common stock during November 2015. In February 2016, Goldman, Sachs & Co. exercised their early termination option under the 2016 ASR Agreement and the pricing period was closed. The settlement price, which represents the weighted average price of Ashland's common stock over the pricing period less a discount, was $99.01 per share. Based on this settlement price, the final number of shares repurchased by Ashland that were delivered by Goldman, Sachs, and Co. under the 2016 ASR Agreement was 5.1 million shares. Ashland received the additional 1.2 million shares during the three months ended March 31, 2016 to settle the difference between the initial share delivery and the total number of shares repurchased.

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

NOTE N – STOCKHOLDERS' EQUITY ITEMS (continued)

2014 stock repurchase program agreements

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

- In 2014, completed a prepaid variable share repurchase agreement for $80 million and received 0.8 million shares.
- In 2014, entered into $750 million of accelerated share repurchase agreements that were completed during the June 2015 quarter and received 6.4 million shares, of which 0.5 million shares were received during July 2015.
- In 2014, entered into $250 million of share repurchase agreements that were completed during the December 2014 quarter and received 2.4 million shares, of which 1.2 million were repurchased during the December 2014 quarter.
- In 2015, entered into $270 million of accelerated share repurchase agreements that were completed during the June 2015 quarter and received 2.2 million shares, of which 0.3 million shares were received during July 2015.

Stockholder dividends

In May 2015, the Board of Directors of Ashland announced a quarterly cash dividend increase to 39 cents per share to eligible shareholders of record. This amount was paid for quarterly dividends in the first and second quarters of fiscal 2016 and the third and fourth quarters of fiscal 2015, and was an increase from the quarterly cash dividend of 34 cents per share paid during the first and second quarters of fiscal 2015.

Accumulated other comprehensive income (loss)

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE N – STOCKHOLDERS' EQUITY ITEMS (continued)

	2016			2015		
(In millions)	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Three months ended March 31						
Other comprehensive income (loss)						
Unrealized translation gain (loss)	$80	$ —	$80	$(256)	$ 1	$(255)
Pension and postretirement obligation adjustment:						
Adjustment of unrecognized prior service credit	86	(31)	55	—	—	—
Amortization of unrecognized prior service credits included in net income (a)	(45)	14	(31)	(8)	2	(6)
Unrealized gain on available-for-sale securities	5	(2)	3	—	—	—
Total other comprehensive income (loss)	$126	$ (19)	$107	$(264)	$ 3	$(261)
Six months ended March 31						
Other comprehensive income (loss)						
Unrealized translation gain (loss)	$17	$ 2	$19	$(382)	$ —	$(382)
Pension and postretirement obligation adjustment:						
Adjustment of unrecognized prior service credit	86	(31)	55			