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

**Restricted investments**

As discussed in Note A, Ashland maintains certain investments in a restrictive renewable annual trust for the purpose of paying future asbestos indemnity and defense costs. The investments are designated as available-for-sale securities, classified as Level

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## NOTE F – FAIR VALUE MEASUREMENTS (continued)

1 measurements within the fair value hierarchy. These securities were classified primarily as noncurrent restricted investment assets, with \$30 million classified within other current assets, in the Consolidated Balance Sheets. The following table provides a summary of the available-for-sale securities portfolio for the fiscal year ended September 30, 2015:

(In millions)	Original	Investment	Unrealized	Unrealized		Fair
As of September 30, 2015	Cost	Income (a)	gain	loss	Disbursements	Value
Demand deposit	\$20	3	\$—	\$—	(6	) \$17
Equity mutual fund	195	—	—	(14	) —	181
Corporate bond mutual fund	120	—	—	(3	) —	117
Total	\$335	3	\$—	\$(17	) (6	) \$315

(a) Investment income for the demand deposit includes interest income as well as dividend income transferred from the equity and corporate bond mutual funds.

Investment income of \$3 million was recognized during 2015 within net interest and other financing expense in the Statements of Consolidated Comprehensive Income. The unrealized losses, less than twelve months in duration, were recognized within accumulated other comprehensive income (AOCI). At September 30, 2015, Ashland considered the decline in market value of its restricted investment portfolio 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 2015.

## 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.

## 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 currency hedge gains and losses recognized during 2015, 2014 and 2013 within the Statements of Consolidated Comprehensive Income.

(In millions)	2015	2014	2013
Foreign currency derivative gains (losses)	\$(17	) \$(7	) \$1

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

(In millions)	2015	2014
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Foreign currency derivative assets	\$5	\$2
Notional contract values	192	88
Foreign currency derivative liabilities	\$16	\$4
Notional contract values	673	281

Net investment hedges

During 2015 and 2014, Ashland 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 the result of certain proceeds

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## NOTE F – FAIR VALUE MEASUREMENTS (continued)

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 investment in its foreign subsidiaries. As a result, Ashland records these hedges at fair value using forward rates, with the effective portion of the gain or loss reported as a component of the cumulative translation adjustment within AOCI and subsequently recognized in the Statements of Consolidated Income when the hedged item affects net income. During 2015, certain foreign currency contracts were settled. These settlements resulted in net gains recorded within the cumulative translation adjustment within AOCI of \$11 million for 2015.

As of September 30, 2015 and 2014, the total notional value of foreign currency contracts equaled \$175 million and \$206 million, respectively. The fair value of Ashland's net investment hedge assets and liabilities are calculated using forward rates. Accordingly, these instruments are deemed to be Level 2 measurements within the fair value hierarchy. Counterparties to these net investment hedges are highly rated financial institutions which Ashland believes carry only a nominal risk of nonperformance. The following table summarizes the fair value of the outstanding net investment hedge instruments as of September 30, 2015 and 2014.

(In millions)	Consolidated balance sheet caption	2015	2014
Net investment hedge assets	Accounts receivable	\$8	\$9
Net investment hedge liabilities (a)	Accrued expenses and other liabilities	—	5

(a) Fair values of \$0 denote a value less than \$1 million.

The following table summarizes the change in the unrealized gain on the net investment hedge instruments recognized within the cumulative translation adjustment within AOCI during 2015 and 2014. No portion of the gain was reclassified to income during 2015 and 2014. There was no hedge ineffectiveness with these instruments during 2015 and 2014.

(In millions)	2015	2014
Change in unrealized gain in AOCI	\$8	\$4
Tax impact of change in unrealized gain in AOCI	(2	) (3

## Interest rate hedges

During 2011, Ashland entered into interest rate swap agreements in order to manage the variable interest rate risk associated with term loans A and B that were borrowed in conjunction with the August 2011 acquisition of International Specialty Products Inc. (ISP). These instruments were designated as cash flow hedges whereby Ashland recorded these hedges at fair value, with the effective portion of the gain or loss reported as a component of AOCI and subsequently recognized in the Statements of Consolidated Comprehensive Income when the hedged item affected net income. Ashland terminated the interest rate swap agreements in conjunction with the repayment of term loans A and B during 2013, resulting in a charge of \$52 million included in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income during 2013.

During 2013, Ashland reclassified a loss of \$65 million from AOCI to the Statements of Consolidated Comprehensive Income. The losses reclassified to the Statements of Consolidated Comprehensive Income were recorded in the net interest and other financing expense caption. Additionally, an unrealized loss of \$3 million on interest rate hedges was recognized in AOCI during 2013.

## Other financial instruments

At September 30, 2015 and 2014, Ashland's long-term debt (including current portion and excluding debt issuance cost discounts) had a carrying value of \$3,431 million and \$2,951 million, respectively, compared to a fair value of \$3,484 million and \$3,102 million, respectively. The fair values of long-term debt are based on quoted market prices or, if market prices are not available, the present values of the underlying cash flows discounted at Ashland's

incremental borrowing rates, and are deemed to be Level 2 measurements within the fair value hierarchy.

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## NOTE G – PROPERTY, PLANT AND EQUIPMENT

The following table describes the various components of property, plant and equipment within the Consolidated Balance Sheets.

(In millions)	2015	2014
Land	\$202	\$228
Buildings	710	730
Machinery and equipment	2,957	3,049
Construction in progress	275	268
Total property, plant and equipment (gross)	4,144	4,275
Accumulated depreciation	(1,962 )	(1,861 )
Total property, plant and equipment (net)	\$2,182	\$2,414

The following table summarizes various property, plant and equipment charges included within the Statements of Consolidated Comprehensive Income.

(In millions)	2015	2014	2013
Depreciation	\$263	\$304	\$268
Capitalized interest	2	1	1

Depreciation during 2015 includes \$6 million of accelerated depreciation related to the restructuring plan of an existing manufacturing facility within the Specialty Ingredients reportable segment. These charges were recorded within the cost of sales caption of the Statements of Consolidated Comprehensive Income. During 2014, depreciation included \$36 million of accelerated depreciation and asset impairment, including a \$19 million impairment related to the impairment of a product line within the Specialty Ingredients reportable segment. This charge was recorded within the cost of sales caption of the Statements of Consolidated Comprehensive Income. The remaining \$17 million relates to accelerated depreciation associated with plant closures within the Performance Materials reportable segment. During 2013, there was \$2 million of accelerated depreciation.

## 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. Subsequent to the business realignment during 2014 and the December 1, 2014 sale of the Elastomers division, which was previously a reporting unit, Ashland determined that its reporting units for the allocation of goodwill include the Specialty Ingredients and Valvoline reportable segments, and the Composites and Intermediates/Solvents reporting units within the Performance Materials reportable segment.

Prior to this business realignment in 2014, the reporting units consisted of the Specialty Ingredients and Valvoline reportable segments, and the Composites and Adhesives reporting unit and the Elastomers reporting unit within the Performance Materials reportable segment. As a result of the business realignment in 2014, goodwill was reallocated using a relative fair value approach and Ashland performed an assessment to determine if an impairment existed. Upon completion of this assessment, Ashland concluded that no impairment existed.

Ashland makes various estimates and assumptions in determining the estimated fair values of those units through the use of a combination of discounted cash flow models and valuations based on earnings multiples for guideline public companies in each reporting unit's industry peer group. Discounted cash flow models are highly reliant on various assumptions. Significant assumptions Ashland utilized in these models for the current year included: projected business results and future industry direction, long-term growth factors and weighted-average cost of capital. Ashland uses assumptions that it deems to be reasonable estimates of likely future events and compares the total fair values of each reporting unit to Ashland's market capitalization, and implied control premium, to determine if the fair values are reasonable compared to external market indicators. Subsequent changes in these key assumptions could affect the results of future goodwill impairment reviews. In conjunction with the July 1, 2015 annual assessment of goodwill,

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Ashland's valuation techniques did not indicate any impairment.

Ashland's assessment of an impairment charge on any of these assets currently classified as having indefinite lives, including goodwill, could change in future periods if any or all of the following events were to occur with respect to a particular reporting

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## NOTE H – GOODWILL AND OTHER INTANGIBLES (continued)

unit: a significant change in projected business results, a divestiture decision, increase in Ashland's weighted-average cost of capital rates, decrease in growth rates or other assumptions, economic deterioration that is more severe or of a longer duration than anticipated, or another significant economic event.

The following is a progression of goodwill by reportable segment for the years ended September 30, 2015 and 2014.

(In millions)	Specialty	Performance	(a) Valvoline	Total
	Ingredients	Materials		
Balance at September 30, 2013	\$2,231	\$311	\$167	\$2,709
Business realignment adjustment (b)	(39 )	39	—	—
Currency translation	(63 )	(4 )	1	(66 )
Balance at September 30, 2014	2,129	346	168	2,643
Acquisitions (c)	—	—	3	3
Divestitures (d)	(10 )	(10 )	(1 )	(21 )
Currency translation	(115 )	(23 )	(1 )	(139 )
Balance at September 30, 2015	\$2,004	\$313	\$169	\$2,486

(a) As of September 30, 2015, goodwill consisted of \$142 million for the Composites reporting unit and \$171 million for the Intermediates/Solvents reporting unit.

Business realignment adjustment represents the reallocation of goodwill during 2014 as a result of the transfer of Adhesives and Intermediates/Solvents between the Specialty Ingredients and Performance Materials reportable segments. In the fourth quarter of 2014, an error of \$32 million was identified in the amount of goodwill associated with Intermediates/Solvents that was originally reallocated in the third quarter of 2014. The amount of goodwill transferred from Specialty Ingredients to Performance Materials was revised from \$71 million to \$39 million to correct the error. Ashland does not believe that this revision was material to the previously filed financial information.

(c) Relates to Valvoline Instant Oil Change<sup>SM</sup> acquisitions during 2015.

(d) Divestiture caption represents the amounts of goodwill for the sale of Elastomers, Valvoline car care products and industrial biocides. See Note B for additional information.

## Other intangible assets

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

IPR&D and certain intangible assets within trademarks and trade names have been classified as indefinite-lived and had a balance of \$311 million and \$322 million as of September 30, 2015 and 2014, respectively. During 2015, 2014 and 2013 there was a decrease in indefinite-lived intangible assets of \$11 million, \$13 million and \$41 million, respectively, which represent impairments incurred related to certain IPR&D assets associated with the acquisition of ISP, classified within the research and development expense caption of the Statements of Consolidated Comprehensive Income. These impairments represent Level 2 nonrecurring fair value measurements. Ashland has started amortizing remaining IPR&D assets during fiscal 2016 since the technology was commercialized during this period.

In accordance with U.S. GAAP, Ashland annually reviews indefinite-lived intangible assets for possible impairment or whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. In conjunction with the July 1, 2015 annual assessment of indefinite-lived intangible assets, Ashland's models did not indicate any additional impairment for indefinite-lived intangible assets. Intangible assets were comprised of the following as of September 30, 2015 and 2014.





## NOTE H – GOODWILL AND OTHER INTANGIBLES (continued)

(In millions)	2015			2014		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets						
Trademarks and trade names (a)	\$48	\$(41)	) \$7	\$72	\$(49)	) \$23
Intellectual property (b)	813	(266)	) 547	827	(226)	) 601
Customer relationships (c)	424	(147)	) 277	481	(118)	) 363
Total definite-lived intangible assets	1,285	(454)	) 831	1,380	(393)	) 987
Indefinite-lived intangible assets						
IPR&D	8	—	) 8	19	—	) 19
Trademarks and trade names	303	—	) 303	303	—	) 303
Total intangible assets	\$1,596	\$(454)	) \$1,142	\$1,702	\$(393)	) \$1,309

Divested trademarks and trade names during 2015 had gross carrying amounts of \$6 million, \$7 million and \$11 million for Elastomers, Valvoline car care products and industrial biocides, respectively, and accumulated amortization of \$5 million, \$3 million and \$3 million, respectively.

(b) Divested intellectual property during 2015 had a gross carrying amount of \$18 million with \$5 million of accumulated amortization for Elastomers.

(c) Divested customer relationships during 2015 had a gross carrying amount and accumulated amortization of \$1 million each for Valvoline car care products.

Amortization expense recognized on intangible assets was \$78 million for 2015, \$89 million for 2014 and \$88 million for 2013, and is primarily included in the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. As of September 30, 2015, all of Ashland's intangible assets that had a carrying value were being amortized except for IPR&D and certain trademarks and trade names that have been determined to have indefinite lives. Estimated amortization expense for future periods is \$78 million in 2016, \$78 million in 2017, \$78 million in 2018, \$74 million in 2019 and \$73 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.

## NOTE I – DEBT

The following table summarizes Ashland's current and long-term debt at September 30, 2015 and 2014.

(In millions)	2015	2014
4.750% notes, due 2022	\$1,120	\$1,120
Term Loan, due 2020	1,086	—
3.875% notes, due 2018	700	700
6.875% notes, due 2043	376	376
Accounts receivable securitization (a)	190	255
6.50% junior subordinated notes, due 2029	136	134
Revolving credit facility	110	45
Other international loans, interest at a weighted-average rate of 6.2% at September 30, 2015 (5.3% to 9.5%)	25	29
Medium-term notes, due 2019, interest of 9.4% at September 30, 2015	5	14

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3.000% notes, due 2016	—	600	
Other (b)	(19	) (24	)
Total debt	3,729	3,249	
Short-term debt	(326	) (329	)
Current portion of long-term debt	(55	) (9	)
Long-term debt (less current portion and debt issuance cost discounts)	\$3,348	\$2,911	

(a) During 2015, the potential funding for qualified receivables was reduced from \$275 million to \$250 million.

(b) Other includes \$28 million and \$31 million of debt issuance cost discounts as of September 30, 2015 and 2014, respectively.

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## NOTE I – DEBT (continued)

At September 30, 2015, Ashland's total debt had an outstanding principal balance of \$3,907 million, discounts of \$150 million and debt issuance costs of \$28 million. The scheduled aggregate maturities of debt for the next five fiscal years are as follows: \$381 million in 2016, \$69 million in 2017, \$810 million in 2018, \$143 million in 2019 and \$715 million in 2020.

## Senior notes and senior credit facilities

## Senior notes refinancing and 2015 Senior Credit Agreement

During June of 2015, Ashland completed certain refinancing transactions related to the \$600 million 3.000% senior notes due in 2016 (2016 senior notes). Ashland commenced and completed a cash tender offer to purchase for cash any and all of its outstanding 2016 senior notes. At the close of the tender offer, \$550 million aggregate principal amount of the 2016 senior notes was tendered by note holders, representing approximately 92% of the outstanding 2016 senior notes, which have been purchased by Ashland. Subsequently, Ashland redeemed the remaining balance of the 2016 senior notes of \$50 million on July 23, 2015.

In connection with the tender offer and redemption, in June 2015, Ashland entered into a new Credit Agreement (the 2015 Senior Credit Agreement). The 2015 Senior Credit Agreement replaced the \$1.2 billion senior unsecured revolving credit facility (the 2013 Senior Credit Facility), and was comprised of a new five-year senior unsecured revolving credit facility in an aggregate amount of \$1.2 billion (the 2015 revolving credit facility), which includes a \$250 million letter of credit sublimit and a \$100 million swing line loan sublimit, and a five-year senior unsecured term loan facility in an aggregate principal amount of \$1.1 billion (the term loan facility). The 2015 Senior Credit Agreement is not guaranteed, is unsecured and can be prepaid at any time without premium or penalty.

At Ashland's option, borrowings under the 2015 revolving credit facility will bear interest at either LIBOR or an alternate base rate, in each case plus the applicable interest rate margin. The loans' interest rate will fluctuate between LIBOR plus 1.375% per annum and LIBOR plus 2.50% per annum (or between the alternate base rate plus 0.375% per annum and the alternate base rate plus 1.50% per annum), based upon Ashland's corporate credit ratings or the consolidated gross leverage ratio (as defined in the 2015 Senior Credit Agreement) (whichever yields a lower applicable interest rate margin) at such time. In addition, Ashland was required to pay fees of 0.25% per annum on the daily unused amount of the 2015 revolving credit facility through and including June 30, 2015, and thereafter the fee rate will fluctuate between 0.175% and 0.40% per annum, based upon Ashland's corporate credit ratings or the consolidated gross leverage ratio (whichever yields a lower fee rate).

Total borrowing capacity remaining under the 2015 revolving credit facility was \$1,013 million, due to an outstanding balance of \$110 million, as well as a reduction of \$77 million for letters of credit outstanding at September 30, 2015. During 2015, Ashland used the proceeds from borrowings under the \$1.1 billion term loan facility along with cash on hand (i) to fund the tender offer of the 2016 senior notes, (ii) to pay in full the outstanding loans under the 2013 Senior Credit Facility, (iii) to pay accrued interest, fees and expenses under the 2013 Senior Credit Facility and the 2016 senior notes, (iv) to contribute funds to the U.S. pension plans impacted by the pension plan settlement program discussed in Note M, and (v) to pay fees and expenses incurred in connection with the entry into the 2015 Senior Credit Agreement. As a result of the tender offer and redemption, Ashland recognized a \$9 million charge related to early redemption premium payments, which is included in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income in 2015.

Ashland incurred \$10 million of new debt issuance costs in connection with the 2015 Senior Credit Agreement, of which \$2 million was recognized immediately within the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income. The remaining \$8 million will be amortized over the term of the 2015 Senior Credit Agreement using the effective interest method. Additionally, as a result of the termination of the 2013 Senior Credit Facility and the repayment of the 2016 senior notes, Ashland recognized a \$2 million charge for the accelerated amortization of previously capitalized debt issuance costs, which is included in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income.

3.000% senior notes, 3.875% senior notes, 4.750% senior notes and 6.875% senior notes

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During 2013, Ashland completed its issuance of senior unsecured notes (senior notes) with an aggregate principal amount of \$2.3 billion. These senior notes were comprised of 3.000% senior notes due 2016 (\$600 million), 3.875% senior notes due 2018 (\$700 million), 4.750% senior notes due 2022 (\$625 million) and 6.875% senior notes due 2043 (\$375 million). As discussed above, the 2016 senior notes were tendered and redeemed during 2015. The 2022 notes were issued as additional notes under the existing 2022 notes indenture entered into in August 2012, and have the same terms as the originally issued 2022 notes. The 2043 notes were issued at a \$1 million premium, while the new 2022 notes were issued at a \$6 million discount. In accordance with U.S. GAAP, the premium and discount are being accreted into the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income over the terms of the respective notes. Ashland paid \$32 million in fees and expenses with respect to the issuance of the senior notes during 2013, which is being amortized proportionately for each tranche of the senior notes.

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## NOTE I – DEBT (continued)

## 2013 Senior Credit Facility

During 2013, Ashland also entered the 2013 Senior Credit Facility, a five-year senior unsecured revolving credit facility in an aggregate amount of \$1.2 billion, which included a \$250 million letter of credit sublimit and a \$100 million swing line loan sublimit. The 2013 Senior Credit Facility replaced the \$1 billion senior secured revolving credit facility under the 2011 Senior Credit Facility. The 2013 Senior Credit Facility was not guaranteed, was unsecured and could be prepaid at any time without premium. Ashland paid \$6 million in fees and expenses with respect to the entry into the 2013 Senior Credit Facility, which was being amortized over the five-year period. At Ashland's option, loans issued under the 2013 Senior Credit Facility bore interest at either LIBOR or an alternate base rate, in each case plus the applicable interest rate margin. The loans' interest rates fluctuated between LIBOR plus 1.50% per annum and LIBOR plus 2.50% per annum (or between the alternate base rate plus 0.50% per annum and the alternate base rate plus 1.50% per annum), based upon Ashland's corporate credit ratings or the consolidated gross leverage ratio (as defined in the 2013 Senior Credit Facility) (whichever yielded a lower applicable interest rate margin) at such time. In addition, Ashland was initially required to pay fees of 0.30% per annum on the daily unused amount of the 2013 Senior Credit Facility through and including March 31, 2013, and thereafter the fee rate fluctuates between 0.25% and 0.50% per annum, based upon Ashland's corporate credit ratings or the consolidated gross leverage ratio.

During 2013, Ashland used the net proceeds from its issuance of the senior notes, along with the initial \$85 million borrowing on the 2013 Senior Credit Facility and cash on hand, (i) to pay in full the 2011 Senior Credit Facility, including the \$1.41 billion outstanding principal of the term loan A facility and the \$1.03 billion outstanding principal of the term loan B facility, (ii) to pay \$52 million to terminate the interest rate swaps associated with the term loan A and term loan B facilities, (iii) to pay accrued interest, fees and expenses under the 2011 Senior Credit Facility and (iv) to pay \$38 million in fees and expenses with respect to the issuance of the senior notes and entry into the 2013 Senior Credit Facility. The \$52 million charge to terminate the interest rate swaps is included in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income for 2013.

As a result of the repayment and the termination of the 2011 Senior Credit Facility during 2013, Ashland recognized a \$47 million charge for the accelerated amortization of previous debt issuance and other costs, which is included in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income.

## 9.125% senior notes

During 2012, \$572 million of the total principal amount of the \$650 million, 9.125% senior notes were redeemed. During 2013, Ashland redeemed the remaining \$78 million outstanding principal of the senior notes. Ashland recognized a \$3 million charge for debt issuance costs and the original issue discount related to the 9.125% senior notes, as well as a \$4 million charge related to an early redemption premium payment, both of which are included in the net interest and other financing expense caption in the Statements of Consolidated Comprehensive Income for 2013.

## Accounts receivable securitization

On August 31, 2012, Ashland entered into a \$350 million accounts receivable securitization facility pursuant to (i) a Sale Agreement, among Ashland and certain of its direct and indirect subsidiaries (each an Originator and collectively, the Originators) and CVG Capital III LLC, a wholly-owned "bankruptcy remote" special purpose subsidiary of the Originators (CVG) and (ii) a Transfer and Administration Agreement, among CVG, each Originator, Ashland, as Master Servicer, certain Conduit Investors, Uncommitted Investors, Letter of Credit Issuers, Managing Agents, Administrators and Committed Investors, and The Bank of Nova Scotia, as agent for various secured parties (the Agent). The Transfer and Administration Agreement had a term of three years, but was extendable at the discretion of Ashland and the Investors. During 2015, the termination of the commitments under the Transfer and Administration Agreement was extended from August 28, 2015 to December 31, 2015.

Under the Sale Agreement, each Originator will transfer, on an ongoing basis, certain of its accounts receivable, certain related assets and the right to the collections on those accounts receivable to CVG. Under the terms of the Transfer and Administration Agreement, CVG could, from time to time, obtain up to \$350 million (in the form of cash

or letters of credit for the benefit of Ashland and its subsidiaries) from the Conduit Investors, the Uncommitted Investors and/or the Committed Investors through the sale of an undivided interest in such accounts receivable, related assets and collections. Subsequently during 2014 and 2015, the available funding for qualifying receivables under the accounts receivable securitization facility was reduced from \$350 million to \$275 million during 2014 and from \$275 million to \$250 million during 2015 due to the divestitures that occurred during the fiscal years. Ashland accounts for the securitization facility as secured borrowings, and the receivables sold pursuant to the facility are included in the Consolidated Balance Sheets as accounts receivable. Fundings under the Transfer and Administration Agreement will be repaid as accounts receivable are collected, with new fundings being advanced (through daily reinvestments) as new accounts receivable are originated by the Originators and transferred to CVG, with settlement generally occurring monthly. Ashland continues to classify any borrowings under this facility as a short-term debt instrument within the Consolidated Balance Sheets.

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## NOTE I – DEBT (continued)

Once sold to CVG, the accounts receivable, related assets and rights to collection described above are separate and distinct from each Originator's own assets and are not available to its creditors should such Originator become insolvent. Substantially all of CVG's assets have been pledged to the Agent in support of its obligations under the Transfer and Administration Agreement.

At September 30, 2015 and 2014, the outstanding amount of accounts receivable transferred by Ashland to CVG was \$381 million and \$493 million, respectively. Ashland had drawn \$190 million and \$255 million under the facility as of September 30, 2015 and 2014, respectively, in available funding from qualifying receivables. The weighted-average interest rate for this instrument was 1.8% for 2015 and 1.1% for 2014.

## Other debt

At September 30, 2015 and 2014, Ashland held other debt totaling \$175 million and \$184 million, respectively, comprised primarily of the 6.60% and 6.50% notes due 2027 and 2029, respectively, assumed in the Hercules acquisition, other short-term international loans, and a medium-term note.

## Net interest and other financing expense (income)

(In millions)	2015	2014	2013
Interest expense (a)	\$ 166	\$ 163	\$ 273
Interest income	(6	) (6	) (4
Available-for-sale securities income (b)	(3	) —	—
Other financing costs (c)	17	9	13
	\$ 174	\$ 166	\$ 282

Includes \$4 million and \$50 million of accelerated amortization for debt issuance costs during 2015 and 2013, (a) respectively, and the \$52 million charge to terminate the interest rate swaps associated with the term loan A and term loan B facilities during 2013.

(b) Represents investment income related to the restricted investments discussed in Note F.

Includes \$9 million related to the early redemption premium payments for the tender and redemption of the 2016 (c) senior notes during 2015 and a \$4 million redemption premium payment related to the \$78 million principal 9.125% senior notes redeemed during 2013.

The following table details the debt issuance cost and original issue discount amortization included in interest expense during 2015, 2014 and 2013.

(In millions)	2015	(a) 2014	2013	(b)
Normal amortization	\$ 14	\$ 14	\$ 15	
Accelerated amortization	4	—	50	
Total	\$ 18	\$ 14	\$ 65	

(a) Accelerated amortization of \$4 million for debt issuance costs resulting from early redemption of the 2016 senior notes and the entrance into the 2015 Senior Credit Agreement.

(b) Accelerated amortization of \$47 million and \$3 million resulted from the repayment of the 2011 Senior Credit Facility and the early paydown of Ashland's remaining 9.125% senior notes, respectively.

## Covenants related to current debt agreements

The 2015 Senior Credit Agreement 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 September 30, 2015, Ashland is in compliance with all



debt agreement covenant restrictions.

Financial covenants

The maximum consolidated leverage ratios permitted under the 2015 Senior Credit Agreement are as follows: 3.75 through December 31, 2016 and 3.5 from March 31, 2017 and each fiscal quarter thereafter. The 2015 Senior Credit Agreement defines the consolidated leverage ratio as the ratio of consolidated indebtedness minus unrestricted cash and cash equivalents to consolidated EBITDA (Covenant Adjusted EBITDA) for any measurement period. In general, the 2015 Senior Credit Agreement defines Covenant Adjusted EBITDA as net income plus consolidated interest charges, taxes, depreciation and amortization expense, fees and expenses related to capital market transactions, restructuring and integration charges, noncash stock and equity compensation expense, and any other nonrecurring expenses or losses that do not represent a cash item in such period or any future period; less any noncash gains or other items increasing net income. The computation of Covenant Adjusted EBITDA differs from the

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## NOTE I – DEBT (continued)

calculation of EBITDA and Adjusted EBITDA, which have been reconciled on page M-7. In general, consolidated indebtedness includes debt plus all purchase money indebtedness, banker's acceptances and bank guaranties, deferred purchase price of property or services, attributable indebtedness and guaranties.

The minimum required consolidated interest coverage ratio under the 2015 Senior Credit Agreement during its entire duration is 3.0. The 2015 Senior Credit Agreement defines the consolidated interest coverage ratio as the ratio of Covenant Adjusted EBITDA to consolidated interest charges for any measurement period.

At September 30, 2015, Ashland's calculation of the consolidated leverage ratio was 2.6, which is below the maximum consolidated leverage ratio permitted under the 2015 Senior Credit Agreement of 3.75. At September 30, 2015, Ashland's calculation of the interest coverage ratio was 6.4, which exceeds the minimum required consolidated ratio of 3.0.

## NOTE J – OTHER NONCURRENT ASSETS AND LIABILITIES

The following table provides the components of other noncurrent assets in the Consolidated Balance Sheets as of September 30.

(In millions)	2015	2014
Deferred compensation investments	\$180	\$184
Debt issuance costs	16	18
Note receivables	36	44
Manufacturing catalyst supplies	37	24
Environmental insurance receivables	16	24
Land use rights	22	23
Defined benefit plan assets	29	22
Life insurance policies	18	18
Tax receivables	7	17
Customer incentive	16	16
Debt defeasance assets	6	15
Other	93	74
	\$476	\$479

The following table provides the components of other noncurrent liabilities in the Consolidated Balance Sheets as of September 30.

(In millions)	2015	2014
Environmental remediation reserves	\$139	\$158
Accrued tax liabilities (including sales and franchise)	103	74
Deferred compensation	66	72
Reserves related to workers compensation and general liability	24	50
Other	73	106
	\$405	\$460

## NOTE K – LEASE COMMITMENTS

Ashland and its subsidiaries are lessees of office buildings, retail outlets, transportation equipment, warehouses and storage facilities, other equipment, facilities and properties under leasing agreements that expire at various dates. Capitalized lease obligations are not significant and are included in long-term debt while capital lease assets are included in property, plant and equipment. Future minimum rental payments at September 30, 2015 were \$40 million in 2016, \$31 million in 2017, \$24 million in 2018, \$19 million in 2019, \$15 million in 2020 and \$61 million in 2021

and later years. Rental expense under operating leases for continuing operations was as follows:

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## NOTE K – LEASE COMMITMENTS (continued)

(In millions)	2015	2014	2013	(a)
Minimum rentals (including rentals under short-term leases)	\$57	\$69	\$57	
Contingent rentals	4	7	6	
Sublease rental income	(2	) (2	) (2	)
	\$59	\$74	\$61	

(a) The table above excludes \$13 million of lease commitments during 2013 that were related to the Water Technologies business that have been reclassified to discontinued operations due to its sale in July 2014.

## NOTE L – INCOME TAXES

A summary of the provision for income taxes related to continuing operations follows.

(In millions)	2015	2014	2013	
Current				
Federal	\$(32	) \$34	\$7	
State	1	10	(6	)
Foreign	66	62	42	
	35	106	43	
Deferred	(57	) (294	) 153	
Income tax expense (benefit)	\$(22	) \$(188	) \$196	

Deferred income taxes are provided for income and expense items recognized in different years for tax and financial reporting purposes. As of September 30, 2015, management intends to indefinitely reinvest approximately \$1.6 billion of foreign earnings. Because these earnings are considered indefinitely reinvested, no U.S. tax provision has been accrued related to the repatriation of these earnings, and it is not practicable to estimate the amount of U.S. tax that might be payable if these earnings were ever to be remitted.

Foreign net operating loss carryforwards primarily relate to certain European and Asian Pacific operations and generally may be carried forward. U.S. state net operating loss carryforwards relate to operational losses within certain states and generally may be carried forward. Temporary differences that give rise to significant deferred tax assets and liabilities as of September 30 are presented in the following table.

## NOTE L – INCOME TAXES (continued)

(In millions)	2015	2014
Deferred tax assets		
Foreign net operating loss carryforwards (a)	\$81	\$84
Employee benefit obligations	392	544
Environmental, self-insurance and litigation reserves (net of receivables)	218	172
State net operating loss carryforwards (b)	73	58
Compensation accruals	88	91
Credit carryforwards (c)	89	25
Other items	26	65
Valuation allowances (d)	(107	) (148
Total deferred tax assets	860	891
Deferred tax liabilities		
Goodwill and other intangibles (e)	371	409
Property, plant and equipment	351	416
Unremitted earnings	11	19
Total deferred tax liabilities	733	844
Net deferred tax asset (liability)	\$127	\$47

- (a) Gross net operating loss carryforwards will expire in future years as follows: \$2 million in 2016, \$13 million in 2017 and the remaining balance in other future years.
- (b) Gross net operating loss carryforwards include offset for uncertain tax positions of and will expire in future years as follows: \$20 million in 2016, \$38 million in 2017 and the remaining balance in other future years.
- (c) Credit carryforwards include offset for uncertain tax positions and consist primarily of foreign tax credits of \$67 million expiring in future years beyond 2017 and alternative minimum tax credits of \$12 million with no expiration date.
- (d) Valuation allowances primarily relate to certain state and foreign net operating loss carryforwards.
- (e) The total gross amount of goodwill as of September 30, 2015 expected to be deductible for tax purposes is \$38 million.

The U.S. and foreign components of income from continuing operations before income taxes and a reconciliation of the statutory federal income tax with the provision for income taxes follow. The foreign components of income from continuing operations disclosed in the following table exclude any allocations of certain corporate expenses incurred in the U.S.

## NOTE L – INCOME TAXES (continued)

(In millions)	2015	2014	2013
Income (loss) from continuing operations before income taxes			
United States (a), (b)	\$(158	) \$(364	) \$466
Foreign (b)	327	248	283
Total income (loss) from continuing operations before income taxes	\$169	\$(116	) \$749
Income taxes computed at U.S. statutory rate (35%)	\$59	\$(40	) \$262
Increase (decrease) in amount computed resulting from			
Net gain on divestitures (c)	11	37	—
Uncertain tax positions	23	33	11
Valuation allowance charges (d)	(29	) 14	(12
Claim for research and development credits (e)	(7	) (2	) (14
State taxes (f)	(8	) (16	) 23
Net impact of foreign results (g)	(73	) (214	) (74
Other items	2	—	—
Income tax expense (benefit)	\$(22	) \$(188	) \$196

(a) A significant component of the fluctuations within this caption relates to the annual remeasurements of the U.S. pension and other postretirement plans.

Prior year amounts for income (loss) from continuing operations before income taxes for the United States and Foreign line items have been revised to reflect a change in the classification of the elimination of foreign intercompany dividends. There was no impact on the total of income (loss) from continuing operations before income taxes or on the computation of income tax expense (benefit) for the years ended September 30, 2014 and 2013 and therefore Ashland does not believe that this revision is material to the previously filed financial information.

2015 includes adjustments related to the sale of Valvoline Venezuela JV, Elastomers and the Biocides divestitures (c) of \$5 million, \$4 million and \$2 million respectively. 2014 tax adjustments associated with the Water Technologies business and ASK divestitures are a \$39 million charge and \$2 million gain respectively.

(d) Related to foreign and state deferred tax asset valuation allowances/(releases).

(e) 2015 and 2013 include a benefit related to credits signed into law on a retroactive basis.

(f) 2014 and 2013 include expense of \$5 million and \$7 million, respectively, recorded for deferred tax adjustments, primarily attributable to state rate changes.

2014 includes a \$168 million tax benefit related to the reversal of deferred tax liabilities for outside basis (g) differences and other related matters and a \$14 million expense recorded for a rate change in a foreign jurisdiction.

2013 includes a \$17 million benefit recorded for a rate change in a foreign jurisdiction.

The fiscal 2015 effective tax rate was impacted by net favorable items predominantly due to certain valuation allowance releases related to state deferred tax assets. These favorable adjustments were partially offset by an accrual for an unrecognized tax benefit and tax related to certain global restructuring steps.

Income tax benefit for 2014 included a \$168 million tax benefit related to the reversal of deferred tax liabilities for outside basis differences and other related matters, a charge of \$39 million for taxes associated with the sale of shares of subsidiaries included in the sale of the Water Technologies business, net charges of \$32 million for uncertain tax positions and related matters, a charge of \$14 million for a foreign income tax rate change and other net discrete item charges of \$7 million primarily related to changes in valuation allowances.

Income tax expense for 2013 included a zero benefit recorded on the MAP Transaction charge of \$14 million and a net benefit of \$16 million primarily attributable to a foreign income tax rate change.

Unrecognized tax benefits

U.S. GAAP prescribes a recognition threshold and measurement attribute for the accounting and financial statement disclosure of tax positions taken or expected to be taken in a tax return. The evaluation of a tax position is a two-step process. The first step requires Ashland to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The second step requires Ashland to recognize in the financial statements each tax position that meets the more likely than not criteria, measured at the amount of benefit that has a greater than 50% likelihood of being realized. Ashland had \$144 million and \$155 million of unrecognized tax benefits, of which \$16 million and \$32 million relate to discontinued operations at September 30, 2015 and 2014, respectively. As of September 30, 2015, the total amount of unrecognized tax benefits that, if recognized, would affect the tax rate for continuing and discontinued operations was \$127 million. The remaining unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits would not have an impact on the effective tax rate.

Ashland recognizes interest and penalties related to uncertain tax positions as a component of income tax expense (benefit) in the Statements of Consolidated Comprehensive Income. Such interest and penalties totaled a \$1 million expense in 2015, \$2

## NOTE L – INCOME TAXES (continued)

million benefit in 2014 and \$5 million benefit in 2013. Ashland had \$18 million and \$19 million in interest and penalties related to unrecognized tax benefits accrued as of September 30, 2015 and 2014, respectively. During the year ended September 30, 2015 and 2014, respectively, changes in unrecognized tax benefits were as follows:

(In millions)

Balance at September 30, 2013	\$ 133	
Increases related to positions taken on items from prior years	29	
Decreases related to positions taken on items from prior years	(13	)
Increases related to positions taken in the current year	31	
Lapse of statute of limitations	(13	)
Disposition of Water Technologies	(12	)
Balance at September 30, 2014	155	
Increases related to positions taken on items from prior years	10	
Decreases related to positions taken on items from prior years	(15	)
Increases related to positions taken in the current year	24	
Lapse of statute of limitations	(6	)
Settlement of uncertain tax positions with tax authorities	(24	)
Balance at September 30, 2015	\$ 144	

From a combination of statute expirations and audit settlements in the next twelve months, Ashland expects a decrease in the amount of accrual for uncertain tax positions of up to \$3 million for continuing operations and zero for discontinued operations. For the remaining balance as of September 30, 2015, it is reasonably possible that there could be material changes to the amount of uncertain tax positions due to activities of the taxing authorities, settlement of audit issues, reassessment of existing uncertain tax positions, or the expiration of applicable statute of limitations; however, Ashland is not able to estimate the impact of these items at this time.

Ashland or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Foreign taxing jurisdictions significant to Ashland include Australia, Canada, Spain, Switzerland, Brazil, Mexico, China, Germany and the Netherlands. Ashland is subject to U.S. federal income tax examinations by tax authorities for periods after September 30, 2009 and U.S. state income tax examinations by tax authorities for periods after September 30, 2005. With respect to countries outside of the United States, with certain exceptions, Ashland's foreign subsidiaries are subject to income tax audits for years after 2004.

## NOTE M – EMPLOYEE BENEFIT PLANS

## Pension plans

Ashland and its subsidiaries sponsor contributory and noncontributory qualified defined benefit pension plans that cover certain employees in the United States and in a number of other countries. In addition, Ashland has non-qualified unfunded pension plans which provide supplemental defined benefits to those employees whose benefits under the qualified pension plans are limited by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. Ashland funds the costs of the non-qualified plans as the benefits are paid. Pension obligations for applicable employees of non-U.S. consolidated subsidiaries are provided for in accordance with local practices and regulations of the respective countries. Benefits for those eligible for Ashland's U.S. pension plans generally are based on employees' years of service and compensation during the years immediately preceding their retirement.

The majority of Ashland's U.S. pension plans have been closed to new participants since January 1, 2011. In addition, most foreign pension plans are closed to new participants while those that remain open relate to areas where jurisdictions require plans to operate within the applicable country.

Pension plan settlement program



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During 2015, Ashland informed approximately 20,000 former employees, who were included in the approximately 53,000 participants within the primary U.S. pension plans, that Ashland was offering these participants the option of receiving a lump sum payment on their vested retirement benefit or a reduced annuity now, in lieu of receiving monthly annuity payments deferred until retirement eligibility or when the participant may choose to initiate payment. During August 2015, approximately 12,000 participants elected to participate in the settlement program which resulted in approximately \$475 million in settlement payments

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## NOTE M – EMPLOYEE BENEFIT PLANS (continued)

made from the affected pension plans during September 2015. Settlement payments were funded with pension plan assets, which included the \$500 million contribution made during the third quarter of fiscal 2015. Additionally, as a result of this settlement program, Ashland recognized a \$3 million settlement gain during 2015, of which \$1 million and \$2 million was recognized in the cost of sales and selling, general and administrative expense captions, respectively, within the Statements of Consolidated Comprehensive Income.

## Pension plans divested

As a result of the sale of the Water Technologies business on July 31, 2014, certain non-U.S. pension plans, with a net benefit obligation of \$70 million were fully transferred.

## Other postretirement benefit plans

Ashland and its subsidiaries sponsor health care and life insurance plans for eligible employees in the U.S. and Canada who retire or are disabled. Ashland's retiree life insurance plans are noncontributory, while Ashland shares the costs of providing health care coverage with its retired employees through premiums, deductibles and coinsurance provisions. Ashland funds its share of the costs of the postretirement benefit plans as the benefits are paid. Employees hired after June 30, 2003, and participating in the Ashland plans, will have access to any retiree health care coverage that may be provided, but will have no Ashland company funds available to help pay for such coverage.

Since January 1, 2004, Ashland's legacy plans have limited their annual per capita costs to an amount equivalent to base year per capita costs, plus annual increases of up to 1.5% per year for costs incurred. As a result, health care cost trend rates have no significant effect on the amounts reported for the health care plans. Premiums for retiree health care coverage are equivalent to the excess of the estimated per capita costs over the amounts borne by Ashland.

For certain other plans that have been acquired, the assumed postretirement health care plans include a limit on Ashland's share of costs for recent and future retirees. The assumed pre-65 health care cost trend rate as of September 30, 2015 was 8.3% and continues to be reduced to 4.50% in 2037 and thereafter. The assumptions used to project the liability anticipate future cost-sharing changes to the written plans that are consistent with the increase in health care cost. Employees hired after December 31, 2002 will have access to any retiree health care coverage that may be provided, but will have no Ashland company funds available to help pay for such coverage.

In May 2010, Ashland implemented changes for all plans, effective January 1, 2011, eliminating post-65 benefit coverage for those eligible participants retiring on or after January 1, 2016. In September 2011, Ashland adopted a plan amendment for the legacy Ashland plans to change the current post-65 Ashland Medical plan to Medicare Advantage plan. This change was effective January 1, 2012, at which time Ashland no longer applied for the Medicare Part D subsidy. In September 2012, Ashland further reduced the employer subsidy for the post-65 Ashland legacy Medicare Advantage Plan to account for the impact of certain changes to the prescription drug program adopted as part of the September 2011 plan amendment.

## Components of net periodic benefit costs (income)

During the year ended September 30, 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 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 during 2015.

During the year ended September 30, 2014, Ashland settled two non-U.S. pension plans, which required the plans to be remeasured. These remeasurements resulted in Ashland recognizing a settlement loss of \$38 million and actuarial loss of \$17 million. Of these amounts, \$6 million of the settlement loss and \$3 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 during 2014.

Due to the global restructuring plan initiated in January 2014, Ashland was required to remeasure certain pension and other postretirement plan obligations, which included updating assumptions related to these plans such as the discount rate, asset values and demographic data that were last updated at Ashland's fiscal year end. As a result of the remeasurements, Ashland recognized a curtailment loss of \$6 million and actuarial loss of \$83 million during the year

ended September 30, 2014. Of these amounts, \$14 million of the actuarial loss was attributable to the Water Technologies business and included in the discontinued operations caption of the Statements of Consolidated Comprehensive Income during 2014.

As a result of the completion of the sale of Water Technologies on July 31, 2014, Ashland was required to remeasure certain pension and other postretirement plan obligations. As a result of the remeasurements, Ashland recognized a curtailment gain of \$31 million and actuarial loss of \$140 million during the year ended September 30, 2014. Of these amounts, all of the curtailment gain and \$27 million of the actuarial loss were attributable to the Water Technologies business and included in the discontinued

## NOTE M – EMPLOYEE BENEFIT PLANS (continued)

operations caption of the Statements of Consolidated Comprehensive Income during 2014. In addition, during 2013, \$81 million of the actuarial gain was attributable to the Water Technologies business and included within the discontinued operations caption of the Statements of Consolidated Comprehensive Income.

For segment reporting purposes, service cost for continuing operations is proportionately allocated to each reportable segment, excluding the Unallocated and other segment, while all other costs for continuing operations are recorded within the Unallocated and other segment. A portion of the other components of pension and other postretirement benefit costs (i.e., interest cost, expected return on assets, and amortization of prior service credit) related to Water Technologies has been reclassified to discontinued operations in the Statements of Consolidated Comprehensive Income. For the years ended September 30, 2014 and 2013, income of \$7 million and \$11 million, respectively, was classified within discontinued operations.

The following table summarizes the components of pension and other postretirement benefit costs for both continued and discontinued operations and the assumptions used to determine net periodic benefit costs (income) for the plans.

(In millions)	Pension benefits			Other postretirement benefits		
	2015	2014	2013	2015	2014	2013
Net periodic benefit costs (income)						
Service cost	\$26	\$38	\$43	\$1	\$2	\$2
Interest cost	175	190	175	8	9	7
Curtailment, settlement and other	(11 )	31	—	—	(20 )	—
Expected return on plan assets	(216 )	(237 )	(238 )	—	—	—
Amortization of prior service credit (a)	(4 )	(2 )	(2 )	(17 )	(21 )	(21 )
Actuarial loss (gain)	260	431	(472 )	1	15	(26 )
	\$230	\$451	\$(494 )	\$(7 )	\$(15 )	\$(38 )
Weighted-average plan assumptions (b)						
Discount rate	4.18	% 4.68	% 3.70	% 3.85	% 4.28	% 3.23
Rate of compensation increase	3.18	% 3.59	% 3.66	% —	—	—
Expected long-term rate of return on plan assets	7.27	% 7.67	% 7.26	% —	—	—

(a) Changes to the post-65 Ashland Medical plan resulted in negative plan amendments that are being amortized within the other postretirement benefits caption.

The plan assumptions discussed are a blended weighted-average rate for Ashland's U.S. and non-U.S. plans. The U.S. pension plan represented approximately 90% of the projected benefit obligation at September 30, 2015. Other (b) postretirement benefit plans consist of U.S. and Canada, with the U.S. plan representing approximately 93% of the accumulated postretirement benefit obligation at September 30, 2015. Non-U.S. plans use assumptions generally consistent with those of U.S. plans.

The following table shows other changes in prior service credit recognized in accumulated other comprehensive income.

(In millions)	Pension		Postretirement	
	2015	2014	2015	2014
Prior service cost (credit)	\$2	\$(6 )	\$—	\$—
Curtailment, settlement and other	3	3	—	10
Amortization of prior service credit	4	2	17	21
Total	\$9	\$(1 )	\$17	\$31

Total recognized in net periodic benefit cost (income)

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and accumulated other comprehensive income                      \$239                      \$450                      \$10                      \$16

The following table shows the amount of prior service credit in accumulated other comprehensive income at September 30, 2015 that is expected to be recognized as a component of net periodic benefit cost (income) during the next fiscal year.

(In millions)	Pension benefits	Other postretirement benefits
Prior service credit	\$(2            )	\$(16            )

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NOTE M – EMPLOYEE BENEFIT PLANS (continued)

At September 30, 2015 and 2014, the amounts recognized in accumulated other comprehensive income are shown in the following table.

(In millions)	Pension		Postretirement	
	2015	2014	2015	2014
Prior service credit	\$ (12	) \$ (21	) \$ (45	) \$ (62
Obligations and funded status				

Actuarial valuations are performed for the pension and other postretirement benefit plans to determine Ashland's obligation for each plan. In accordance with U.S. GAAP, Ashland recognizes the unfunded status of the plans as a liability in the Consolidated Balance Sheets. Summaries of the change in benefit obligations, plan assets, funded status of the plans, amounts recognized in the balance sheet, and assumptions used to determine the benefit obligations for 2015 and 2014 follow.

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## NOTE M – EMPLOYEE BENEFIT PLANS (continued)

(In millions)	Pension plans		Other postretirement benefit plans		
	2015	2014	2015	2014	
Change in benefit obligations					
Benefit obligations at October 1	\$4,326	\$4,307	\$210	\$217	
Service cost	26	38	1	2	
Interest cost	175	190	8	9	
Participant contributions	1	2	15	12	
Benefits paid	(217 )	(245 )	(33 )	(34 )	)
Actuarial loss	59	503	1	15	
Plan amendment	2	(6 )	—	—	
Foreign currency exchange rate changes	(40 )	(15 )	(3 )	(1 )	)
Other	14	4	—	—	
Divestiture	—	(127 )	—	—	
Curtailed and settlement	(527 )	(325 )	—	(10 )	)
Benefit obligations at September 30	\$3,819	\$4,326	\$199	\$210	
Change in plan assets					
Value of plan assets at October 1	\$3,075	\$3,381	\$—	\$—	
Actual return on plan assets	15	309	—	—	
Employer contributions	610	43	18	22	
Participant contributions	1	2	15	12	
Benefits paid	(217 )	(245 )	(33 )	(34 )	)
Foreign currency exchange rate changes	(28 )	(5 )	—	—	
Settlement	(519 )	(359 )	—	—	
Divestiture	—	(57 )	—	—	
Other	14	6	—	—	
Value of plan assets at September 30	\$2,951	\$3,075	\$—	\$—	
Unfunded status of the plans	\$(868 )	\$(1,251 )	\$(199 )	\$(210 )	)
Amounts recognized in the balance sheet					
Noncurrent benefit assets	\$29	\$22	\$—	\$—	
Current benefit liabilities	(19 )	(15 )	(17 )	(19 )	)
Noncurrent benefit liabilities	(878 )	(1,258 )	(182 )	(191 )	)
Net amount recognized	\$(868 )	\$(1,251 )	\$(199 )	\$(210 )	)
Weighted-average plan assumptions					
Discount rate	4.21	% 4.18	% 3.93	% 3.85	%
Rate of compensation increase	3.01	% 3.18	% —	—	%

The accumulated benefit obligation for all pension plans was \$3,750 million at September 30, 2015 and \$4,261 million at September 30, 2014. Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

## NOTE M – EMPLOYEE BENEFIT PLANS (continued)

(In millions)	2015			2014		
	Qualified plans (a)	Non-qualified plans	Total	Qualified plans (a)	Non-qualified plans	Total
Projected benefit obligation	\$3,446	\$162	\$3,608	\$3,930	\$172	\$4,102
Accumulated benefit obligation	3,390	156	3,546	3,880	165	4,045
Fair value of plan assets	2,712	—	2,712	2,832	—	2,832

(a) Includes qualified U.S. and non-U.S. pension plans.

## Plan assets

The expected long-term rate of return on U.S. pension plan assets was 7.65% and 8% for 2015 and 2014, respectively. The basis for determining the expected long-term rate of return is a combination of future return assumptions for various asset classes in Ashland's investment portfolio, historical analysis of previous returns, market indices and a projection of inflation.

The following table summarizes the various investment categories that the pension plan assets are invested in and the applicable fair value hierarchy that the financial instruments are classified within these investment categories as of September 30, 2015. For additional information and a detailed description of each level within the fair value hierarchy, see Note F.

(In millions)	Total fair value	Quoted prices		
		in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash and cash equivalents	\$91	\$91	\$—	\$—
U.S. government securities	130	4	126	—
Other government securities	163	1	162	—
Corporate debt instruments	1,398	1,036	362	—
Corporate stocks	289	146	143	—
Insurance contracts	10	—	10	—
Private equity and hedge funds	842	—	—	842
Other investments	28	—	—	28
Total assets at fair value	\$2,951	\$1,278	\$803	\$870

The following table summarizes the various investment categories that the pension plan assets are invested in and the applicable fair value hierarchy that the financial instruments are classified within these investment categories as of September 30, 2014.

(In millions)	Total fair value	Quoted prices		
		in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash and cash equivalents	\$102	\$102	\$—	\$—
U.S. government securities	180	7	173	—
Other government securities	165	—	165	—
Corporate debt instruments	1,172	788	384	—



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Corporate stocks	326	158	168	—
Insurance contracts	12	—	12	—
Private equity and hedge funds	1,085	—	—	1,085
Other investments	33	—	—	33
Total assets at fair value	\$3,075	\$1,055	\$902	\$1,118

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## NOTE M – EMPLOYEE BENEFIT PLANS (continued)

Ashland's pension plan holds a variety of investments designed to diversify risk. Investments classified as a Level 1 fair value measure principally represent marketable securities priced in active markets. Cash and cash equivalents and public equity and debt securities are well diversified and invested in U.S. and international small-to-large companies across various asset managers and styles. Investments classified as a Level 2 fair value measure principally represents fixed-income securities in U.S. treasuries and agencies and other investment grade corporate bonds and debt obligations.

Ashland's pension plans also hold Level 3 investments primarily within hedge funds and private equity funds with hedge funds accounting for nearly all of the Level 3 investments. Ashland's investments in these funds are primarily valued using the net asset value per share of underlying investments as determined by the respective individual fund administrators on a daily, weekly or monthly basis, depending on the fund. Such valuations are reviewed by the portfolio managers who determine the estimated value of the collective funds based on these inputs. The following table provides a reconciliation of the beginning and ending balances for these Level 3 assets.

(In millions)	Total Level 3 assets	Private equity and hedge funds	Other investments
Balance as of September 30, 2013	\$ 1,228	\$ 1,190	\$ 38
Purchases	71	71	—
Sales	(258	) (258	) —
Actual return on plan assets			
Relating to assets held at September 30, 2014	67	72	(5
Relating to assets sold during 2014	10	10	—
Balance as of September 30, 2014	1,118	1,085	33
Purchases	1	1	—
Sales	(252	) (252	) —
Actual return on plan assets			
Relating to assets held at September 30, 2015	3	8	(5
Relating to assets sold during 2015	—	—	—
Balance as of September 30, 2015	\$ 870	\$ 842	\$ 28

## Investments and Strategy

In developing an investment strategy for its defined benefit plans, Ashland has considered the following factors: the nature of the plans' liabilities, the allocation of liabilities between active, deferred and retired members, the funded status of the plans, the applicable investment horizon, the respective size of the plans and historical and expected capital market returns. Ashland's U.S. pension plan assets are managed by outside investment managers, which are monitored against investment return benchmarks and Ashland's established investment strategy. Investment managers are selected based on an analysis of, among other things, their investment process, historical investment results, frequency of management turnover, cost structure and assets under management. Assets are periodically reallocated between investment managers to maintain an appropriate asset mix and diversification of investments and to optimize returns.

The current target asset allocation for the U.S. plan is 51% fixed securities and 49% equity securities. Fixed income securities primarily include long duration high grade corporate debt obligations. Risk assets include both traditional equity as well as a mix of non-traditional assets such as hedge funds and private equity. Investment managers may employ a limited use of derivatives to gain efficient exposure to markets.

Ashland's investment strategy and management practices relative to plan assets of non-U.S. plans generally are consistent with those for U.S. plans, except in those countries where investment of plan assets is dictated by applicable regulations. The weighted-average asset allocations for Ashland's U.S. and non-U.S. plans at September 30, 2015 and 2014 by asset category follow.

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## NOTE M – EMPLOYEE BENEFIT PLANS (continued)

(In millions)	Target	Actual at September 30		
		2015	2014	
Plan assets allocation				
Equity securities	15 - 60%	42	% 51	%
Debt securities	40 - 85%	56	% 47	%
Other	0 - 20%	2	% 2	%
		100	% 100	%

## Cash flows

## U.S. pension legislation and future funding requirements

Ashland's U.S. qualified pension plans funding requirements through fiscal 2017 are calculated in accordance with the regulations set forth in the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21), which provides temporary relief for employers who sponsor defined benefit pension plans related to funding contributions under the Employee Retirement Income Security Act of 1974. Specifically, MAP-21 allows for the use of a 25-year average interest rate within an upper and lower range for purposes of determining minimum funding obligations instead of an average interest rate for the two most recent years, as was previously required.

During fiscal 2015 and 2014, Ashland contributed \$596 million and \$22 million, respectively, to its U.S. pension plans and \$14 million and \$21 million, respectively, to its non-U.S. pension plans. The 2015 contributions included \$500 million to the U.S. pension plans impacted by the pension plan settlement program discussed previously. As a result of the \$500 million discretionary contribution, Ashland's funding requirements to U.S. qualified pension plans have been eliminated for fiscal year 2016. Ashland expects to contribute approximately \$15 million to its non-qualified U.S. pension plans and \$15 million to its non-U.S. pension plans during 2016.

The following benefit payments, which reflect future service expectations, are projected to be paid in each of the next five years and in aggregate for five years thereafter.

(In millions)	Pension benefits	Other postretirement benefits
2016	\$240	\$18
2017	235	17
2018	235	17
2019	236	17
2020	237	16
2021 - 2025	1,189	71

## Other plans

Ashland sponsors savings plans to assist eligible employees in providing for retirement or other future needs. Under such plans, company contributions amounted to \$38 million in 2015, \$31 million in 2014 and \$43 million in 2013. Ashland also sponsors various other benefit plans, some of which are required by different countries. The total noncurrent liabilities associated with these plans were \$16 million and \$19 million as of September 30, 2015 and 2014, respectively.

## NOTE N – LITIGATION, CLAIMS AND CONTINGENCIES

## Asbestos litigation

Ashland and Hercules 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

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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

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## NOTE N – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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.

(In thousands)	2015	2014	2013
Open claims - beginning of year	65	65	66
New claims filed	2	2	2
Claims settled	—	(1	) (1
Claims dismissed	(7	) (1	) (2
Open claims - end of year	60	65	65

## 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. During the most recent update, completed during 2015, it was determined that the liability for Ashland asbestos claims did not need to be adjusted. Total reserves for asbestos claims were \$409 million at September 30, 2015 compared to \$438 million at September 30, 2014.

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

(In millions)	2015	2014	2013
Asbestos reserve - beginning of year	\$438	\$463	\$522
Reserve adjustment	—	4	(28
Amounts paid	(29	) (29	) (31
Asbestos reserve - end of year	\$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. Approximately 45% of the receivable is from insurance companies rated by A.M. Best, all of which have a credit rating of A- or higher as of September 30, 2015.

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

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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.

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## NOTE N – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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.

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 2015. The Ashland insurance receivable balance was also reduced as a result of this settlement by \$227 million within the Consolidated Balance Sheets. In addition, Ashland placed \$335 million of the settlement funds received into a renewable annual trust restricted for the purpose of paying for ongoing and future litigation defense and claim settlement costs incurred in conjunction with asbestos claims.

At September 30, 2015, Ashland's receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to \$150 million (excluding the Hercules receivable for asbestos claims), of which \$12 million relates to costs previously paid. Receivables from insurers amounted to \$402 million at September 30, 2014. During 2015, 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.

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

(In millions)	2015	2014	2013	
Insurance receivable - beginning of year	\$402	\$408	\$423	
Receivable adjustment	(3	) 22	(3	)
Insurance settlement	(227	) —	—	
Amounts collected	(22	) (28	) (12	)
Insurance receivable - end of year	\$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.

(In thousands)	2015	2014	2013	
Open claims - beginning of year	21	21	21	
New claims filed	1	1	1	
Claims dismissed	(2	) (1	) (1	)
Open claims - end of year	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 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 2015, it was determined that the liability for Hercules asbestos-related claims should be increased by \$4 million. Total reserves for asbestos claims were \$311



million at September 30, 2015 compared to \$329 million at September 30, 2014.

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## NOTE N – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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

(In millions)	2015	2014	2013
Asbestos reserve - beginning of year	\$329	\$342	\$320
Reserve adjustments	4	10	46
Amounts paid	(22	) (23	) (24
Asbestos reserve - end of year	\$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 domestic insurers. Approximately 40% of the receivable is from insurance companies rated by A.M. Best, all of which have a credit rating of A+ or higher as of September 30, 2015.

As of September 30, 2015 and 2014, the receivables from insurers amounted to \$56 million and \$77 million, respectively. During 2015, 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 2015, a \$22 million reduction in the insurance receivable balance within the Consolidated Balance Sheets was recorded.

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

(In millions)	2015	2014	2013
Insurance receivable - beginning of year	\$77	\$75	\$56
Receivable adjustment	1	3	19
Insurance settlement	(22	) —	—
Amounts collected	—	(1	) —
Insurance receivable - end of year	\$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 include the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, Ashland believes that the asbestos reserves for Ashland and Hercules represent the best estimate within a range of possible outcomes. As a part of the process to develop these estimates of future asbestos costs, a range of long-term cost models was developed. These models are based on national studies that predict the number of people likely to develop asbestos-related diseases and are heavily influenced by assumptions regarding long-term inflation rates for indemnity payments and legal defense costs, as well as other variables mentioned previously. Ashland has currently estimated in various models ranging from approximately 40 to 50 year periods that it is reasonably possible that total future litigation defense and claim settlement costs on an inflated and undiscounted basis could range as high

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as approximately \$880 million for the Ashland asbestos-related litigation (current reserve of \$409 million) and approximately \$560 million for the Hercules asbestos-related litigation (current reserve of \$311 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

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## NOTE N – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

claims or costs incurred to resolve those claims, Ashland may need to increase further the estimates of the costs associated with asbestos claims and these increases could potentially 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 September 30, 2015, such locations included 85 waste treatment or disposal sites where Ashland has been identified as a potentially responsible party under Superfund or similar state laws, 132 current and former operating facilities (including certain operating facilities conveyed as part of the MAP Transaction) 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 \$186 million at September 30, 2015 compared to \$197 million at September 30, 2014, of which \$139 million at September 30, 2015 and \$158 million at September 30, 2014 were classified in other noncurrent liabilities on the Consolidated Balance Sheets.

The following table provides a reconciliation of the changes in the environmental remediation reserves during 2015 and 2014.

(In millions)	2015	2014
Environmental remediation reserve - beginning of year	\$197	\$211
Disbursements	(47	) (46
Revised obligation estimates and accretion	36	32
Environmental remediation reserve - end of year	\$186	\$197

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, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated reserves for environmental remediation. Ashland continues to discount certain environmental sites and regularly adjusts its reserves as environmental remediation continues. Ashland has estimated the value of its probable insurance recoveries associated with its environmental reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage. At September 30, 2015 and 2014, Ashland's recorded receivable for these probable insurance recoveries were \$23 million and \$24 million, respectively, of which \$16 million and \$24 million, respectively, were classified in other noncurrent assets in the 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 years ended September 30, 2015, 2014 and 2013.

(In millions)	2015	2014	2013
Environmental expense	\$32	\$29	\$28
Accretion	4	3	3
Legal expense	6	5	2
Total expense	42	37	33
Insurance receivable	(2	) (4	) (4
Total expense, net of receivable activity (a)	\$40	\$33	\$29

(a) Net expense of \$5 million, \$4 million and \$6 million for the fiscal years ended September 30, 2015, 2014 and 2013, respectively, relates to divested businesses which qualified for treatment as discontinued operations and for which certain environmental liabilities were retained by Ashland. These amounts are classified within the income

from discontinued operations caption of the Statements of Consolidated Comprehensive Income.

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

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NOTE N – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

identified sites could be as high as approximately \$370 million. No individual remediation location is significant, as the largest reserve for any site is approximately 14% or less of the remediation reserve.

Insurance settlement

In March 2011, prior to the acquisition of ISP in August 2011, a disruption in the supply of a key raw material for this business occurred at a supplier. For a period of time while the raw material was not available from this supplier, an alternative source was used, but at a higher cost. During 2013, Ashland finalized its settlement with the insurers and received full payment in the amount of \$31 million. The insurance settlement resulted in a net gain of \$22 million being recognized within the cost of sales caption of the Statement of Consolidated Comprehensive Income during 2013.

Settled claim

During 2013, Ashland settled and collected a claim related to sales commissions and receivables within the Specialty Ingredients reportable segment. To recognize the settlement, Ashland recorded \$13 million of income within the equity and other income caption of the Statements of Consolidated Comprehensive Income during 2013.

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 September 30, 2015 and 2014. There is a reasonable possibility that a loss exceeding amounts already recognized may be incurred related to these actions; however, Ashland believes that such potential losses were immaterial as of September 30, 2015 and 2014. For additional information on legal proceedings and claims, see the Legal Proceedings section of Form 10-K (Part I, Item 3).

NOTE O – STOCKHOLDERS' EQUITY ITEMS

Stock repurchase programs

During the past three fiscal years, Ashland's Board of Directors has authorized multiple share repurchase programs which are summarized below.

During 2015, Ashland's Board of Directors approved a new \$1 billion share repurchase authorization that will expire on December 31, 2017. This authorization allows for common shares to be repurchased in open market transactions, privately negotiated transactions or pursuant to one or more accelerated stock repurchase programs or Rule 10b5-1 plans. During the first quarter of 2016, under this new share repurchase authorization, Ashland announced that it entered into an accelerated share repurchase agreement (November 2015 ASR Agreement) with Goldman, Sachs & Co. Under the November 2015 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. The November 2015 ASR Agreement is scheduled to terminate no later than May 2016 but may be terminated early in certain circumstances, in whole or in part.

During 2014, the Board of Directors of Ashland authorized a \$1.35 billion common stock repurchase program (the 2014 stock repurchase program). Under the program, Ashland's common shares were repurchased pursuant to accelerated stock repurchase agreements, a Rule 10b5-1 plan, and a prepaid variable share repurchase agreement. This repurchase program was completed during 2015.

The 2014 stock repurchase program authorization replaced Ashland's previous \$600 million share repurchase authorization (the 2013 stock repurchase program), approved in May 2013, which had \$450 million remaining when it was terminated.

2014 stock repurchase program agreements

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

Accelerated stock repurchase agreements

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During 2014, Ashland announced that it had entered into accelerated share repurchase agreements (2014 ASR Agreements) with Deutsche Bank AG, London Branch (Deutsche Bank), and JPMorgan Chase Bank, N.A. (JPMorgan) to repurchase an aggregate of \$750 million of Ashland's common stock. Under the 2014 ASR Agreements, Ashland paid an initial purchase price of \$750 million, split evenly between the financial institutions. As of September 30, 2014, Ashland received an initial delivery of approximately 5.9 million shares of common stock under the 2014 ASR Agreements. The 2014 ASR Agreements had a variable maturity, at the financial institutions option, with a maximum pricing period termination date of June 30, 2015. During 2015, the

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## NOTE O - STOCKHOLDERS' EQUITY ITEMS (continued)

2014 ASR Agreements terminated pursuant to their terms 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 \$116.33 per share. Based on this settlement price, the final number of shares repurchased by Ashland that were delivered by the financial institutions under the 2014 ASR Agreements was 6.4 million shares. Ashland received the additional 0.5 million shares from the financial institutions during 2015 to settle the difference between the initial share delivery and the total number of shares repurchased.

During 2015, Ashland announced and completed accelerated share repurchase agreements (2015 ASR Agreements) with Deutsche Bank and JPMorgan to repurchase an aggregate of \$270 million of Ashland's common stock. Under the 2015 ASR Agreements, Ashland paid an initial purchase price of \$270 million, split evenly between the financial institutions and received an initial delivery of approximately 1.9 million shares of common stock. The 2015 ASR Agreements had a variable maturity, at the financial institutions option, with a maximum pricing period termination date of July 31, 2015. During 2015, Deutsche Bank and JPMorgan exercised their early termination option under the 2015 ASR Agreements 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 \$125.22 per share. Based on this settlement price, the final number of shares repurchased by Ashland that were delivered by the financial institutions under the 2015 ASR Agreements was 2.2 million shares. Ashland received the additional 0.3 million shares from the financial institutions during 2015 to settle the difference between the initial share delivery and the total number of shares repurchased.

#### Additional stock repurchase agreements

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

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

#### 2013 stock repurchase program agreement

As part of the \$600 million common stock repurchase program, Ashland announced and completed an accelerated share repurchase agreement (2013 ASR Agreement) with Citibank, N.A. (Citibank) during 2013. Under the 2013 ASR Agreement, Ashland paid an initial purchase price of \$150 million to Citibank and received an initial delivery of approximately 1.3 million shares of its common stock. The 2013 ASR Agreement had a variable maturity, at Citibank's option, with a maximum pricing period termination date of August 21, 2013. In June 2013, Citibank exercised its early termination option under the 2013 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 \$86.32 per share. Based on this settlement price, the final number of shares repurchased by Ashland that were to be delivered by Citibank under the 2013 ASR Agreement was 1.7 million shares. Ashland received the additional 0.4 million shares from Citibank in 2013 to settle the difference between the initial share delivery and the total number of shares repurchased.

#### Stockholder dividends

In May 2015, the Board of Directors of Ashland announced a quarterly cash dividend increase to 39 cents per share, \$1.56 per share on an annual basis, to eligible shareholders of record. This amount was paid for quarterly dividends in June and September 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.



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In May 2013, the Board of Directors of Ashland announced a quarterly cash dividend increase to 34 cents per share, \$1.36 per share on an annual basis, to eligible shareholders of record. This amount was paid for quarterly dividends in fiscal 2014, as well as, June and September 2013 and was an increase from the quarterly cash dividend of 22.5 cents per share paid during the first and second quarters of fiscal 2013.

Shares reserved for issuance

At September 30, 2015, 8.7 million common shares are reserved for issuance under stock incentive and deferred compensation plans.

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## NOTE O - STOCKHOLDERS' EQUITY ITEMS (continued)

Accumulated other comprehensive income (loss)

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

(In millions)	Before tax	Tax (expense) benefit	Net of tax
Year ended September 30, 2015			
Other comprehensive income (loss)			
Unrealized translation loss	\$(368	) \$(1	) \$(369
Pension and postretirement obligation adjustment:			
Adjustment of unrecognized prior service cost	(2	) 1	(1
Amortization of unrecognized prior service credits included in net income (a)	(24	) 7	(17
Unrealized loss on available-for-sale securities	(17	) 6	(11
Total other comprehensive income (loss)	\$(411	) \$13	\$(398
Year ended September 30, 2014			
Other comprehensive income (loss)			
Net change in translation gain (loss):			
Unrealized translation loss	\$(163	) \$(3	) \$(166
Reclassification adjustment for losses included in net income (b)	6	—	6
Pension and postretirement obligation adjustment:			
Adjustment of unrecognized prior service credit	6	(2	) 4
Amortization of unrecognized prior service credits included in net income (a)	(36	) 11	(25
Total other comprehensive income (loss)	\$(187	) \$6	\$(181
Year ended September 30, 2013			
Other comprehensive income (loss)			
Unrealized translation gain (loss)	\$45	\$(8	) \$37
Pension and postretirement obligation adjustment:			
Adjustment of unrecognized prior service credit	13	(3	) 10
Amortization of unrecognized prior service credits included in net income (a)	(23	) 8	(15
Net change in interest rate hedges:			
Unrealized loss during period	(3	) —	(3
Reclassification adjustment for losses included in net income (c)	65	(24	) 41
Total other comprehensive income (loss)	\$97	\$(27	) \$70

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

Losses from the translation adjustment included in net income are attributable to foreign Water Technologies (b) subsidiaries sold with the divestiture. These adjustments are recorded in the discontinued operations caption of the Statements of Consolidated Comprehensive Income.

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Losses from interest rate hedges are recorded in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income. See Note F for further information.

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## NOTE O - STOCKHOLDERS' EQUITY ITEMS (continued)

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

(In millions)	2015	2014	2013
Cost of sales	\$ (8 )	\$ (6 )	\$ (6 )
Selling, general and administrative expense	(13 )	(14 )	(14 )
Discontinued operations	(3 )	(16 )	(3 )
Total amortization of unrecognized prior service credits	\$ (24 )	\$ (36 )	\$ (23 )

## NOTE P – STOCK INCENTIVE PLANS

Ashland has stock incentive plans under which key employees or directors are granted stock appreciation rights (SARs), performance share awards or nonvested stock awards. Each program is typically a long-term incentive plan designed to link employee compensation with increased shareholder value or reward superior performance and encourage continued employment with Ashland. Ashland recognizes compensation expense for the grant date fair value of stock-based awards over the applicable vesting period. The components of Ashland's pretax stock-based awards (net of forfeitures), which is included in the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income, and associated income tax benefits are as follows:

(In millions)	2015	(a) 2014	2013
SARs	\$ 10	\$ 16	\$ 17
Nonvested stock awards	15	10	4
Performance share awards	13	8	9
	\$ 38	\$ 34	\$ 30
Income tax benefit	\$ 13	\$ 13	\$ 11

The year ended September 30, 2015 included a \$7 million award modification within performance shares that was (a) designated as a cash item (see table on F-52 for further information) and \$1 million of expense related primarily to cash-settled nonvested restricted stock awards.

## Stock Appreciation Rights (SARs)

SARs are granted to employees or directors at a price equal to the fair market value of the stock on the date of grant and typically become exercisable over periods of one to three years. Unexercised SARs lapse ten years and one month after the date of grant. Ashland estimates the fair value of SARs granted using the Black-Scholes option-pricing model. This model requires several assumptions, which Ashland has developed and updates based on historical trends and current market observations. The accuracy of these assumptions is critical to the estimate of fair value for these equity instruments. The following table illustrates the weighted-average of key assumptions used within the Black-Scholes option-pricing model. The risk-free interest rate assumption was based on the U.S. Treasury yield curve in effect at the time of the grant for the expected term of the instrument. The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The volatility assumption was calculated by utilizing an unbiased standard deviation of Ashland's Common Stock closing price for the past five years. The expected life is based on historical data and is not necessarily indicative of exercise patterns that may occur.

(In millions except per share data)	2015	2014	2013
Weighted-average fair value per share of SARs granted	\$ 30.70	\$ 34.96	\$ 29.93
Assumptions (weighted-average)			

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Risk-free interest rate	1.7	% 1.4	% 0.7	%
Expected dividend yield	1.2	% 1.5	% 1.3	%
Expected volatility	31.8	% 49.7	% 55.0	%
Expected life (in years)	5	5	5	

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## NOTE P – STOCK INCENTIVE PLANS (continued)

A progression of activity and various other information relative to SARs and previously issued and vested stock options is presented in the following table.

	2015		2014		2013	
	Number of common shares	Weighted-average exercise price per share	Number of common shares	Weighted-average exercise price per share	Number of common shares	Weighted-average exercise price per share
(In thousands except per share data)						
Outstanding - beginning of year	1,798	\$62.85	2,658	\$55.84	2,908	\$45.94
Granted	277	113.65	391	89.69	888	70.41
Exercised	(584 )	58.80	(1,123 )	54.14	(1,037 )	39.95
Forfeitures and expirations	(108 )	83.00	(128 )	75.82	(101 )	61.96
Outstanding - end of year (a)	1,383	73.18	1,798	62.85	2,658	55.84
Exercisable - end of year	906	59.92	1,066	53.80	1,390	47.46

(a) Exercise prices per share for SARs outstanding at September 30, 2015 ranged from \$9.49 to \$49.79 for 139 shares, from \$51.86 to \$55.73 for 329 shares, from \$64.92 to \$89.69 for 652 shares, and from \$112.91 to \$117.38 for 263 shares. The weighted-average remaining contractual life of outstanding SARs and stock options was 6.8 years and exercisable SARs and stock options was 5.9 years.

The total intrinsic value of SARs exercised was \$35 million in 2015, \$50 million in 2014 and \$45 million in 2013. The actual tax benefit realized from the exercised SARs was \$6 million in 2015, \$18 million in 2014 and \$1 million in 2013. The total grant date fair value of SARs that vested during 2015, 2014 and 2013 was \$13 million, \$21 million and \$13 million, respectively. As of September 30, 2015, there was \$8 million of total unrecognized compensation costs related to SARs. That cost is expected to be recognized over a weighted-average period of 1.6 years. As of September 30, 2015, the aggregate intrinsic value of outstanding SARs was \$41 million and exercisable SARs was \$37 million.

## Nonvested stock awards

Nonvested stock awards are granted to employees or directors at a price equal to the fair market value of the stock on the date of grant and generally vest over a one-to-five-year period. However, such shares are subject to forfeiture upon termination of service before the vesting period ends. Nonvested stock awards entitle employees or directors to vote the shares. Dividends on nonvested stock awards granted are in the form of additional shares of nonvested stock awards, which are subject to vesting and forfeiture provisions.

A progression of activity and various other information relative to nonvested stock awards is presented in the following table.

	2015		2014		2013	
	Number of common shares	Weighted-average grant date fair value	Number of common shares	Weighted-average grant date fair value	Number of common shares	Weighted-average grant date fair value
(In thousands except per share data)						
Nonvested - beginning of year	221	\$88.81	140	\$56.97	333	\$33.80
Granted	187	114.97	192	94.17	22	84.12
Vested	(69 )	77.51	(78 )	47.07	(205 )	22.50
Forfeitures	(41 )	99.20	(33 )	83.84	(10 )	51.01
Nonvested - end of year	298	106.41	221	88.81	140	56.97

The total fair value of nonvested stock awards that vested during 2015, 2014 and 2013 was \$5 million, \$4 million and \$5 million, respectively. As of September 30, 2015, there was \$15 million of total unrecognized compensation costs

related to nonvested stock awards. That cost is expected to be recognized over a weighted-average period of 1.7 years.

Performance shares

Ashland sponsors a long-term incentive plan that awards performance shares/units to certain key employees that are tied to Ashland's overall financial performance relative to the financial performance of selected industry peer groups and/or internal targets. Awards are granted annually, with each award covering a three-year performance cycle. Each performance share/unit is convertible to one share of Ashland Common Stock. These plans are recorded as a component of stockholders' equity in the Consolidated Balance Sheets. Performance measures used to determine the actual number of performance shares issuable upon

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## NOTE P – STOCK INCENTIVE PLANS (continued)

vesting include an equal weighting of Ashland's total shareholder return (TSR) performance and Ashland's return on investment (ROI) performance as compared to the internal targets over the three-year performance cycle. TSR relative to peers is considered a market condition while ROI is considered a performance condition under applicable U.S. GAAP. Nonvested performance shares/units do not entitle employees to vote the shares or to receive any dividends thereon.

The following table shows the performance shares/units granted for all plans that award Ashland Common Stock.

(In thousands)	Performance period	Target shares granted	(a)	Weighted-average fair value per share
Fiscal Year 2015	October 1, 2014 - September 30, 2017	77		\$121.87
Fiscal Year 2014	October 1, 2013 - September 30, 2016	110		\$85.84
Fiscal Year 2013	October 1, 2012 - September 30, 2015	134		\$73.50

(a) At the end of the performance period, the actual number of shares issued can range from zero to 200% of the target shares granted, which is assumed to be 100%.

The fair value of the ROI portion of the performance share awards is equal to the fair market value of Ashland's Common Stock on the date of the grant discounted for the dividends forgone during the vesting period of the three-year performance cycle. Compensation cost is recognized over the requisite service period if it is probable that the performance condition will be satisfied. The fair value of the TSR portion of the performance share awards is calculated using a Monte Carlo simulation valuation model using key assumptions included in the following table. Compensation cost is recognized over the requisite service period regardless of whether the market condition is satisfied.

	2015	2014	2013
Risk-free interest rate	0.1% - 1.0%	0.1% - 0.6%	0.2% - 0.3%
Expected dividend yield	1.4%	1.4%	1.3%
Expected life (in years)	3	3	3
Expected volatility	24.2%	32.1%	37.6%

The following table shows changes in nonvested performance shares/units for all plans that award Ashland Common Stock.

	2015		2014		2013	
(In thousands except per share data)	Shares	Weighted-average grant date fair value	Shares	Weighted-average grant date fair value	Shares	Weighted-average grant date fair value
Nonvested - beginning of year	368	\$72.20	433	\$65.05	480	\$54.39
Granted (a)	103	115.19	155	81.09	152	69.74
Vested (a)	(133)	) 68.18	(183)	) 62.05	(175)	) 39.55
Forfeitures (b)	(134)	) 74.79	(37)	) 75.02	(24)	) 67.06
Nonvested - end of year	204	93.79	368	72.20	433	65.05



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The current year includes 26 additional shares from the fiscal 2012 through 2014 plan, 2014 includes 45 additional (a) shares from the fiscal 2011 through 2013 plan and 2013 includes 18 additional shares from the fiscal 2010 through 2012 plan since a portion of each plans payout was in excess of the initial 100% target.

(b) During the December 2014 quarter, Ashland modified certain awards of its performance shares. The awards were modified to provide that the instruments be paid in cash instead of stock. This change in payment designation caused Ashland to recognize \$7 million in incremental stock-based compensation expense related to 84 shares modified during 2015.

As of September 30, 2015, there was \$8 million of total unrecognized compensation costs related to nonvested performance share awards. That cost is expected to be recognized over a weighted-average period of approximately 1.8 years.

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## NOTE Q – REPORTABLE SEGMENT INFORMATION

Ashland determines its reportable segments based on how operations are managed internally for the products and services sold to customers, including how the results are reviewed by the chief operating decision maker, which includes determining resource allocation methodologies used for reportable segments. Operating income is the primary measure reviewed by the chief operating decision maker in assessing each reportable segment's financial performance. Ashland does not aggregate operating segments to arrive at these reportable segments. Subsequent to the sale of Water Technologies and a business realignment during 2014, Ashland's businesses are managed within three reportable segments: Specialty Ingredients, Performance Materials and Valvoline.

The 2014 business realignment resulted in the re-organization of Specialty Ingredients into two divisions: Consumer Specialties and Industrial Specialties, with the adhesives category joining the Industrial Specialties division, moving over from Performance Materials. While, Performance Materials became comprised of three divisions: 1) Intermediates/Solvents, which moved over from Specialty Ingredients and serves both Ashland's internal butanediol needs as well as the merchant market; 2) Composites, which serves construction, transportation, marine and other markets; and 3) Elastomers, which primarily served the North American replacement tire market prior to its December 1, 2014 sale. The business realignment during 2014 did not affect the Valvoline business, as it remained unchanged compared to prior year periods.

Ashland performed an internal structural review and comprehensive assessment of its operations and reportable segments and concluded that its operating and reportable segments were Specialty Ingredients, Performance Materials, and Valvoline.

#### Reportable segment business descriptions

Specialty Ingredients is a global leader in cellulose ethers, vinyl pyrrolidones and biofunctionals. It offers industry-leading products, technologies and resources for solving formulation and product-performance challenges. Specialty Ingredients uses natural, synthetic and semisynthetic polymers derived from plant and seed extract, cellulose ethers, vinyl pyrrolidones, acrylic polymers as well as polyester and polyurethane-based adhesives. Specialty Ingredients includes two divisions, Consumer Specialties and Industrial Specialties, that offer comprehensive and innovative solutions for today's demanding consumer and industrial applications. Key customers include: pharmaceutical companies; makers of personal care products, food and beverages; manufacturers of paint, coatings and construction materials; packaging and converting; and oilfield service companies. During 2015, Ashland sold the industrial biocides assets within Specialty Ingredients. See Note B for information on the divestiture of these assets. Performance Materials is composed of two divisions: Composites and Intermediates/Solvents. Performance Materials is a global leader in unsaturated polyester resins and vinyl ester resins. The business unit has leading positions in gelcoats, maleic anhydride, butanediol, tetrahydrofuran, N-Methylpyrrolidone and other intermediates and solvents. Key customers include: manufacturers of residential and commercial building products; industrial product specifiers and manufacturers; wind blade and pipe manufacturers; automotive and truck OEM suppliers; boatbuilders; engineered plastics and electronic producers; and specialty chemical manufacturers. Results from the former Elastomers division were included in Performance Materials' results of operations within the Statements of Consolidated Comprehensive Income until its December 1, 2014 sale. See Note B for information on the divestiture of the Elastomers division.

Valvoline is a leading, worldwide producer and distributor of premium-branded automotive, commercial and industrial lubricants and automotive chemicals. It ranks as the #2 quick-lube chain and #3 passenger car motor oil brand in the United States. The brand operates and franchises approximately 940 Valvoline Instant Oil Change<sup>SM</sup> centers in the United States. It also markets Valvoline<sup>TM</sup> lubricants and automotive chemicals; MaxLife<sup>TM</sup> lubricants created for higher-mileage engines; SynPower<sup>TM</sup> synthetic motor oil; and Zerex<sup>TM</sup> antifreeze. Key customers include: retail auto parts stores and mass merchandisers who sell to consumers; installers, such as car dealers, repair shops and quick lubes; commercial fleets; and distributors. During 2015, Ashland sold its Valvoline car care product assets, including Car Brite<sup>TM</sup> and Eagle One<sup>TM</sup> automotive appearance products, and sold its joint venture equity investment in Venezuela. See Note B for information on the divestiture of this investment and the car care product assets.

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

### International data

Information about Ashland's domestic and international operations follows. Ashland has no material operations in any individual international country and no single customer represented more than 10% of sales in 2015, 2014 or 2013.

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## NOTE Q – REPORTABLE SEGMENT INFORMATION (continued)

(In millions)	Sales from external customers			Net assets (liabilities)		Property, plant and equipment - net	
	2015	2014	2013	2015	2014	2015	2014
United States	\$2,715	\$3,076	\$3,130	\$(575)	\$(160)	\$1,569	\$1,721
International	2,672	3,045	2,961	3,612	3,743	613	693
	\$5,387	\$6,121	\$6,091	\$3,037	\$3,583	\$2,182	\$2,414

## Reportable segment results

The following tables present various financial information for each reportable segment for the years ended September 30, 2015, 2014 and 2013 and as of September 30, 2015, 2014 and 2013. Results of Ashland's reportable segments are presented based on its management structure and internal accounting practices. The structure and practices are specific to Ashland; therefore, the financial results of Ashland's reportable segments are not necessarily comparable with similar information for other comparable companies. Ashland allocates all costs to its reportable segments except for certain significant company-wide restructuring activities, such as the restructuring plans described in Note E, and other costs or adjustments that relate to former businesses that Ashland no longer operates. The service cost component of pension and other postretirement benefits costs is allocated to each reportable segment on a ratable basis; while the remaining components of pension and other postretirement benefits costs are recorded to Unallocated and other. Ashland refines its expense allocation methodologies to the reportable segments from time to time as internal accounting practices are improved, more refined information becomes available and the industry or market changes. Revisions to Ashland's methodologies that are deemed insignificant are applied on a prospective basis.

Ashland determined that disclosing sales by specific product was impracticable due to the highly customized and extensive portfolio of products offered to customers and since no one product or a small group of products could be aggregated together to represent a majority of revenue within a reportable segment. As such, the following table provides a summary of 2015 sales by product category for each reportable segment:

## Sales by product category for 2015

Specialty Ingredients			Performance Materials			Valvoline		
Cellulosics	37	%	Composites	68	%	Lubricants	86	%
Poly vinyl pyrrolidones	18	%	Intermediates/Solvents	28	%	Chemicals (c)	7	%
Adhesives	13	%	Elastomers (b)	4	%	Antifreeze	5	%
Vinyl ethers	7	%		100	%	Filters	2	%
Actives	6	%					100	%
Guar	2	%						
Other (a)	17	%						
	100	%						

(a)Includes sales for biocides through July 1, 2015 sale.

(b)Includes sales only through December 1, 2014 sale.

(c)Includes sales for car care products through June 30, 2015 sale.

The following table presents various financial information for each reportable segment. The operating results of divested divisions and assets during 2015, 2014 and 2013 that did not qualify for discontinued operations accounting treatment are included in the financial information until the date of sale.

## NOTE Q – REPORTABLE SEGMENT INFORMATION (continued)

Ashland Inc. and Consolidated Subsidiaries  
Reportable Segment Information  
Years Ended September 30

(In millions)	2015	2014	2013	
Sales				
Specialty Ingredients	\$2,263	\$2,498	\$2,478	
Performance Materials	1,157	1,582	1,617	
Valvoline	1,967	2,041	1,996	
	\$5,387	\$6,121	\$6,091	
Equity income (expense)				
Specialty Ingredients	\$1	\$2	\$4	
Performance Materials	2	(38	) 10	
Valvoline	(2	) 10	13	
Unallocated and other	—	1	(1	)
	1	(25	) 26	
Other income (expense)				
Specialty Ingredients	(1	) (2	) 14	
Performance Materials	5	5	6	
Valvoline	10	20	11	
Unallocated and other	8	4	7	
	22	27	38	
	\$23	\$2	\$64	
Operating income (loss)				
Specialty Ingredients	\$239	\$253	\$243	
Performance Materials	87	7	106	
Valvoline	359	323	295	
Unallocated and other	(227	) (537	) 395	
	\$458	\$46	\$1,039	
Assets				
Specialty Ingredients	\$5,365	\$5,756	\$5,994	
Performance Materials	1,079	1,395	1,518	
Valvoline	976	1,073	1,051	
Unallocated and other	2,644	2,696	3,488	
	\$10,064	\$10,920	\$12,051	

## NOTE Q – REPORTABLE SEGMENT INFORMATION (continued)

Ashland Inc. and Consolidated Subsidiaries  
Reportable Segment Information (continued)  
Years Ended September 30

(In millions)	2015	2014	2013
Equity and other unconsolidated investments			
Specialty Ingredients	\$9	\$10	\$12
Performance Materials (a)	24	23	157
Valvoline (b)	29	44	40
Unallocated and other	3	4	4
	\$65	\$81	\$213
Depreciation and amortization			
Specialty Ingredients	\$244	\$262	\$242
Performance Materials	59	91	75
Valvoline	38	37	35
Unallocated and other	—	3	4
	\$341	\$393	\$356
Property, plant and equipment - net			
Specialty Ingredients	\$1,383	\$1,433	\$1,445
Performance Materials	358	508	551
Valvoline	253	272	270
Unallocated and other	188	201	241
	\$2,182	\$2,414	\$2,507
Additions to property, plant and equipment			
Specialty Ingredients	\$171	\$159	\$144
Performance Materials	33	38	43
Valvoline	45	36	41
Unallocated and other	16	15	36
	\$265	\$248	\$264

(a) ASK joint venture sold during 2014.

(b) Venezuela joint venture sold during 2015.

## QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents quarterly financial information and per share data relative to Ashland's Common Stock.

Quarters ended	December 31		March 31		June 30		September 30	
(In millions except per share data)	2014	2013	2015	2014	2015	2014	2015 (a)	2014 (b)
Sales	\$1,391	\$1,432	\$1,350	\$1,545	\$1,367	\$1,605	\$1,280	\$1,538
Cost of sales	982	1,048	925	1,168	939	1,161	970	1,227
Gross profit as a percentage of sales	29.4	% 26.8	% 31.5	% 24.4	% 31.3	% 27.7	% 24.2	% 20.2
Operating income (loss)	169	143	193	(64 )	196	143	(101 )	(175 )
Income (loss) from continuing operations	40	88	95	(61 )	115	71	(59 )	(26 )
Net income (loss)	32	110	224	(44 )	107	99	(55 )	68
Basic earnings per share								
Continuing operations	\$0.58	\$1.14	\$1.40	\$(0.78 )	\$1.70	\$0.91	\$(0.88 )	\$(0.35 )
Net income (loss)	0.47	1.42	3.30	(0.57 )	1.58	1.27	(0.82 )	0.93
Diluted earnings per share								
Continuing operations	\$0.57	\$1.12	\$1.39	\$(0.78 )	\$1.68	\$0.90	\$(0.88 )	\$(0.35 )
Net income (loss)	0.46	1.40	3.26	(0.57 )	1.56	1.25	(0.82 )	0.93
Regular cash dividends per share	\$0.34	\$0.34	\$0.34	\$0.34	\$0.39	\$0.34	\$0.39	\$0.34
Market price per common share								
High	\$121.35	\$97.68	\$130.66	\$100.87	\$132.38	\$108.93	\$123.60	\$110.02
Low	95.21	84.43	115.66	88.76	121.83	93.62	97.58	98.55

(a) Fourth quarter results for 2015 include a decrease in operating income of \$246 million related to the loss on pension and postretirement benefit plan rereasurement (\$97 million in cost of sales and \$149 million in selling, general and administrative expenses), a decrease of \$13 million for a customer claim, a decrease of \$11 million related to the impairment on IPR&D assets associated with the ISP acquisition, a decrease of \$6 million related to restructuring and a decrease of \$3 million for an environmental reserve adjustment. Income tax benefit for the fourth quarter included \$6 million of discrete tax income items.

(b) Fourth quarter results for 2014 include a decrease in operating income of \$317 million related to the loss on pension and postretirement benefit plan rereasurement (\$97 million in cost of sales and \$220 million in selling, general and administrative expenses), a decrease of \$29 million related to restructuring and plant closure costs, a decrease of \$5 million for foreign legal reserves and a decrease of \$4 million related to the impairment on IPR&D assets associated with the ISP acquisition. Income tax benefit for the fourth quarter included \$100 million of discrete tax income items including a \$168 million reversal of a deferred tax liability related to an assertion change of the nature of unremitted earnings of foreign subsidiaries.





Ashland Inc. and Consolidated Subsidiaries  
 Five-Year Selected Financial Information  
 Years Ended September 30

(In millions except per share data)	2015	2014	2013	2012	2011	
Summary of operations						
Sales	\$5,387	\$6,121	\$6,091	\$6,472	\$4,600	
Cost of sales	3,814	4,605	4,304	4,813	3,563	
Gross profit	1,573	1,516	1,787	1,659	1,037	
Selling, general and administrative expense	1,028	1,358	670	1,327	980	
Research and development expense	110	114	142	104	49	
Equity and other income	23	2	64	53	45	
Operating income	458	46	1,039	281	53	
Net interest and other financing expense	174	166	282	317	121	
Net gain (loss) on divestitures	(115)	) 4	(8	) (7	) 2	
Other expense (income)	—	—	—	—	1	
Income (loss) from continuing operations before income taxes	169	(116	) 749	(43	) (67	)
Income tax expense (benefit)	(22	) (188	) 196	(57	) (70	)
Income from continuing operations	191	72	553	14	3	
Income from discontinued operations	118	161	130	12	411	
Net income	\$309	\$233	\$683	\$26	\$414	
Balance sheet information (as of September 30)						
Current assets	\$3,248	\$3,561	\$2,873	\$3,209	\$3,387	
Current liabilities	1,448	1,687	1,727	1,913	1,739	
Working capital	\$1,800	\$1,874	\$1,146	\$1,296	\$1,648	
Total assets	\$10,064	\$10,920	\$12,051	\$12,471	\$12,893	
Short-term debt	\$326	\$329	\$308	\$344	\$83	
Long-term debt (including current portion and debt issuance cost discounts)	3,403	2,920	2,922	3,193	3,676	
Stockholders' equity	3,037	3,583	4,553	4,029	4,135	
Cash flow information						
Cash flows from operating activities from continuing operations	\$89	\$580	\$653	\$189	\$50	
Additions to property, plant and equipment	265	248	264	242	152	
Cash dividends	98	103	88	63	51	
Common stock information						
Basic earnings per share						
Income from continuing operations	\$2.81	\$0.94	\$7.06	\$0.18	\$0.05	

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Net income	4.54	3.04	8.71	0.33	5.28
Diluted earnings per share					
Income from continuing operations	2.78	0.93	6.95	0.17	0.05
Net income	4.48	3.00	8.57	0.33	5.17
Dividends	1.46	1.36	1.13	0.80	0.65

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