DUNKIN' BRANDS GROUP, INC.
Form 10-K
February 26, 2018

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the year ended December 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission file number 001-35258

DUNKIN' BRANDS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-4145825
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

130 Royall Street
Canton, Massachusetts 02021
(Address of principal executive offices) (zip code)
(781) 737-3000
(Registrants' telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Emerging growth company ¨

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

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

The aggregate market value of the voting and non-voting stock of the registrant held by non-affiliates of Dunkin' Brands Group, Inc. computed by reference to the closing price of the registrant's common stock on the NASDAQ Global Select Market as of July 1, 2017, was approximately $4.99 billion.

As of February 22, 2018, 82,257,948 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference in Part III, Items 10-14 of this Form 10-K.

DUNKIN’ BRANDS GROUP, INC. AND SUBSIDIARIES
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Forward-Looking Statements

This report on Form 10-K, as well as other written reports and oral statements that we make from time to time, includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Generally these statements can be identified by the use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “feel,” “forecast,” “intend,” “may,” “plan,” “potential,” “project,” “should” or “would” and simi intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include all matters that are not historical facts.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under “Risk Factors” and elsewhere in this report and in our other public filings with the Securities and Exchange Commission, or SEC.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any forward-looking statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments.

PART I

Item 1. Business.

Our Company

We are one of the world’s leading franchisors of quick service restaurants (“QSRs”) serving hot and cold coffee and baked goods, as well as hard serve ice cream. We franchise restaurants under our Dunkin’ Donuts and Baskin-Robbins brands. With over 20,500 points of distribution in more than 60 countries worldwide, we believe that our portfolio has strong brand awareness in our key markets.

We believe that our 100% franchised business model offers strategic and financial benefits. For example, because we generally do not own or operate restaurants, our Company is able to focus on menu innovation, marketing, franchisee coaching and support, and other initiatives to drive the overall success of our brand. Financially, our franchised model allows us to grow our points of distribution and brand recognition with limited capital investment by us.

We operate our business in four segments: Dunkin’ Donuts U.S., Dunkin’ Donuts International, Baskin-Robbins International and Baskin-Robbins U.S. In fiscal year 2017, our Dunkin’ Donuts segments generated revenues of $662.5 million, or 80% of our total segment revenues, of which $641.9 million was in the U.S. segment and $20.6 million was in the international segment. In fiscal year 2017, our Baskin-Robbins segments generated revenues of $163.9 million, of which $114.7 million was in the international segment and $49.2 million was in the U.S. segment. As of December 30, 2017, there were 12,538 Dunkin’ Donuts points of distribution, of which 9,141 were in the U.S. and 3,397 were international, and 7,982 Baskin-Robbins points of distribution, of which 5,422 were international and 2,560 were in the U.S. See note 12 to our consolidated financial statements included herein for segment information.

We generate revenue from four primary sources: (i) royalty income and fees associated with franchised restaurants; (ii) rental income from restaurant properties that we lease or sublease to franchisees; (iii) sales of ice cream and other products to franchisees in certain international markets; and (iv) other income including fees for the licensing of the Dunkin’ Donuts brand for products sold in certain retail channels (such as Dunkin’ K-Cup® pods, retail packaged coffee, and ready-to-drink bottled iced coffee), the licensing of the rights to manufacture Baskin-Robbins ice cream products to a third party for sale to U.S. franchisees, refranchising gains, transfer fees from franchisees, and online training fees. Prior to completing the sale of all company-operated restaurants in fiscal year 2016, we also generated revenue from retail store sales at our company-operated restaurants.

Our history

Both of our brands have a rich heritage dating back to the 1940s, when Bill Rosenberg founded his first restaurant, subsequently renamed Dunkin’ Donuts, and Burt Baskin and Irv Robbins each founded a chain of ice cream shops that eventually combined to form Baskin-Robbins. Baskin-Robbins and Dunkin’ Donuts were individually acquired by Allied Domecq PLC in 1973 and 1989, respectively. The brands were organized under the Allied Domecq Quick Service Restaurants subsidiary, which was renamed Dunkin’ Brands, Inc. in 2004. Allied Domecq was acquired in July 2005 by Pernod Ricard S.A. In March of 2006, Dunkin’ Brands, Inc. was acquired by investment funds affiliated with Bain Capital Partners, LLC, The Carlyle Group, and Thomas H. Lee Partners, L.P. through a holding company that was incorporated in Delaware on November 22, 2005 and was later renamed Dunkin’ Brands Group, Inc. In July 2011, we completed our initial public offering (the “IPO”). Upon the completion of the IPO, our common stock became listed on the NASDAQ Global Select Market under the symbol “DNKN.”

Our brands

Dunkin’ Donuts-U.S.

Dunkin’ Donuts is a leading U.S. QSR concept, and is the QSR leader in donut and bagel categories for servings. Dunkin’ Donuts is also a national QSR leader for breakfast sandwich servings. Since the late 1980s, Dunkin’ Donuts has transformed itself into a coffee and beverage-based concept, and is a national QSR leader in servings in the hot regular/decaf/flavored coffee category and the iced regular/decaf/flavored coffee category, with sales of approximately 1.7 billion servings of total hot and iced coffee annually. Over the last ten fiscal years, Dunkin’ Donuts U.S. systemwide sales have grown at a 5.8% compound annual growth rate and total Dunkin’ Donuts U.S. points of distribution grew from 5,786 to 9,141. As of December 30, 2017, approximately 86% of these points of distribution are traditional restaurants consisting of end-cap, in-line and stand-alone restaurants, many with drive-thrus, and gas

and convenience locations. In addition, we have alternative points of distribution (“APODs”), such as full- or self-service kiosks in offices, hospitals, colleges, airports, grocery stores, wholesale clubs, and other smaller-footprint properties. We believe that Dunkin’ Donuts continues to have significant growth potential in the U.S. given its strong brand awareness and variety of restaurant formats. For fiscal year 2017, the Dunkin’ Donuts franchise system

generated U.S. systemwide sales of $8.5 billion, which accounted for approximately 76% of our global systemwide sales, and had 9,141 U.S. points of distribution (with more than 50% of our restaurants having drive-thrus) at period end.

Baskin-Robbins-U.S.

Baskin-Robbins is one of the leading QSR chains in the U.S. for servings of hard-serve ice cream and develops and sells a full range of frozen ice cream treats such as cones, cakes, sundaes, and frozen beverages. Baskin-Robbins enjoys strong brand awareness in the U.S., and we believe the brand is known for its innovative flavors, popular "Birthday Club" program and ice cream flavor library of over 1,300 different offerings. Additionally, our Baskin-Robbins U.S. segment has experienced comparable store sales growth in six of the last seven fiscal years. We believe we can capitalize on the brand's strengths and continue generating renewed excitement for the brand. Baskin-Robbins' "31 flavors" offers consumers a different flavor for each day of the month. For fiscal year 2017, the Baskin-Robbins franchise system generated U.S. systemwide sales of approximately $606.1 million, which accounted for approximately 5% of our global systemwide sales. Over the last ten fiscal years, total Baskin-Robbins U.S. points of distribution declined from 2,868 to 2,560 as of December 30, 2017.

International operations

Our international business is primarily conducted via joint ventures and country or territorial license arrangements with "master franchisees," who both operate and sub-franchise the brand within their licensed areas. Increasingly, in certain markets, we are migrating to a model with multiple franchisees in one country, including markets in the United Kingdom, Germany, China, and Mexico. Our international franchise system, predominantly located across Asia and the Middle East, generated systemwide sales of $2.1 billion for fiscal year 2017, which represented approximately 19% of Dunkin' Brands' global systemwide sales. As of December 30, 2017, Dunkin' Donuts had 3,397 international points of distribution in 45 countries (excluding the U.S.), which grew from 2,202 points of distribution as of December 29, 2007, and represented $733.6 million of international systemwide sales for fiscal year 2017. As of December 30, 2017, Baskin-Robbins had 5,422 international points of distribution in 52 countries (excluding the U.S.), which grew from 3,006 points of distribution as of December 29, 2007, and represented approximately $1.3 billion of international systemwide sales for fiscal year 2017. We believe that we have opportunities to continue to grow our Dunkin' Donuts and Baskin-Robbins concepts internationally in new and existing markets through brand and menu differentiation.

Overview of franchising

Franchising is a business arrangement whereby a service organization, the franchisor, grants an operator, the franchisee, a license to sell the franchisor's products and services and use its system and trademarks in a given area, with or without exclusivity. In the context of the restaurant industry, a franchisee pays the franchisor for its concept, strategy, marketing, operating system, training, purchasing power, and brand recognition. Franchisees are solely responsible for the day-to-day operations in each franchised restaurant, including but not limited to all labor and employment decisions, such as hiring, promoting, discharging, scheduling, and setting wages, benefits, and all other terms of employment with respect to their employees.

Franchisee relationships

We seek to maximize the alignment of our interests with those of our franchisees. For instance, we do not derive additional income through serving as the supplier to our domestic franchisees. In addition, because the ability to execute our strategy is dependent upon the strength of our relationships with our franchisees, we maintain a multi-tiered advisory council system to foster an active dialogue with franchisees. The advisory council system provides feedback and input on all major brand initiatives and is a source of timely information on evolving consumer preferences, which assists new product introductions and advertising campaigns.

Unlike certain other QSR franchise systems, we generally do not guarantee our franchisees' financing obligations. From time to time, at our discretion, we may offer voluntary financing to existing franchisees for specific programs such as the purchase of specialized equipment. We intend to continue our past practice of limiting our guarantee of financing for franchisees.

Franchise agreement terms

For each franchised restaurant in the U.S., we enter into a franchise agreement covering a standard set of terms and conditions. A prospective franchisee may elect to open either a single-branded distribution point or a multi-branded distribution point. In addition, and depending upon the market, a franchisee may purchase the right to open a franchised restaurant at one or multiple locations (via a store development agreement, or "SDA"). When granting the right to operate a restaurant to a potential franchisee, we will generally evaluate the potential franchisee's prior food-service experience, history in managing profit and

loss operations, financial history, and available capital and financing. We also evaluate potential new franchisees based on financial measures, including liquid asset and net worth minimums for each brand.

The typical franchise agreement in the U.S. has a 20-year term. The majority of our franchisees have entered into prime leases with a third-party landlord. The Company is the lessee on certain land leases (the Company leases the land and erects a building) or improved leases (lessor owns the land and building) covering restaurants and other properties. In addition, the Company has leased and subleased land and buildings to other franchisees. When we sublease properties to franchisees, the sublease generally follows the prime lease term. Our leases to franchisees are typically for an overall term of 20 years.

We help domestic franchisees select sites and develop restaurants that conform to the physical specifications of our typical restaurant. Each domestic franchisee is responsible for selecting a site, but must obtain site approval from us based on accessibility, visibility, proximity to other restaurants, and targeted demographic factors including population density and traffic patterns. Additionally, the franchisee must also refurbish and remodel each restaurant periodically (typically every five and ten years, respectively).

We currently require each domestic franchisee’s managing owner and/or designated manager to complete initial and ongoing training programs provided by us, including minimum periods of classroom and on-the-job training. We monitor quality and endeavor to ensure compliance with our standards for restaurant operations through restaurant visits in the U.S. In addition, a restaurant operation review is conducted throughout our domestic operations at least once per year. To complement these procedures, we use “Guest Satisfaction Surveys” in the U.S. to assess customer satisfaction with restaurant operations, such as product quality, restaurant cleanliness, and customer service.

Store development agreements

We grant domestic franchisees the right to open one or more restaurants within a specified geographic area pursuant to the terms of SDAs. An SDA specifies the number of restaurants and the mix of the brands represented by such restaurants that a franchisee is obligated to open. Each SDA also requires the franchisee to meet certain milestones in the development and opening of the restaurant and, if the franchisee meets those obligations, we agree, during the term of such SDA, not to operate or franchise new restaurants in the designated geographic area covered by such SDA. In addition to an SDA, a franchisee signs a separate franchise agreement for each restaurant developed under such SDA.

Master franchise model and international arrangements

Master franchise arrangements are used on a limited basis domestically (the Baskin-Robbins brand has one “territory” franchise agreement for certain Midwestern markets) but more widely internationally for both the Baskin-Robbins brand and the Dunkin’ Donuts brand. In addition, international arrangements include joint venture agreements in South Korea (both brands), Australia (Baskin-Robbins brand), and Japan (Baskin-Robbins brand), as well as single unit franchises, such as in Canada (both brands). We utilize a multi-franchise system in certain markets, including in the United Kingdom, Germany, China, and Mexico.

Master franchise agreements are the most prevalent international relationships for both brands. Under these agreements, the applicable brand grants the master franchisee the limited exclusive right to develop and operate a certain number of restaurants within a particular geographic area, such as selected cities, one or more provinces or an entire country, pursuant to a development schedule that defines the number of restaurants that the master franchisee must open annually. Those development schedules customarily extend for five to ten years. If the master franchisee fails to perform its obligations, the limited exclusivity provision of the agreement terminates and additional franchise agreements may be put in place to develop restaurants.

The master franchisee is generally required to pay an upfront market development fee and an upfront initial franchise fee for each developed restaurant, and, for the Dunkin’ Donuts brand, royalties. For the Baskin-Robbins brand, the master franchisee is typically required to purchase ice cream from Baskin-Robbins or an approved supplier. In most countries, the master franchisee is also required to spend a certain percentage of gross sales on advertising in such foreign country in order to promote the brand. Generally, the master franchise agreement serves as the franchise agreement for the underlying restaurants operating pursuant to such model. Depending on the individual agreement, we may permit the master franchisee to subfranchise within its territory.

Within each of our master franchisee and joint venture organizations, training facilities have been established by the master franchisee or joint venture based on our specifications. From those training facilities, the master franchisee or joint venture trains future staff members of the international restaurants. Our master franchisees and joint venture entities also periodically send their primary training managers to the U.S. for re-certification.

Franchise fees

In the U.S., once a franchisee is approved, a restaurant site is approved, and a franchise agreement is signed, the franchisee will begin to develop the restaurant. Franchisees pay us an initial franchise fee for the right to operate a restaurant for one or more franchised brands. The franchisee is required to pay all or part of the initial franchise fee upfront upon execution of the franchise agreement, regardless of when the restaurant is actually opened. Initial franchise fees vary by brand, type of development agreement and geographic area of development, but generally range from $25,000 to $100,000, as shown in the table below.

Restaurant type		Initial franchise fee*
Dunkin' Donuts Single-Branded Restaurant	$	40,000-90,000
Baskin-Robbins Single-Branded Restaurant	$	25,000
Dunkin' Donuts/Baskin-Robbins Multi-Branded Restaurant	$	50,000-100,000

*Fees as of January 1, 2018 and excludes alternative points of distribution

In addition to the payment of initial franchise fees, our U.S. Dunkin' Donuts brand franchisees, U.S. Baskin-Robbins brand franchisees, and our international Dunkin' Donuts brand franchisees pay us royalties on a percentage of the gross sales made from each restaurant. In the U.S., the majority of our franchise agreement renewals and the vast majority of our new franchise agreements require our franchisees to pay us a royalty of 5.9% of gross sales. During fiscal year 2017, our effective royalty rate in the Dunkin' Donuts U.S. segment was approximately 5.5% and in the Baskin-Robbins U.S. segment was approximately 4.9%. The arrangements for Dunkin' Donuts in the majority of our international markets require royalty payments to us of 5.0% of gross sales. However, many of our larger international partners, including our South Korean joint venture partner, have agreements at a lower rate and/or based on wholesale sales to restaurants, resulting in an effective royalty rate in the Dunkin' Donuts International segment in 2017 of approximately 2.4%. We typically collect royalty payments on a weekly basis from our domestic franchisees. For the Baskin-Robbins brand in international markets, we do not generally receive royalty payments from our franchisees; instead we earn revenue from such franchisees as a result of our sale of ice cream products to them, and in 2017 our effective royalty rate in this segment was approximately 0.5%. In certain instances, we supplement and modify certain SDAs, and franchise agreements entered into pursuant to such SDAs with certain incentives that may (i) reduce or eliminate the initial franchise fee associated with a franchise agreement; (ii) reduce the royalties for a specified period of the term of the franchise agreements depending on the details related to each specific incentive program; (iii) reimburse the franchisee for certain local marketing activities in excess of the minimum required; and (iv) provide certain development incentives. To qualify for any or all of these incentives, the franchisee must meet certain requirements, each of which are set forth in an addendum to the SDA and the franchise agreement. We believe these incentives will lead to accelerated development in our less mature markets.

Franchisees in the U.S. also pay advertising fees to the brand-specific advertising funds administered by us. Franchisees make weekly contributions, generally 5% of gross sales, to the advertising funds. Franchisees may elect to increase the contribution to support general brand-building efforts or specific initiatives. The advertising funds for the U.S., which received $440.6 million in contributions from franchisees in fiscal year 2017, are almost exclusively franchisee-funded and cover all expenses related to marketing, research and development, innovation, advertising and promotion, including market research, production, advertising costs, public relations, and sales promotions. We use no more than 20% of the advertising funds to cover the administrative expenses of the advertising funds and for other strategic initiatives designed to increase sales and to enhance the reputation of the brands. As the administrator of the advertising funds, we determine the content and placement of advertising, which is done through print, radio, television, online, billboards, sponsorships, and other media, all of which is sourced by agencies. Under certain circumstances, franchisees are permitted to conduct their own local advertising, but must obtain our prior approval of content and promotional plans.

Other franchise related fees

We lease and sublease properties to franchisees in the U.S. and in Canada, generating net rental fees when the cost charged to the franchisee exceeds the cost charged to us. For fiscal year 2017, we generated 12.2%, or $104.6 million,

of our total revenue from rental fees from franchisees and incurred related occupancy expenses of $60.3 million.
We also receive a license fee from Dean Foods Co. (“Dean Foods”) as part of an arrangement whereby Dean Foods manufactures and distributes ice cream and other frozen products to Baskin-Robbins franchisees in the U.S. In connection with this agreement, Dunkin’ Brands receives a fee based on net sales of covered products. For fiscal year 2017, we generated 1.2%, or $10.2 million, of our total revenue from license fees from Dean Foods.

We distribute ice cream products to Baskin-Robbins franchisees who operate Baskin-Robbins restaurants located in certain foreign countries and receive revenue associated with those sales. For fiscal year 2017, we generated 12.9%, or $110.7 million, of our total revenue from the sale of ice cream and other products to franchisees primarily in certain foreign countries.

Other revenue sources include online training fees, licensing fees earned from the sale of K-Cup® pods, retail packaged coffee, ready-to-drink bottled iced coffee, and other branded products, net refranchising gains, other one-time fees such as transfer fees, and late fees. For fiscal year 2017, we generated 4.9%, or $42.3 million, of our total revenue from these other sources.

International operations

Our international business is organized by brand and by country and/or region. Operations are primarily conducted through master franchise agreements with local operators. In certain instances, the master franchisee may have the right to sub-franchise. We utilize a multi-franchise system in certain markets, including the United Kingdom, Germany, China and Mexico. In addition, we have a joint venture with a local, publicly-traded company for the Baskin-Robbins brand in Japan, and joint ventures with local companies in Australia for the Baskin-Robbins brand and in South Korea for both the Dunkin' Donuts and Baskin-Robbins brands. The Company also had an interest in a joint venture in Spain for the Dunkin' Donuts brand, which it sold during the fourth quarter of fiscal year 2016. By teaming with local operators, we believe we are better able to adapt our concepts to local business practices and consumer preferences. We have had an international presence since 1961 when the first Dunkin' Donuts restaurant opened in Canada. As of December 30, 2017, there were 5,422 Baskin-Robbins restaurants in 52 countries outside the U.S. and 3,397 Dunkin' Donuts restaurants in 45 countries outside the U.S. Baskin-Robbins points of distribution represent the majority of our international presence and accounted for approximately 65% of international systemwide sales.

Our key markets for both brands are predominantly based in Asia and the Middle East, which accounted for approximately 69% and 17%, respectively, of international systemwide sales for fiscal year 2017. For fiscal year 2017, $2.1 billion of total systemwide sales were generated by restaurants located in international markets, which represented approximately 19% of total systemwide sales, with the Dunkin' Donuts brand accounting for $733.6 million and the Baskin-Robbins brand accounting for $1.3 billion of our international systemwide sales. For the same period, our revenues from international operations totaled $135.3 million, with the Baskin-Robbins brand generating approximately 85% of such revenues.

Overview of key markets

As of December 30, 2017, the top foreign countries and regions in which the Dunkin' Donuts brand and/or the Baskin-Robbins brand operated were:

Country/Region	Type	Franchised brand(s)	Number of restaurants
South Korea	Joint Venture	Dunkin' Donuts	702
		Baskin-Robbins	1,327
Japan	Joint Venture	Baskin-Robbins	1,174
Middle East	Master Franchise Agreements	Dunkin' Donuts	560
		Baskin-Robbins	915

South Korea

Restaurants in South Korea accounted for approximately 36% of total systemwide sales from international operations for fiscal year 2017. Baskin-Robbins accounted for 71% of such sales. In South Korea, we conduct business through a 33.3% ownership stake in a combination Dunkin' Donuts brand/Baskin-Robbins brand joint venture, with South Korean shareholders owning the remaining 66.7% of the joint venture. The joint venture acts as the master franchisee for South Korea, sub-franchising the Dunkin' Donuts and Baskin-Robbins brands to franchisees. The joint venture also manufactures and supplies restaurants located in South Korea with ice cream, donuts, and coffee products.

Japan

Restaurants in Japan accounted for approximately 19% of total systemwide sales from international operations for fiscal year 2017, 100% of which came from Baskin-Robbins. We conduct business in Japan through a 43.3% ownership stake in a Baskin-Robbins brand joint venture. Our partner also owns a 43.3% interest in the joint venture,

with the remaining 13.4% owned by public shareholders. The joint venture primarily manufactures and sells ice cream to restaurants in Japan and acts as master franchisee for the country.

Middle East

The Middle East represents another key region for us. Restaurants in the Middle East accounted for approximately 17% of total systemwide sales from international operations for fiscal year 2017. Baskin-Robbins accounted for approximately 65% of such sales. We conduct operations in the Middle East through master franchise arrangements.

Industry overview

According to The NPD Group/CREST® (“CREST®”), the QSR segment of the U.S. restaurant industry accounted for approximately $291 billion of the total $450 billion restaurant industry sales in the U.S. for the twelve months ended December 30, 2017. The U.S. restaurant industry is generally categorized into segments by price point ranges, the types of food and beverages offered, and service available to consumers. QSR is a restaurant format characterized by counter or drive-thru ordering and limited, or no, table service. QSRs generally seek to capitalize on consumer desires for quality and convenient food at economical prices.

Our Dunkin’ Donuts brand competes in the QSR segment categories and subcategories that include coffee, donuts, muffins, bagels, and breakfast sandwiches. In addition, in the U.S., our Dunkin’ Donuts brand has historically focused on the breakfast daypart, which we define to include the portion of each day from 5:00 a.m. until 11:00 a.m. While, according to CREST® data, the compound annual growth rate for total QSR daypart visits in the U.S. was 1% over the five-year period ended December 30, 2017, the compound annual growth rate for QSR visits in the U.S. during the morning meal daypart was 3% over the same five-year period. There can be no assurance that such growth rates will be sustained in the future.

For the twelve months ended December 30, 2017, there were sales of over 8 billion restaurant servings of coffee in the U.S., 88% of which were attributable to the QSR segment, according to CREST® data. According to CREST®, total coffee servings at QSR have grown at a 4% compound annual rate for the five-year period ending December 30, 2017. Over the years, our Dunkin’ Donuts brand has evolved into a predominantly coffee-based concept, with approximately 58% of Dunkin’ Donuts’ U.S. systemwide sales for fiscal year 2017 generated from coffee and other beverages. We believe QSRs, including Dunkin’ Donuts, are positioned to capture additional coffee market share through an increased focus on coffee offerings.

Our Baskin-Robbins brand competes primarily in QSR segment categories and subcategories that include hard-serve ice cream as well as those that include soft serve ice cream, frozen yogurt, shakes, malts, floats, and cakes. While both of our brands compete internationally, approximately 68% of Baskin-Robbins restaurants are located outside of the U.S. and represent the majority of our total international sales and points of distribution.

Competition

We compete primarily in the QSR segment of the restaurant industry and face significant competition from a wide variety of restaurants, convenience stores, and other outlets that provide consumers with coffee, baked goods, sandwiches, and ice cream on an international, national, regional, and local level. We believe that we compete based on, among other things, product quality, restaurant concept, service, convenience, value perception, and price. Our competition continues to intensify as competitors increase the breadth and depth of their product offerings, particularly during the breakfast daypart, and open new units. Although new competitors may emerge at any time due to the low barriers to entry, our competitors include: 7-Eleven, Burger King, Cold Stone Creamery, Cumberland Farms, Dairy Queen, McDonald’s, Panera Bread, Quick Trip, Starbucks, Subway, Taco Bell, Tim Hortons, WaWa, and Wendy’s, among others. Additionally, we compete with QSRs, specialty restaurants, and other retail concepts for prime restaurant locations and qualified franchisees.

Licensing

We derive licensing revenue from agreements with Dean Foods for domestic ice cream sales, with The J.M. Smucker Co. (“Smuckers”) for the sale of packaged coffee in certain retail outlets (primarily grocery retail), with Keurig Green Mountain, Inc. (“KGM”) and Smuckers for sale of Dunkin’ K-Cup® pods in certain retail outlets (primarily grocery retail), and with The Coca-Cola Company for the sale of Dunkin' Donuts branded ready-to-drink bottled iced coffee in certain retail outlets (primarily gas and convenience retail), as well as from other licensees. For the 52 weeks ending December 31, 2017, the Dunkin’ Donuts branded 12 oz. original blend coffee, which is distributed by Smuckers, was the #1 stock-keeping unit nationally in the premium coffee category. For the 52 weeks ending December 31, 2017, sales of our 12 oz. original blend, as expressed in total equivalent units and dollar sales, were double that of the next

closest competitor. Additionally, for the 52 weeks ending December 31, 2017, the 10-count carton of our original blend K-Cup® pods, also distributed by Smuckers, was the #1 stock-keeping unit nationally in the K-Cup® pod category as expressed in total dollar sales. Through December 31, 2017, we have sold more than 1.1 billion Dunkin' K-Cup® pods in grocery outlets since launch in May 2015. With the introduction of Dunkin' K-Cup® pods into grocery outlets, more than 2.8 billion cups of Dunkin' Donuts coffee were sold

through grocery outlets during calendar year 2017. Through December 31, 2017, Dunkin' Donuts branded ready-to-drink bottled iced coffee sales in retail outlets have surpassed $150.0 million since launch in the first quarter of 2017.

Marketing

We coordinate domestic advertising and marketing at the national and local levels through our administration of brand specific advertising funds. The goals of our marketing strategy include driving comparable store sales and brand differentiation, increasing our total coffee and beverage sales, protecting and growing our morning daypart sales, and growing our afternoon daypart sales. Generally, our domestic franchisees contribute 5% of weekly gross retail sales to fund brand specific advertising funds. The funds are used for various national and local advertising campaigns including print, radio, television, online, mobile, loyalty, billboards, and sponsorships. Over the past ten years, our U.S. franchisees have invested approximately $2.7 billion on advertising to increase brand awareness and restaurant performance across both brands. Additionally, we have various pricing strategies, so that our products appeal to a broad range of customers. In August 2012, we launched the Dunkin' Donuts mobile application for payment and gifting, which built the foundation for one-to-one marketing with our customers. In January 2014, we launched a new DD Perks® Rewards loyalty program nationally, which is fully integrated with the Dunkin' Donuts mobile application and allows us to engage our customers in these one-to-one marketing interactions. In June 2016, we continued to leverage digital technologies to drive customer loyalty and enhance the restaurant experience through the launch of On-the-Go mobile ordering for our DD Perks® members, which enables users to order ahead and speed to the front of the line in restaurants. As of December 30, 2017 our DD Perks® Rewards loyalty program had over 8 million members.

The supply chain

Domestic

We do not typically supply products to our domestic franchisees. As a result, with the exception of licensing fees paid by Dean Foods on domestic ice cream sales, we do not typically derive revenues from product distribution. Our franchisees' suppliers include Rich Products Corp., Dean Foods, The Coca-Cola Company, and KGM. In addition, our franchisees' primary coffee roasters currently are Reily Foods Company, Inc., Mother Parkers Tea & Coffee Inc., S&D Coffee, Inc., and Massimo Zanetti Beverage USA, Inc., and their primary donut mix suppliers currently are Continental Mills and Pennant Ingredients Inc. We periodically review our relationships with licensees and approved suppliers and evaluate whether those relationships continue to be on competitive or advantageous terms for us and our franchisees.

Purchasing

Purchasing for the Dunkin' Donuts brand is facilitated by National DCP, LLC (the "NDCP"), which is a Delaware limited liability company operated as a cooperative owned by its franchisee members. The NDCP is managed by a staff of supply chain professionals who report directly to the NDCP's board of directors. The NDCP has approximately 1,600 employees including executive leadership, sourcing professionals, warehouse staff, and drivers. The NDCP board of directors has eight voting franchisee members, one NDCP non-voting member, and one independent non-voting member. In addition, our Vice President of Supply Chain is a voting member of the NDCP board. The NDCP engages in purchasing, warehousing, and distribution of food and supplies on behalf of participating restaurants and some international markets. The NDCP program provides franchisee members nationwide the benefits of scale while fostering consistent product quality across the Dunkin' Donuts brand. We do not control the NDCP and have only limited contractual rights associated with managing that franchisee-owned purchasing and distribution cooperative.

Manufacturing of Dunkin' Donuts bakery goods

Centralized production is another element of our supply chain that is designed to support growth for the Dunkin' Donuts brand. Centralized manufacturing locations ("CMLs") are franchisee-owned and -operated facilities for the centralized production of donuts and bakery goods. The CMLs deliver freshly baked products to Dunkin' Donuts restaurants on a daily basis and are designed to provide consistent quality products while simplifying restaurant-level operations. As of December 30, 2017, there were 96 CMLs (of varying size and capacity) in the U.S. CMLs are an

important part of franchise economics, and are supportive of profit building initiatives as well as protecting brand quality standards and consistency.

Certain of our Dunkin' Donuts brand restaurants produce donuts and bakery goods on-site rather than sourcing from CMLs. Many of such restaurants, known as full producers, also supply other local Dunkin' Donuts restaurants that do not have access to CMLs. In addition, in newer markets, Dunkin' Donuts brand restaurants source donuts and bakery goods that are finished in restaurants. We believe that this "just baked on demand" donut manufacturing platform enables the Dunkin' Donuts brand to more efficiently expand its restaurant base in newer markets where franchisees may not have access to a CML.

Baskin-Robbins ice cream

We outsource the manufacturing and distribution of ice cream products for the domestic Baskin-Robbins brand franchisees to Dean Foods, which strengthens our relationships with franchisees and allows us to focus on our core franchising operations.

International

Dunkin' Donuts

International Dunkin' Donuts franchisees are responsible for sourcing their own supplies, subject to compliance with our standards. Most also produce their own donuts following the Dunkin' Donuts brand's approved processes. Franchisees in some markets source donuts produced by a brand approved third party supplier. Franchisees are permitted to source coffee from a number of coffee roasters approved by the brand, including the NDCP, as well as certain approved regional and local roasters. In certain countries, our international franchisees source virtually everything locally within their market while in others our international franchisees source most of their supplies from the NDCP. Where supplies are sourced locally, we help identify and approve those suppliers. In addition, we assist our international franchisees in identifying regional and global suppliers with the goal of leveraging the purchasing volume for pricing and product continuity advantages.

Baskin-Robbins

The Baskin-Robbins manufacturing network is comprised of 13 facilities, none of which are owned or operated by us, that supply our international markets with ice cream products. We utilize facilities owned by Dean Foods to produce ice cream products which we purchase and distribute to many of our international markets. Certain international franchisees rely on third-party-owned facilities to supply ice cream products to them, including facilities in Ireland and Canada. The Baskin-Robbins brand restaurants in India and Russia are supported by master franchisee-owned facilities in those respective countries while the restaurants in Japan and South Korea are supported by the joint venture-owned facilities located within each country.

Research and development

New product innovation is a critical component of our success. We believe the development of successful new products for each brand attracts new customers, increases comparable store sales, and allows franchisees to expand into other dayparts. New product research and development is located in a state-of-the-art facility at our headquarters in Canton, Massachusetts. The facility includes a sensory lab, a quality assurance lab, and a demonstration test kitchen. We rely on our internal culinary team, which uses consumer research, to develop and test new products.

Operational support

Substantially all of our executive management, finance, marketing, legal, technology, human resources, and operations support functions are conducted from our global headquarters in Canton, Massachusetts. In the United States, our franchise operations for both brands are organized into regions, each of which is headed by a regional vice president and directors of operations supported by field personnel who interact directly with the franchisees. Our international businesses are organized by region and have dedicated marketing and restaurant operations support teams that work with our master licensees and joint venture partners to improve restaurant operations and restaurant-level economics. Management of a franchise restaurant is the responsibility of the franchisee, who is trained in our techniques and is responsible for ensuring that the day-to-day operations of the restaurant are in compliance with our operating standards. We have implemented a computer-based disaster recovery program to address the possibility that a natural (or other form of) disaster may impact the information technology systems located at our Canton, Massachusetts headquarters.

Regulatory matters

Domestic

We and our franchisees are subject to various federal, state, and local laws affecting the operation of our respective businesses, including various health, sanitation, fire, and safety standards. In some jurisdictions our restaurants are required by law to display nutritional information about our products. Each restaurant is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, building, and fire agencies in the jurisdiction in which the restaurant is located. Franchisee-owned NDCP and CMLs are licensed and

subject to similar regulations by federal, state, and local governments.

We and our franchisees are also subject to the Fair Labor Standards Act and various other laws governing such matters as minimum wage requirements, overtime and other working conditions, and citizenship requirements. A significant number of food-service personnel employed by franchisees are paid at rates related to the federal minimum wage.

Our franchising activities are subject to the rules and regulations of the Federal Trade Commission ("FTC") and various state laws regulating the offer and sale of franchises. The FTC's franchise rule and various state laws require that we furnish a franchise disclosure document ("FDD") containing certain information to prospective franchisees and a number of states require registration of the FDD with state authorities. We are operating under exemptions from registration in several states based on our experience and aggregate net worth. Substantive state laws that regulate the franchisor-franchisee relationship exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor-franchisee relationship. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply. We believe that the FDD for each of our Dunkin' Donuts brand and our Baskin-Robbins brand, together with any applicable state versions or supplements, and franchising procedures, comply in all material respects with both the FTC franchise rule and all applicable state laws regulating franchising in those states in which we have offered franchises.

International

Internationally, we and our franchisees are subject to national and local laws and regulations that often are similar to those affecting us and our franchisees in the U.S., including laws and regulations concerning franchises, labor, health, sanitation, and safety. International Baskin-Robbins brand and Dunkin' Donuts brand restaurants are also often subject to tariffs and regulations on imported commodities and equipment, and laws regulating foreign investment. We believe that the international disclosure statements, franchise offering documents, and franchising procedures for our Baskin-Robbins brand and Dunkin' Donuts brand comply in all material respects with the laws of the applicable countries.

Environmental

Our operations, including the selection and development of the properties we lease and sublease to our franchisees and any construction or improvements we make at those locations, are subject to a variety of federal, state, and local laws and regulations, including environmental, zoning, and land use requirements. Our properties are sometimes located in developed commercial or industrial areas and might previously have been occupied by more environmentally significant operations, such as gasoline stations and dry cleaners. Environmental laws sometimes require owners or operators of contaminated property to remediate that property, regardless of fault. While we have been required to, and are continuing to, clean up contamination at a limited number of our locations, we have no known material environmental liabilities.

Employees

As of December 30, 2017, we employed 1,148 people, 1,106 of whom were based in the U.S. and 42 of whom were based in other countries. Of our domestic employees, 443 worked in the field and 663 worked at our corporate headquarters or our satellite office in California. Of these employees, 224, who are almost exclusively in marketing positions, were paid by certain of our advertising funds. None of our employees are represented by a labor union, and we believe our relationships with our employees are healthy.

Our franchisees are independent business owners, so they and their employees are not included in our employee count.

Intellectual property

We own many registered trademarks and service marks ("Marks") in the U.S. and in other countries throughout the world. We believe that our Dunkin' Donuts and Baskin-Robbins names and logos, in particular, have significant value and are important to our business. Our policy is to pursue registration of our Marks in the U.S. and selected international jurisdictions, monitor our Marks portfolio both internally and externally through external search agents and vigorously oppose the infringement of any of our Marks. We license the use of our registered Marks to franchisees and third parties through franchise arrangements and licenses. The franchise and license arrangements restrict franchisees' and licensees' activities with respect to the use of our Marks, and impose quality control standards in connection with goods and services offered in connection with the Marks and an affirmative obligation on the franchisees to notify us upon learning of potential infringement. In addition, we maintain a limited patent portfolio in the U.S. for bakery and serving-related methods, designs, and articles of manufacture. We generally rely on common law protection for our copyrighted works. Neither the patents nor the copyrighted works are material to the operation

of our business. We also license some intellectual property from third parties for use in certain of our products. Such licenses are not individually, or in the aggregate, material to our business.

Seasonality

Our revenues are subject to fluctuations based on seasonality, primarily with respect to Baskin-Robbins. The ice cream industry generally experiences an increase during the spring and summer months, whereas Dunkin' Donuts hot beverage sales generally increase during the fall and winter months and iced beverage sales generally increase during the spring and summer months.

Additional Information

The Company makes available, free of charge, through its internet website www.dunkinbrands.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission. You may read and copy any materials filed with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. This information is also available at www.sec.gov. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this document.

Item 1A. Risk Factors.

Risks related to our business and industry

Our financial results are affected by the operating results of our franchisees.

We receive a substantial majority of our revenues in the form of royalties, which are generally based on a percentage of gross sales at franchised restaurants, rent, and other fees from franchisees. Accordingly, our financial results are to a large extent dependent upon the operational and financial success of our franchisees. If sales trends or economic conditions worsen for franchisees, their financial results may deteriorate and our royalty, rent, and other revenues may decline and our accounts receivable and related allowance for doubtful accounts may increase. In addition, if our franchisees fail to renew their franchise agreements, our royalty revenues may decrease which in turn may materially and adversely affect our business and operating results.

Our franchisees could take actions that could harm our business.

Our franchisees are contractually obligated to operate their restaurants in accordance with the operations, safety, and health standards set forth in our agreements with them. However, franchisees are independent third parties whom we do not control. The franchisees own, operate, and oversee the daily operations of their restaurants and have sole control over all employee and other workforce decisions. As a result, the ultimate success and quality of any franchised restaurant rests with the franchisee. If franchisees do not successfully operate restaurants in a manner consistent with required standards, franchise fees paid to us and royalty income will be adversely affected and brand image and reputation could be harmed, which in turn could materially and adversely affect our business and operating results.

Although we believe we generally enjoy a positive working relationship with the vast majority of our franchisees, active and/or potential disputes with franchisees could damage our brand reputation and/or our relationships with the broader franchisee group.

Our success depends substantially on the value of our brands.

Our success is dependent in large part upon our ability to maintain and enhance the value of our brands, our customers' connection to our brands, and a positive relationship with our franchisees. Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to the way we manage our relationship with our franchisees, our growth strategies, our development efforts in domestic and foreign markets, or the ordinary course of our, or our franchisees', business. Other incidents may arise from events that are or may be beyond our ability to control and may damage our brands, such as actions taken (or not taken) by one or more franchisees or their employees relating to health, safety, welfare, or otherwise; litigation and claims; security breaches or other fraudulent activities associated with our electronic payment systems; and illegal activity targeted at us or others. Consumer demand for our products and our brands' value could

diminish significantly if any such incidents or other matters erode consumer confidence in us or our products, which would likely result in lower sales and, ultimately, lower royalty income, which in turn could materially and adversely affect our business and operating results.

Incidents involving food-borne illnesses, food tampering, or food contamination involving our brands or our supply chain could create negative publicity and significantly harm our operating results

While we and our franchisees dedicate substantial resources to food safety matters to enable customers to enjoy safe, quality food products, food safety events, including instances of food-borne illness (such as salmonella or E. Coli), have occurred in the food industry in the past, and could occur in the future.

Instances or reports, whether true or not, of food-safety issues, such as food-borne illnesses, food tampering, food contamination or mislabeling, either during the growing, manufacturing, packaging, storing, or preparation of products, have in the past severely injured the reputations of companies in the quick-service restaurant sectors and could affect us as well. Any report linking us, our franchisees, or our suppliers to food-borne illnesses or food tampering, contamination, mislabeling, or other food-safety issues could damage the value of our brands immediately and severely hurt sales of our products and possibly lead to product liability claims, litigation (including class actions), or other damages.

In addition, food safety incidents, whether or not involving our brands, could result in negative publicity for the industry or market segments in which we operate. Increased use of social media could create and/or amplify the effects of negative publicity. This negative publicity may reduce demand for our products and could result in a decrease in guest traffic to our restaurants as consumers shift their preferences to our competitors or to other products or food types. A decrease in traffic as a result of these health concerns or negative publicity could materially and adversely affect our brands, our business, and our stock price.

The quick service restaurant segment is highly competitive, and competition could lower our revenues.

The QSR segment of the restaurant industry is intensely competitive. The beverage and food products sold by our franchisees compete directly against products sold at other QSRs, local and regional beverage and food operations, specialty beverage and food retailers, supermarkets, and wholesale suppliers, many bearing recognized brand names and having significant customer loyalty. In addition to the prevailing baseline level of competition, major market players in noncompeting industries may choose to enter the restaurant industry. Key competitive factors include the number and location of restaurants, quality and speed of service, attractiveness of facilities, effectiveness of advertising, marketing, and operational programs, price, demographic patterns and trends, consumer preferences and spending patterns, menu diversification, health or dietary preferences and perceptions, and new product development. Some of our competitors have substantially greater financial and other resources than us, which may provide them with a competitive advantage. In addition, we compete within the restaurant industry and the QSR segment not only for customers but also for qualified franchisees. We cannot guarantee the retention of any, including the top-performing, franchisees in the future, or that we will maintain the ability to attract, retain, and motivate sufficient numbers of franchisees of the same caliber, which could materially and adversely affect our business and operating results. If we are unable to maintain our competitive position, we could experience lower demand for products, downward pressure on prices, the loss of market share, and the inability to attract, or loss of, qualified franchisees, which could result in lower franchise fees and royalty income, and materially and adversely affect our business and operating results.

If we or our franchisees or licensees are unable to protect our customers’ credit card data and other personal information, we or our franchisees could be exposed to data loss, litigation, and liability, and our reputation could be significantly harmed.

Data protection is increasingly demanding and the use of electronic payment methods and collection of other personal information exposes us and our franchisees to increased risk of privacy and/or security breaches as well as other risks. In connection with credit card transactions in-store and online, we and our franchisees collect and transmit confidential credit card information by way of retail networks. Additionally, we collect and store personal information from individuals, including our customers, franchisees, and employees. We rely on commercially available systems, software, tools, and monitoring to provide security for processing, transmitting, and storing such information. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems, including through cyber terrorism, could materially and adversely affect our business and operating results.

Further, the standards for systems currently used for transmission and approval of electronic payment transactions, and the technology utilized in electronic payment themselves, all of which can put electronic payment data at risk, are determined and controlled by the payment card industry, not by us. In addition, our employees, franchisees, contractors, or third parties with whom we do business or to whom we outsource business operations may attempt to circumvent our security measures in order to misappropriate such information, and may purposefully or inadvertently cause a breach involving such information. Third parties may have the technology or know-how to breach the security of the personal information collected, stored, or transmitted by us or our franchisees, and our respective security measures, as well as those of our technology vendors, may not effectively prohibit others from obtaining improper access to this information. Advances in computer and software capabilities and encryption technology, new tools, and other developments may increase the risk of such a breach. If a person is able to

circumvent our data security measures or that of third parties with whom we do business, including our franchisees, he or she could destroy or steal valuable information or disrupt our operations. Any security breach could expose us to risks of data loss, litigation, liability, and could seriously disrupt our operations. Any resulting negative publicity could significantly harm our reputation and could materially and adversely affect our business and operating results.

Sub-franchisees could take actions that could harm our business and that of our master franchisees.
In certain of our international markets, we enter into agreements with master franchisees that permit the master franchisee to develop and operate restaurants in defined geographic areas. As permitted by our master franchisee agreements, certain master franchisees elect to sub-franchise rights to develop and operate restaurants in the geographic area covered by the master franchisee agreement. Our master franchisee agreements contractually obligate our master franchisees to operate their restaurants in accordance with specified operations, safety, and health standards and also require that any sub-franchise agreement contain similar requirements. However, we are not party to the agreements with the sub-franchisees and, as a result, are dependent upon our master franchisees to enforce these standards with respect to sub-franchised restaurants. As a result, the ultimate success and quality of any sub-franchised restaurant rests with the master franchisee. If sub-franchisees do not successfully operate their restaurants in a manner consistent with required standards, franchise fees and royalty income paid to the applicable master franchisee and, ultimately, to us could be adversely affected and our brand image and reputation may be harmed, which could materially and adversely affect our business and operating results.
We cannot predict the impact that the following may have on our business: (i) new or improved technologies, (ii) alternative methods of delivery, or (iii) changes in consumer behavior facilitated by these technologies and alternative methods of delivery.
Advances in technologies or alternative methods of delivery, including advances in vending machine technology, direct home delivery of on-line orders and home coffee makers, or certain changes in consumer behavior driven by these or other technologies and methods of delivery could have a negative effect on our business. Moreover, technology and consumer offerings continue to develop, and we expect that new or enhanced technologies and consumer offerings will be available in the future. We may pursue certain of those technologies and consumer offerings if we believe they offer a sustainable customer proposition and can be successfully integrated into our business model. However, we cannot predict consumer acceptance of these delivery channels or their impact on our business. In addition, our competitors, some of whom have greater resources than us, may be able to benefit from changes in technologies or consumer acceptance of alternative methods of delivery, which could harm our competitive position. There can be no assurance that we will be able to successfully respond to changing consumer preferences, including with respect to new technologies and alternative methods of delivery, or to effectively adjust our product mix, service offerings, and marketing and merchandising initiatives for products and services that address, and anticipate advances in, technology and market trends. If we are not able to successfully respond to these challenges, our business, financial condition, and operating results could be harmed.
Economic conditions adversely affecting consumer discretionary spending may negatively impact our business and operating results.
We believe that our franchisees’ sales, customer traffic, and profitability are strongly correlated to consumer discretionary spending, which is influenced by general economic conditions, unemployment levels, and the availability of discretionary income. Our franchisees’ sales are dependent upon discretionary spending by consumers; any reduction in sales at franchised restaurants will result in lower royalty payments from franchisees to us and adversely impact our profitability. In an economic downturn our business and results of operations could be materially and adversely affected. In addition, the pace of new restaurant openings may be slowed and restaurants may be forced to close, reducing the restaurant base from which we derive royalty income.
Our substantial indebtedness could adversely affect our financial condition.
We have a significant amount of indebtedness. As of December 30, 2017, we had total indebtedness of approximately $3.1 billion under our securitized debt facility, excluding $32.3 million of undrawn letters of credit and $117.7 million of unused commitments.

Subject to the limits contained in the agreements governing our securitized debt facility, we may be able to incur substantial additional debt from time to time to finance capital expenditures, investments, acquisitions, or for other purposes. If we do incur substantial additional debt, the risks related to our high level of debt could intensify.
Specifically, our high level of indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund capital expenditures, investments, acquisitions, or other general corporate requirements;

- requiring a substantial portion of our cash flow to be dedicated to payments to service our indebtedness instead of other purposes, thereby reducing the amount of cash flow available for capital expenditures, investments, acquisitions, and other general corporate purposes;
- increasing our vulnerability to and the potential impact of adverse changes in general economic, industry, and competitive conditions;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors or competitors with comparable debt at more favorable interest rates; and
- increasing our costs of borrowing.

In addition, the financial and other covenants we agreed to with our lenders may limit our ability to incur additional indebtedness, make investments, and engage in other transactions, and the leverage may cause other potential lenders to be less willing to loan funds to us in the future.

We may be unable to generate sufficient cash flow to satisfy our significant debt service obligations, which would adversely affect our financial condition and results of operations.

Our ability to make principal and interest payments on and to refinance our indebtedness will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. If our business does not generate sufficient cash flow from operations, in the amounts projected or at all, or if future borrowings are not available to us under our variable funding notes in amounts sufficient to fund our other liquidity needs, our financial condition and results of operations may be adversely affected. If we cannot generate sufficient cash flow from operations to make scheduled principal amortization and interest payments on our debt obligations in the future, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets, delay capital expenditures, or seek additional equity investments. If we are unable to refinance any of our indebtedness on commercially reasonable terms or at all or to effect any other action relating to our indebtedness on satisfactory terms or at all, our business may be harmed.

The terms of our securitized debt financing of certain of our wholly-owned subsidiaries have restrictive terms and our failure to comply with any of these terms could put us in default, which would have an adverse effect on our business and prospects.

Unless and until we repay all outstanding borrowings under our securitized debt facility, we will remain subject to the restrictive terms of these borrowings. The securitized debt facility, under which certain of our wholly-owned subsidiaries issued and guaranteed fixed rate notes and variable funding notes, contain a number of covenants, with the most significant financial covenant being a debt service coverage calculation. These covenants limit the ability of certain of our subsidiaries to, among other things:

- sell assets;
- alter the business we conduct;
- engage in mergers, acquisitions, and other business combinations;
- declare dividends or redeem or repurchase capital stock;
- incur, assume, or permit to exist additional indebtedness or guarantees;
- make loans and investments;
- incur liens; and
- enter into transactions with affiliates.

The securitized debt facility also requires us to maintain specified financial ratios. Our ability to meet these financial ratios can be affected by events beyond our control, and we may not satisfy such a test. A breach of these covenants could result in a rapid amortization event or default under the securitized debt facility. If amounts owed under the securitized debt facility are accelerated because of a default and we are unable to pay such amounts, the investors may have the right to assume control of substantially all of the securitized assets.

If we are unable to refinance or repay amounts under the securitized debt facility prior to the expiration of the applicable term, our cash flow would be directed to the repayment of the securitized debt and, other than management fees sufficient to cover minimal selling, general and administrative expenses, would not be available for operating our business.

No assurance can be given that any refinancing or additional financing will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our access to capital is affected by prevailing conditions in the financial and capital markets and other factors beyond our control. There can be no assurance that market conditions will be favorable at the times that we require new or additional financing.

The indenture governing the securitized debt restricts the cash flow from the entities subject to the securitization to any of our other entities and upon the occurrence of certain events, cash flow would be further restricted.

In the event that a rapid amortization event occurs under the indenture governing the securitized debt (including, without limitation, upon an event of default under the indenture or the failure to repay the securitized debt at the end of the applicable term), the funds available to us would be reduced or eliminated, which would in turn reduce our ability to operate or grow our business.

Infringement, misappropriation, or dilution of our intellectual property could harm our business.

We regard our Dunkin' Donuts® and Baskin-Robbins® trademarks as having significant value and as being important factors in the marketing of our brands. We have also obtained trademark protection for the trademarks associated with several of our product offerings and advertising slogans, including "America Runs on Dunkin®". We believe that these and other intellectual property, including certain patents and trade secrets, are valuable assets that are critical to our success. We rely on a combination of protections provided by contracts, as well as copyright, patent, trademark, and other laws, such as trade secret and unfair competition laws, to protect our intellectual property from infringement, misappropriation, or dilution. We have registered certain trademarks and service marks and have other trademark and service mark registration applications pending in the United States and foreign jurisdictions. However, not all of the trademarks or service marks that we currently use have been registered in all of the countries in which we do business, and they may never be registered in all of those countries.

Although we monitor our intellectual property, especially our trademark portfolio, both internally and through external search agents and impose an obligation on franchisees to notify us upon learning of potential infringement, there can be no assurance that we will be able to adequately maintain, enforce, and protect our trademarks or other intellectual property rights. We are aware of names and marks similar to our service marks being used by other persons. Although we believe such uses will not adversely affect us, further or currently unknown unauthorized uses or other infringement of our trademarks or service marks could diminish the value of our brands and may adversely affect our business. The same is true with regards to our intellectual property. Namely, that unauthorized uses of such intellectual property, including patents, trade secrets or proprietary software, or other infringement thereof, by third parties may adversely affect our business. Effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant or license our intellectual property. Failure to adequately protect our intellectual property rights could damage our brands and impair our ability to compete effectively. Even where we have effectively secured statutory protection for our trade secrets and other intellectual property, our competitors may misappropriate our intellectual property and our employees, consultants, and suppliers may breach their contractual obligations not to reveal our confidential information, including trade secrets. Although we have taken measures to protect our intellectual property, there can be no assurance that these protections will be adequate or that third parties will not independently develop products or concepts that are substantially similar to ours. Despite our efforts, it may be possible for third-parties to reverse engineer, otherwise obtain, copy, and use software or information that we regard as proprietary. Furthermore, defending or enforcing our trademark rights, branding practices, and other intellectual property, and seeking an injunction and/or compensation for misappropriation of confidential information, could result in the expenditure of significant resources and divert the attention of management, which in turn may materially and adversely affect our business and operating results.

Our brands may be limited or diluted through franchisee and third-party activity.

Although we monitor and restrict franchisee activities through our franchise and license agreements, franchisees or third parties may refer to or make statements about our brands that do not make proper use of our trademarks or

required designations, that improperly alter trademarks or branding, or that are critical of our brands or place our brands in a context that may tarnish their reputation. This may result in dilution or tarnishment of our intellectual property. It is not possible for us to obtain registrations for all possible variations of our branding in all territories where we operate. Franchisees, licensees, or third parties may seek to register or obtain registration for domain names and trademarks involving localizations, variations, and versions of certain branding tools, and these activities may limit our ability to obtain or use such rights in such territories. Franchisee noncompliance with the terms and conditions of our franchise or license agreements may reduce the overall goodwill of our brands, whether through the failure to meet health and safety standards, engage in quality control or maintain product

consistency, or through the participation in improper or objectionable business practices.
Moreover, unauthorized third parties may use our intellectual property to trade on the goodwill of our brands, resulting in consumer confusion or dilution. Any reduction of our brands' goodwill, consumer confusion, or dilution is likely to impact sales, and could materially and adversely impact our business and operating results.

We are and may become subject to third-party infringement claims or challenges to the validity of our intellectual property.

We are and may, in the future, become the subject of claims for infringement, misappropriation, or other violation of intellectual property rights, which may or not be unfounded, from owners of intellectual property in areas where our franchisees operate or where we intend to conduct operations, including in foreign jurisdictions. Such claims, whether or not they have any merit, could harm our image, our brands, our competitive position, or our ability to expand our operations into other jurisdictions and cause us to incur significant costs related to defense or settlement. If such claims were decided against us, or a third party indemnified by us pursuant to license terms, we could be required to pay damages, develop or adopt non-infringing products or services, or acquire a license to the intellectual property that is the subject of the asserted claim, which license may not be available on acceptable terms or at all. The attendant expenses could require the expenditure of additional capital, and there would be expenses associated with the defense of any infringement, misappropriation, or other third-party claims, and there could be attendant negative publicity, even if ultimately decided in our favor.

Growth into new territories may be hindered or blocked by pre-existing third-party rights.

We act to obtain and protect our intellectual property rights we need to operate successfully in those territories where we operate. Certain intellectual property rights including rights in trademarks are national in character, and are obtained on a country-by-country basis by the first person to obtain protection through use or registration in that country in connection with specified products and services. As our business grows, we continuously evaluate the potential for expansion into new territories and new products and services. There is a risk with each expansion that growth will be limited or unavailable due to blocking pre-existing third-party intellectual property rights.

The restaurant industry is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may lessen the demand for our products, which could reduce sales by our franchisees and reduce our royalty revenues.

The restaurant industry is affected by changes in consumer tastes, national, regional, and local economic conditions, and demographic trends. For instance, if prevailing health or dietary preferences cause consumers to avoid donuts and other products we offer in favor of foods that are perceived as healthier, our franchisees' sales would suffer, resulting in lower royalty payments to us, and our business and operating results would be harmed.

If we fail to successfully implement our growth strategy, which includes opening new domestic and international restaurants, our ability to increase our revenues and operating profits could be adversely affected.

Our growth strategy relies in part upon new restaurant development by existing and new franchisees. We and our franchisees face many challenges in opening new restaurants, including:

- availability of financing;
- selection and availability of suitable restaurant locations;
- competition for restaurant sites;
- negotiation of acceptable lease and financing terms;
- securing required domestic or foreign governmental permits and approvals;
- consumer tastes in new geographic regions and acceptance of our products;
- employment and training of qualified personnel;
- impact of inclement weather, natural disasters, and other acts of nature; and
- general economic and business conditions.

In particular, because the majority of our new restaurant development is funded by franchisee investment, our growth strategy is dependent on our franchisees' (or prospective franchisees') ability to access funds to finance such development. We do not provide our franchisees with direct financing and therefore their ability to access borrowed funds generally depends on their independent relationships with various financial institutions. If our franchisees (or prospective franchisees) are not able to obtain financing at commercially reasonable rates, or at all, they may be

unwilling or unable to invest in the development of

new restaurants, and our future growth could be adversely affected.
To the extent our franchisees are unable to open new restaurants as we anticipate, our revenue growth would come primarily from growth in comparable store sales. Our failure to add a significant number of new restaurants or grow comparable store sales would adversely affect our ability to increase our revenues and operating income and could materially and adversely harm our business and operating results.
Increases in commodity prices may negatively affect payments from our franchisees and licensees.
Coffee and other commodity prices are subject to substantial price fluctuations, stemming from variations in weather patterns, shifting political or economic conditions in coffee-producing countries, potential taxes or fees on certain imported goods, and delays in the supply chain. If commodity prices rise, franchisees may experience reduced sales, due to decreased consumer demand at retail prices that have been raised to offset increased commodity prices, which may reduce franchisee profitability. Any such decline in franchisee sales will reduce our royalty income, which in turn may materially and adversely affect our business and operating results.

Our joint ventures in Japan and South Korea, as well as our licensees in Russia and India, manufacture ice cream products independently. The joint ventures in Japan and South Korea own manufacturing facilities in their countries of operation. The revenues derived from these joint ventures differ fundamentally from those of other types of franchise arrangements in the system because the income that we receive from the joint ventures in Japan and South Korea is based in part on the profitability, rather than the gross sales, of the restaurants operated by these joint ventures. Accordingly, in the event that the joint ventures in Japan or South Korea experience staple ingredient price increases that adversely affect the profitability of the restaurants operated by these joint ventures, that decrease in profitability would reduce distributions by these joint ventures to us, which in turn could materially and adversely impact our business and operating results.

Shortages of coffee or milk could adversely affect our revenues.
If coffee or milk consumption continues to increase worldwide or there is a disruption in the supply of coffee or milk due to natural disasters, political unrest, or other calamities, the global supply of these commodities may fail to meet demand. If coffee or milk demand is not met, franchisees may experience reduced sales which, in turn, would reduce our royalty income. Additionally, if milk demand is not met, we may not be able to purchase and distribute ice cream products to our international franchisees, which would reduce our sales of ice cream and other products. Such reductions in our royalty income and sales of ice cream and other products may materially and adversely affect our business and operating results.
We and our franchisees rely on information technology and computer systems to process transactions and manage our business, and a disruption or a failure of such systems or technology could harm our ability to effectively manage our business.
Network and information technology systems are integral to our business. We utilize various computer systems, including our FAST System and our EFTPay System, which are customized, web-based systems. The FAST System is the system by which our U.S. and Canadian franchisees report their weekly sales and pay their corresponding royalty fees and required advertising fund contributions. When sales are reported by a U.S. or Canadian franchisee, a withdrawal for the authorized amount is initiated from the franchisee’s bank after 12 days (from the week ending or month ending date). The FAST System is critical to our ability to accurately track sales and compute royalties due from our U.S. and Canadian franchisees. The EFTPay System is used by our U.S. and Canadian franchisees to make payments against open, non-fee invoices (i.e., all invoices except royalty and advertising funds). When a franchisee selects an invoice and submits the payment, on the following day a withdrawal for the selected amount is initiated from the franchisee’s bank. Additionally, an increasing number of transactions in our restaurants are processed through our mobile application. Despite the implementation of security measures, our systems are subject to damage and/or interruption as a result of power outages, computer and network failures, computer viruses and other disruptive software, security breaches, terrorist attacks, catastrophic events, and improper usage by employees. Such events could result in a material disruption in operations, a need for a costly repair, upgrade, or replacement of systems, or a decrease in, or in the collection of, royalties paid to us by our franchisees. To the extent that any disruption or security

breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur a liability which could materially affect our results of operations.

Interruptions in the supply of product to franchisees and licensees could adversely affect our revenues.
In order to maintain quality-control standards and consistency among restaurants, we require through our franchise agreements that our franchisees obtain food and other supplies from preferred suppliers approved in advance. In this regard, we and our franchisees depend on a group of suppliers for ingredients, foodstuffs, beverages, and disposable serving instruments including, but not limited to, Rich Products Corp., Dean Foods Co., The Coca-Cola Company, and Silver Pail Dairy, Ltd. as well as four

primary coffee roasters and two primary donut mix suppliers. In 2017, we and our franchisees purchased products from nearly 500 approved domestic suppliers, with approximately 11 of such suppliers providing half, based on dollar volume, of all products purchased domestically. We look to approve multiple suppliers for most products, and require any single sourced supplier, such as The Coca-Cola Company, to have contingency plans in place to ensure continuity of supply. In addition we believe that, if necessary, we could obtain readily available alternative sources of supply for each product that we currently source through a single supplier. To facilitate the efficiency of our franchisees' supply chain, we have historically entered into several preferred-supplier arrangements for particular food or beverage items.
The Dunkin' Donuts system is supported domestically by the franchisee-owned purchasing and distribution cooperative known as the National Distributor Commitment Program. We have a long-term agreement with the National DCP, LLC (the "NDCP") for the NDCP to provide substantially all of the goods needed to operate a Dunkin' Donuts restaurant in the United States. The NDCP also supplies some international markets. The NDCP aggregates the franchisee demand, sends requests for proposals to approved suppliers, and negotiates contracts for approved items. The NDCP also inventories the items in its seven regional distribution centers and ships products to franchisees at least one time per week. We do not control the NDCP and have only limited contractual rights under our agreement with the NDCP associated with supplier certification and quality assurance and protection of our intellectual property. While the NDCP maintains contingency plans with its approved suppliers and has a contingency plan for its own distribution function to restaurants, our franchisees bear risks associated with the timeliness, solvency, reputation, labor relations, freight costs, price of raw materials, and compliance with health and safety standards of each supplier (including those of our international joint ventures) including, but not limited to, risks associated with contamination to food and beverage products. We have little control over such suppliers. Disruptions in these relationships may reduce franchisee sales and, in turn, our royalty income.
Overall difficulty of suppliers (including those of certain international joint ventures) meeting franchisee product demand, interruptions in the supply chain, obstacles or delays in the process of renegotiating or renewing agreements with preferred suppliers, financial difficulties experienced by suppliers, or the deficiency, lack, or poor quality of alternative suppliers could adversely impact franchisee sales which, in turn, would reduce our royalty income and could materially and adversely affect our business and operating results.

We may not be able to recoup our expenditures on properties we sublease to franchisees.
In some locations, we may pay more rent and other amounts to third-party landlords under a prime lease than we receive from the franchisee who subleases such property. Typically, our franchisees' rent is based in part on a percentage of gross sales at the restaurant, so a downturn in gross sales would negatively affect the level of the payments we receive. Additionally, pursuant to the terms of certain prime leases we have entered into with third-party landlords, we may be required to construct or improve a property, pay taxes, maintain insurance, and comply with building codes and other applicable laws. The subleases we enter into with franchisees related to such properties typically pass through such obligations, but if a franchisee fails to perform the obligations passed through to them, we will be required to perform those obligations, resulting in an increase in our leasing and operational costs and expenses.
If the international markets in which we compete are affected by changes in political, social, legal, economic, or other factors, our business and operating results may be materially and adversely affected.
As of December 30, 2017, we had 8,819 international restaurants located in 68 foreign countries. The international operations of our franchisees may subject us to additional risks, which differ in each country in which our franchisees operate, and such risks may negatively affect our business or result in a delay in or loss of royalty income to us.
The factors impacting the international markets in which restaurants are located may include:

- recessionary or expansive trends in international markets;
- changes in foreign currency exchange rates and hyperinflation or deflation in the foreign countries in which we or our international joint ventures operate;
- the imposition of restrictions on currency conversion or the transfer of funds;
- availability of credit for our franchisees, licensees, and our international joint ventures to finance the development of new restaurants;

- increases in the taxes paid and other changes in applicable tax laws;
- legal and regulatory changes and the burdens and costs of local operators' compliance with a variety of laws, including trade restrictions and tariffs;
- interruption of the supply of product;

- increases in anti-American sentiment and the identification of the Dunkin' Donuts brand and Baskin-Robbins brand as American brands;
- political and economic instability; and
- natural disasters, terrorist threats and/or activities, and other calamities.

Any or all of these factors may reduce distributions from our international joint ventures or other international partners and/or royalty income, which in turn may materially and adversely impact our business and operating results.

Termination of an arrangement with a master franchisee could adversely impact our revenues.

Internationally, and in limited cases domestically, we enter into relationships with "master franchisees" to develop and operate restaurants in defined geographic areas. Master franchisees are granted exclusivity rights with respect to larger territories than the typical franchisees, and in particular cases, expansion after minimum requirements are met is subject to the discretion of the master franchisee. In fiscal years 2017, 2016, and 2015, we derived approximately 13.3%, 14.6%, and 14.8%, respectively, of our total revenues from master franchisee arrangements. The termination of an arrangement with a master franchisee or a lack of expansion by certain master franchisees could result in the delay of the development of franchised restaurants, or an interruption in the operation of one of our brands in a particular market or markets. Any such delay or interruption would result in a delay in, or loss of, royalty income to us whether by way of delayed royalty income or delayed revenues from the sale of ice cream and other products by us to franchisees internationally, or reduced sales. Any interruption in operations due to the termination of an arrangement with a master franchisee similarly could result in lower revenues for us, particularly if we were to determine to close restaurants following the termination of an arrangement with a master franchisee.

Fluctuations in exchange rates affect our revenues.

We are subject to inherent risks attributed to operating in a global economy. Most of our revenues, costs, and debts are denominated in U.S. dollars. However, sales made by franchisees outside of the U.S. are denominated in the currency of the country in which the point of distribution is located, and this currency could become less valuable prior to calculation of our royalty payments in U.S. dollars as a result of exchange rate fluctuations. As a result, currency fluctuations could reduce our royalty income. Unfavorable currency fluctuations could result in a reduction in our revenues. Income we earn from our joint ventures is also subject to currency fluctuations. These currency fluctuations affecting our revenues and costs could adversely affect our business and operating results.

Adverse public or medical opinions about the health effects of consuming our products, whether or not accurate, could harm our brands and our business.

Some of our products contain caffeine, dairy products, sugar, other carbohydrates, fats, and other active compounds, the health effects of which are the subject of increasing public scrutiny, including the suggestion that excessive consumption of caffeine, dairy products, sugar, other carbohydrates, fats, and other active compounds can lead to a variety of adverse health effects. There has also been greater public awareness that sedentary lifestyles, combined with excessive consumption of high- carbohydrate, high-fat, or high-calorie foods, have led to a rapidly rising rate of obesity. In the United States and certain other countries, there is increasing consumer awareness of health risks, including obesity, as well as increased consumer litigation based on alleged adverse health impacts of consumption of various food products. While we offer some healthier beverage and food items, including reduced fat items and reduced sugar items, an unfavorable report on the health effects of caffeine or other compounds present in our products, or negative publicity or litigation arising from other health risks such as obesity, could significantly reduce the demand for our beverages and food products. A decrease in customer traffic as a result of these health concerns or negative publicity could materially and adversely affect our brands and our business.

We may not be able to enforce payment of fees under certain of our franchise arrangements.

In certain limited instances, a franchisee may be operating a restaurant pursuant to an unwritten franchise arrangement. Such circumstances may arise where a franchisee arrangement has expired and new or renewal agreements have yet to be executed or where the franchisee has developed and opened a restaurant but has failed to memorialize the franchisor-franchisee relationship in an executed agreement as of the opening date of such restaurant. In certain other limited instances, we may allow a franchisee in good standing to operate domestically pursuant to franchise arrangements which have expired in their normal course and have not yet been renewed. As of December 30, 2017, less than 1% of our restaurants were operating without a written agreement. There is a risk that

either category of these franchise arrangements may not be enforceable under federal, state, or local laws and regulations prior to correction or if left uncorrected. In these instances, the franchise arrangements may be enforceable on the basis of custom and assent of performance. If the franchisee, however, were to neglect to remit royalty payments in a timely fashion, we may be unable to enforce the payment of such fees which, in turn, may

materially and adversely affect our business and operating results. While we generally require franchise arrangements in foreign jurisdictions to be entered into pursuant to written franchise arrangements, subject to certain exceptions, some expired contracts, letters of intent, or oral agreements in existence may not be enforceable under local laws, which could impair our ability to collect royalty income, which in turn may materially and adversely impact our business and operating results.

Our business activities subject us to litigation risk that could affect us adversely by subjecting us to significant money damages and other remedies or by increasing our litigation expense.

In the ordinary course of business, we are the subject of complaints or litigation from franchisees, usually related to alleged breaches of contract or wrongful termination under the franchise arrangements. In addition, we are, from time to time, the subject of complaints or litigation from customers alleging illness, injury, or other food-quality, health, or operational concerns and from suppliers alleging breach of contract. We may also be subject to employee claims based on, among other things, discrimination, harassment, or wrongful termination. Finally, litigation against a franchisee or its affiliates by third parties, whether in the ordinary course of business or otherwise, may include claims against us by virtue of our relationship with the defendant-franchisee. In addition to decreasing the ability of a defendant-franchisee to make royalty payments and diverting management resources, adverse publicity resulting from such allegations may materially and adversely affect us and our brands, regardless of whether such allegations are valid or whether we are liable. Our international operations may be subject to additional risks related to litigation, including difficulties in enforcement of contractual obligations governed by foreign law due to differing interpretations of rights and obligations, compliance with multiple and potentially conflicting laws, new and potentially untested laws and judicial systems, and reduced or diminished protection of intellectual property. A substantial unsatisfied judgment against us or one of our subsidiaries could result in bankruptcy, which would materially and adversely affect our business and operating results.

Our business is subject to various laws and regulations and changes in such laws and regulations, and/or failure to comply with existing or future laws and regulations, could adversely affect us.

We are subject to state franchise registration requirements, the rules and regulations of the Federal Trade Commission (the “FTC”), various state laws regulating the offer and sale of franchises in the United States through the provision of franchise disclosure documents containing certain mandatory disclosures, and certain rules and requirements regulating franchising arrangements in foreign countries. Although we believe that the Franchisors’ Franchise Disclosure Documents, together with any applicable state-specific versions or supplements, and franchising procedures that we use comply in all material respects with both the FTC guidelines and all applicable state laws regulating franchising in those states in which we offer new franchise arrangements, noncompliance could reduce anticipated royalty income, which in turn may materially and adversely affect our business and operating results.

Our franchisees are subject to various existing U.S. federal, state, local, and foreign laws affecting the operation of the restaurants including various health, sanitation, fire, and safety standards. Franchisees may in the future become subject to regulation (or further regulation) seeking to tax or regulate high-fat foods, to limit the serving size of beverages containing sugar, to ban the use of certain packaging materials (including polystyrene used in the iconic Dunkin’ Donuts cup), or requiring the display of detailed nutrition information. Each of these regulations would be costly to comply with and/or could result in reduced demand for our products.

In connection with the continued operation or remodeling of certain restaurants, franchisees may be required to expend funds to meet U.S. federal, state, and local and foreign regulations. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new restaurant in a particular area or cause an existing restaurant to cease operations. All of these situations would decrease sales of an affected restaurant and reduce royalty payments to us with respect to such restaurant.

The franchisees are also subject to the Fair Labor Standards Act of 1938, as amended, and various other laws in the United States and in foreign countries governing such matters as minimum-wage requirements, overtime and other working conditions, and citizenship requirements. A significant number of our franchisees’ food-service employees are paid at rates related to the U.S. federal minimum wage and applicable minimum wages in foreign jurisdictions and past increases in the U.S. federal minimum wage and foreign jurisdiction minimum wage have increased labor costs, as would future such increases. Any increases in labor costs might result in franchisees inadequately staffing

restaurants. Understaffed restaurants could reduce sales at such restaurants, decrease royalty payments, and adversely affect our brands. Evolving labor and employment laws, rules, and regulations could also result in increased exposure on the part of Dunkin' Brands' for labor and employment related liabilities that have historically been borne by franchisees.

In 2015, the National Labor Relations Board adopted a new and broader standard for determining when two or more otherwise unrelated employers may be found to be a joint employer of the same employees under the National Labor Relations Act. If this joint employer liability standard is upheld or adopted by other government agencies such as the Department of Labor, the Equal

Employment Opportunity Commission, and the Occupational Safety and Health Administration and/or applied generally to franchise relationships, it could cause us to be liable or held responsible for unfair labor practices and other violations of its franchisees and subject us to other liabilities, and require us to conduct collective bargaining negotiations, regarding employees of totally separate, independent employers, most notably our franchisees. In such event, our operating expenses may increase as a result of required modifications to our business practices, increased litigation, governmental investigations or proceedings, administrative enforcement actions, fines and civil liability.
Our and our franchisees' operations and properties are subject to extensive U.S. federal, state, and local laws and regulations, including those relating to environmental, building, and zoning requirements. Our development of properties for leasing or subleasing to franchisees depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic, and other regulations and requirements. Failure to comply with legal requirements could result in, among other things, revocation of required licenses, administrative enforcement actions, fines, and civil and criminal liability. We may incur investigation, remediation, or other costs related to releases of hazardous materials or other environmental conditions at our properties, regardless of whether such environmental conditions were created by us or a third party, such as a prior owner or tenant. We have incurred costs to address soil and groundwater contamination at some sites, and continue to incur nominal remediation costs at some of our other locations. If such issues become more expensive to address, or if new issues arise, they could increase our expenses, generate negative publicity, or otherwise adversely affect us.
We are subject to a variety of additional risks associated with our franchisees.
Our franchise system subjects us to a number of additional risks, any one of which may impact our ability to collect royalty payments from our franchisees, may harm the goodwill associated with our brands, and/or may materially and adversely impact our business and results of operations.
Bankruptcy of U.S. Franchisees. A franchisee bankruptcy could have a substantial negative impact on our ability to collect payments due under such franchisee's franchise arrangements and, to the extent such franchisee is a lessee pursuant to a franchisee lease/sublease with us, payments due under such franchisee lease/sublease. In a franchisee bankruptcy, the bankruptcy trustee may reject its franchise arrangements and/or franchisee lease/sublease pursuant to Section 365 under the United States bankruptcy code, in which case there would be no further royalty payments and/or franchisee lease/sublease payments from such franchisee, and there can be no assurance as to the proceeds, if any, that may ultimately be recovered in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection.
Franchisee Changes in Control. The franchise arrangements prohibit "changes in control" of a franchisee without our consent as the franchisor, except in the event of the death or disability of a franchisee (if a natural person) or a principal of a franchisee entity. In such event, the executors and representatives of the franchisee are required to transfer the relevant franchise arrangements to a successor franchisee approved by the franchisor. There can be, however, no assurance that any such successor would be found or, if found, would be able to perform the former franchisee's obligations under such franchise arrangements or successfully operate the restaurant. If a successor franchisee is not found, or if the successor franchisee that is found is not as successful in operating the restaurant as the then-deceased or disabled franchisee or franchisee principal, the sales of the restaurant could be adversely affected.
Franchisee Insurance. The franchise arrangements require each franchisee to maintain certain insurance types and levels. Certain extraordinary hazards, however, may not be covered, and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, any loss incurred could exceed policy limits and policy payments made to franchisees may not be made on a timely basis. Any such loss or delay in payment could have a material and adverse effect on a franchisee's ability to satisfy its obligations under its franchise arrangement, including its ability to make royalty payments.
Some of Our Franchisees are Operating Entities. Franchisees may be natural persons or legal entities. Our franchisees that are operating companies (as opposed to limited purpose entities) are subject to business, credit, financial, and other risks, which may be unrelated to the operations of the restaurants. These unrelated risks could materially and adversely affect a franchisee that is an operating company and its ability to make its royalty payments in full or on a timely basis, which in turn could materially and adversely affect our business and operating results.

Franchise Arrangement Termination; Nonrenewal. Each franchise arrangement is subject to termination by us as the franchisor in the event of a default, generally after expiration of applicable cure periods, although under certain circumstances a franchise arrangement may be terminated by us upon notice without an opportunity to cure. The default provisions under the franchise arrangements are drafted broadly and include, among other things, any failure to meet operating standards and actions that may threaten our licensed intellectual property.

In addition, each franchise agreement has an expiration date. Upon the expiration of the franchise arrangement, we or the franchisee may, or may not, elect to renew the franchise arrangements. If the franchisee arrangement is renewed, the franchisee

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will receive a "successor" franchise arrangement for an additional term. Such option, however, is contingent on the franchisee's execution of the then-current form of franchise arrangements (which may include increased royalty payments, advertising fees, and other costs), the satisfaction of certain conditions (including modernization of the restaurant and related operations), and the payment of a renewal fee. If a franchisee is unable or unwilling to satisfy any of the foregoing conditions, the expiring franchise arrangements will terminate upon expiration of the term of the franchise arrangements.

Product Liability Exposure. We require franchisees to maintain general liability insurance coverage to protect against the risk of product liability and other risks and demand strict franchisee compliance with health and safety regulations. However, franchisees may receive through the supply chain (from central manufacturing locations ("CMLs"), NDCP, or otherwise), or produce defective food or beverage products, which may adversely impact our brands' goodwill.

Americans with Disabilities Act. Restaurants located in the United States must comply with Title III of the Americans with Disabilities Act of 1990, as amended (the "ADA"). Although we believe newer restaurants meet the ADA construction standards and, further, that franchisees have historically been diligent in the remodeling of older restaurants, a finding of noncompliance with the ADA could result in the imposition of injunctive relief, fines, an award of damages to private litigants, or additional capital expenditures to remedy such noncompliance. Any imposition of injunctive relief, fines, damage awards, or capital expenditures could adversely affect the ability of a franchisee to make royalty payments, or could generate negative publicity, or otherwise adversely affect us.

Franchisee Litigation. Franchisees are subject to a variety of litigation risks, including, but not limited to, customer claims, personal-injury claims, environmental claims, employee allegations of improper termination and discrimination, claims related to violations of the ADA, religious freedom, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and intellectual-property claims. Each of these claims may increase costs and limit the funds available to make royalty payments and reduce the execution of new franchise arrangements.

Potential Conflicts with Franchisee Organizations. Although we believe our relationship with our franchisees is open and strong, the nature of the franchisor-franchisee relationship can give rise to conflict. In the U.S., our approach is collaborative in that we have established district advisory councils, regional advisory councils, and a national brand advisory council for each of the Dunkin' Donuts brand and the Baskin-Robbins brand. The councils are comprised of franchisees, brand employees, and executives, and they meet to discuss the strengths, weaknesses, challenges, and opportunities facing the brands as well as the rollout of new products and projects. Internationally, our operations are primarily conducted through joint ventures with local licensees, so our relationships are conducted directly with our licensees rather than separate advisory committees. No material disputes with franchisee organizations exist in the United States or internationally at this time.

Failure to retain our existing senior management team or the inability to attract and retain new qualified personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success will continue to depend to a significant extent on our executive management team and the ability of other key management personnel to replace executives who retire or resign. We may not be able to retain our executive officers and key personnel or attract additional qualified management personnel to replace executives who retire or resign. Failure to retain our leadership team and attract and retain other important personnel could lead to ineffective management and operations, which could materially and adversely affect our business and operating results.

Unforeseen weather or other events, including terrorist threats or activities, may disrupt our business.

Unforeseen events, including war, terrorism, and other international, regional, or local instability or conflicts (including labor issues), embargos, public health issues (including tainted food, food-borne illnesses, food tampering, or water supply or widespread/pandemic illness such as Ebola, the avian or H1N1 flu, MERS), and natural disasters such as earthquakes, tsunamis, hurricanes, or other adverse weather and climate conditions, whether occurring in the U.S. or abroad, could disrupt our operations or that of our franchisees or suppliers; or result in political or economic instability. These events could reduce traffic in our restaurants and demand for our products; make it difficult or impossible for our franchisees to receive products from their suppliers; disrupt or prevent our ability to perform functions at the corporate level; and/or otherwise impede our or our franchisees' ability to continue business operations

in a continuous manner consistent with the level and extent of business activities prior to the occurrence of the unexpected event or events, which in turn may materially and adversely impact our business and operating results.

Changes in tax laws could adversely affect the taxes we pay and our profitability.
We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations, including changes and uncertainties resulting from proposals for comprehensive or corporate tax reforms in the U.S. or elsewhere. On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into

law. While we have estimated the effects of the Tax Act, we continue to refine those estimates with the possibility they could change, and those changes could be material. Any increases in income tax rates or changes in income tax laws could have a material adverse impact on our financial results.

Risks related to our common stock

Our stock price could be extremely volatile and, as a result, you may not be able to resell your shares at or above the price you paid for them.
Since our initial public offering in July 2011, the price of our common stock, as reported by NASDAQ, has ranged from a low of $23.24 on December 15, 2011 to a high of $68.45 on January 25, 2018. In addition, the stock market in general has been highly volatile. As a result, the market price of our common stock is likely to be similarly volatile, and investors in our common stock may experience a decrease, which could be substantial, in the value of their stock, including decreases unrelated to our operating performance or prospects, and could lose part or all of their investment.
The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those described elsewhere in this report and others such as:

- variations in our operating performance and the performance of our competitors;
- actual or anticipated fluctuations in our quarterly or annual operating results;
- publication of research reports by securities analysts about us, our competitors, or our industry;
- our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments, or changes in business strategy;
- the passage of legislation or other regulatory developments affecting us or our industry;
- speculation in the press or investment community;
-

CONTINUING OPERATIONS		
Net income	$363	$165
Income from discontinued operations (net of tax)	(113)	(67)
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	255	281
Debt issuance cost amortization	17	11
Deferred income taxes	(16)	(20)
Equity income from affiliates	(12)	(22)
Distributions from equity affiliates	18	7
Stock based compensation expense	22	26
Loss on early retirement of debt	8	—
Gain on available-for-sale securities	(1)	—
Net loss (gain) on divestitures	118	(3)
Impairments of equity investments and in-process research and development	14	59
Pension contributions	(592)	(27)
Losses on pension and other postretirement plan remeasurements	9	121
Change in operating assets and liabilities (a)	(249)	(127)
Total cash flows provided (used) by operating activities from continuing operations	(159)	404
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		

Additions to property, plant and equipment	(147)	(152)
Proceeds from disposal of property, plant and equipment	2	9
Purchase of operations - net of cash acquired	(5)	(2)
Proceeds from sale of operations or equity investments	133	92
Proceeds from sales of available-for-sale securities	315	—
Purchase of available-for-sale securities	(315)	—
Funds restricted for specific transactions	(320)	—
Proceeds from the settlement of derivative instruments	17	—
Payments for the settlement of derivative instruments	(5)	—
Total cash flows used by investing activities from continuing operations	(325)	(53)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Proceeds from issuance of long-term debt	1,100	—
Repayment of long-term debt	(559)	(12)
Premium on long-term debt repayment	(8)	—
Proceeds (repayment) from short-term debt	(98)	58
Repurchase of common stock	(397)	(125)
Debt issuance costs	(9)	—
Cash dividends paid	(72)	(79)
Excess tax benefits related to share-based payments	9	10
Total cash flows used by financing activities from continuing operations	(34)	(148)
CASH PROVIDED (USED) BY CONTINUING OPERATIONS	(518)	203
Cash provided (used) by discontinued operations		
Operating cash flows	261	48
Investing cash flows	19	(27)
Total cash provided by discontinued operations	280	21
Effect of currency exchange rate changes on cash and cash equivalents	(42)	—
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(280)	224
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,393	346
CASH AND CASH EQUIVALENTS - END OF PERIOD	$1,113	$570

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

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

Use of estimates, risks and uncertainties

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

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

Restricted investments

On January 13, 2015, Ashland and Hercules, a wholly owned subsidiary of Ashland that was acquired in 2009, entered into a comprehensive settlement agreement related to certain insurance coverage for asbestos bodily injury claims with Underwriters at Lloyd's, certain London Companies and Chartis (AIG) member companies, along with National Indemnity and Resolute Management, Inc., under which Ashland and Hercules received a total of $398 million (the January 2015 asbestos insurance settlement). During the March 2015 quarter, Ashland placed $335 million of the settlement funds into a renewable annual trust restricted for the purpose of paying ongoing and future litigation defense and claim settlement costs incurred in conjunction with asbestos

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (continued)

claims. These funds are presented primarily as noncurrent assets, with $30 million classified within other current assets in the Condensed Consolidated Balance Sheets.

As of June 30, 2015, the funds were primarily invested in equity and corporate bond investments with a portion maintained in demand deposits. The funds within the trust are classified as available-for-sale securities. Available-for-sale securities are reported at fair value with unrealized gains and losses, net of related deferred income taxes, included in the stockholders' equity section of the Condensed Consolidated Balance Sheets as a component of accumulated other comprehensive income. Interest income and realized gains and losses on the available-for-sale securities are reported in the net interest and other financing expense caption in the Statements of Consolidated Comprehensive Income. See Notes E and K for additional information regarding fair value of these investments within the trust and the January 2015 asbestos insurance settlement.

New accounting standards

A description of new U.S. GAAP accounting standards issued and adopted during the current year is required in interim financial reporting. A detailed listing of all new accounting standards relevant to Ashland is included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2014. The following standards relevant to Ashland were either issued or adopted in the current period or will become effective in a subsequent period.

In April 2015, the FASB issued accounting guidance to simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this amendment. The adoption of the new guidance is on a retrospective basis. Ashland elected to early adopt this guidance for debt issuance costs during the quarter ending June 30, 2015. As a result, Ashland reclassed $27 million and $31 million from other noncurrent assets to long-term debt within the Condensed Consolidated Balance Sheets as of June 30, 2015 and September 30, 2014, respectively.

In May 2014, the FASB issued accounting guidance outlining a single comprehensive five step model for entities to use in accounting for revenue arising from contracts with customers (ASC 606 Revenue from Contracts with Customers). The new guidance supersedes most current revenue recognition guidance, in an effort to converge the revenue recognition principles within U.S. GAAP. This new guidance also requires entities to disclose certain quantitative and qualitative information regarding the nature, amount, timing and uncertainty of qualifying revenue and cash flows arising from contracts with customers. Entities have the option of using a full retrospective or a modified retrospective approach to adopt the new guidance. During July 2015, the FASB delayed the effective date of this standard by one year. As a result, this guidance now becomes effective for Ashland on October 1, 2018. Ashland is currently evaluating the new accounting standard and the available implementation options the standard allows as well as the impact this new guidance will have on Ashland's Condensed Consolidated Financial Statements.

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

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

NOTE B - DIVESTITURES

Industrial Biocides

During May 2015, Ashland entered into a definitive sale agreement to sell the industrial biocides assets within Specialty Ingredients, which closed on July 1, 2015. As a result of the sale, Ashland expects to report net cash proceeds of approximately $30 million in the Statement of Condensed Consolidated Cash Flows during the upcoming September 2015 quarter and recognize a nominal gain before tax and after customary closing costs.

The sale of Specialty Ingredient's industrial biocides assets did not qualify for discontinued operations treatment since it did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results.

Valvoline Car Care Products

In April 2015, Ashland entered into a definitive sale agreement to sell Valvoline's car care product assets for $24 million, which included Car Brite™ and Eagle One™ automotive appearance products. During the March 2015 quarter, Ashland recognized a loss of $26 million before tax to recognize the assets at fair value less cost to sell since the assets met the U.S. GAAP held for sale criteria at March 31, 2015. The loss is reported within the net gain (loss) on divestitures caption within the Statements of Consolidated Comprehensive Income. The transaction closed on June 30, 2015 and Ashland received net proceeds of $19 million after adjusting for certain customary closing costs and final working capital totals.

The sale of Valvoline's car care product assets did not qualify for discontinued operations treatment since it did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results.

Valvoline Joint Venture

During April 2015, Ashland sold a Valvoline joint venture equity investment in Venezuela. During the nine months ended June 30, 2015, Ashland recognized a $14 million impairment, for which there was no tax effect, within the equity and other income (loss) caption of the Statements of Consolidated Comprehensive Income.

Ashland's decision to sell the equity investment and the resulting charge recorded in the prior quarter is reflective of the continued devaluation of the Venezuelan currency (bolivar) based on changes to the Venezuelan currency exchange rate mechanisms during the prior quarter. In addition, the continued lack of exchangeability between the Venezuelan bolivar and U.S. dollar had restricted the joint venture's ability to pay dividends and obligations denominated in U.S. dollars. These exchange regulations and cash flow limitations, combined with other recent Venezuelan regulations and the impact of declining oil prices on the Venezuelan economy, had significantly restricted Ashland's ability to conduct normal business operations through the joint venture arrangement. Ashland determined this divestiture does not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results, and thus it does not qualify for discontinued operations treatment.

MAP Transaction

As part of the 2005 transfer of Ashland's 38% interest in the Marathon Ashland Petroleum joint venture and two other small businesses to Marathon Oil Corporation (Marathon) (the MAP Transaction), Marathon is entitled to the tax deductions for Ashland's future payments of certain contingent liabilities, including asbestos liabilities, related to previously owned businesses of Ashland. Marathon agreed to compensate Ashland for these tax deductions and Ashland established a discounted receivable, which represented the estimated present value of probable recoveries from Marathon for the portion of their future tax deductions. As a result of the January 2015 asbestos insurance settlement, Ashland recorded a $7 million charge during the nine months ended June 30, 2015 within the net gain (loss) on divestitures caption of the Statements of Consolidated

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

NOTE B – DIVESTITURES (continued)

Comprehensive Income and accordingly reduced the discounted receivable by the same amount. The total MAP receivable remaining as of June 30, 2015 was $9 million. See Note K for more information related to the January 2015 asbestos insurance settlement.

Elastomers

On October 9, 2014, Ashland entered into a definitive agreement to sell the Elastomers division of the Performance Materials reportable segment, which operated a 250-person manufacturing facility in Port Neches, Texas, to Lion Copolymer Holdings, LLC. The Elastomers division, which primarily served the North American replacement tire market, accounted for approximately 5% of Ashland's 2014 sales of $6.1 billion and 18% of Ashland Performance Materials' $1.6 billion in sales in 2014. The sale was completed on December 1, 2014 in a transaction valued at approximately $120 million which was subject to working capital adjustments. The total post-closing adjusted cash proceeds received before taxes by Ashland during the nine months ended June 30, 2015 was $109 million, which includes working capital adjustments and transaction costs, as defined in the definitive agreement.

Elastomers' net assets as of November 30, 2014 were $191 million which primarily included accounts receivable, inventory, property, plant and equipment, non-deductible goodwill and other intangibles and payables. Since the net proceeds received were less than book value, Ashland recorded a loss of $86 million pre-tax within the net gain (loss) on divestiture caption within the Statements of Consolidated Comprehensive Income during the nine months ended June 30, 2015. The related tax effect was a benefit of $28 million included in the income tax expense caption within the Statements of Consolidated Comprehensive Income.

Ashland determined that the sale of Elastomers did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results. As such, Elastomers' results were included in the Performance Materials reportable segment results of operations and financial position within the Statements of Consolidated Comprehensive Income and Condensed Consolidated Balance Sheets, respectively, until its December 1, 2014 sale. Certain indirect corporate costs included within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income that were previously allocated to the Elastomers division are now reported as selling, general and administrative expense within continuing operations on a consolidated basis within the Unallocated and other segment. These costs were $3 million and $8 million during the three and nine months ended June 30, 2015, respectively.

Water Technologies

On July 31, 2014, Ashland sold the Water Technologies business to a fund managed by Clayton, Dubilier & Rice (CD&R) in a transaction valued at approximately $1.8 billion. The total post-closing adjusted cash proceeds received by Ashland during 2014, before taxes, was $1.6 billion, which includes estimates for certain working capital and other post-closing adjustments, as defined in the definitive agreement. During the nine months ended June 30, 2015, Ashland received approximately $42 million of the $48 million of delayed purchase price funds related to a foreign entity which completed certain regulatory closing requirements. Ashland received the remainder of these funds in July 2015. Final settlement of working capital and other post-closing adjustments occurred during the nine months ended June 30, 2015 resulting in a payment of approximately $20 million to CD&R.

Since this transaction signified Ashland’s exit from the Water Technologies business, Ashland has classified Water Technologies’ results of operations and cash flows within the Statements of Consolidated Comprehensive Income and Statements of Condensed Consolidated Cash Flows as discontinued operations for prior periods presented. Certain indirect corporate costs included within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income that were previously allocated to the Water Technologies reportable segment do

not qualify for classification within discontinued operations and are now

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NOTE B – DIVESTITURES (continued)

reported as selling, general and administrative expense within continuing operations on a consolidated basis and within the Unallocated and other segment. These costs were $9 million and $28 million during the three and nine months ended June 30, 2014, respectively.

Ashland retained and agreed to indemnify CD&R for certain liabilities of the Water Technologies business arising prior to the closing of the sale, including certain pension and postretirement liabilities, environmental remediation liabilities and certain legacy liabilities relating to businesses disposed or discontinued by the Water Technologies business. Costs directly related to these retained liabilities have been included within the discontinued operations caption of the Statements of Consolidated Comprehensive Income during the three and nine months ended June 30, 2014. The ongoing effects of the pension and postretirement plans for former Water Technologies employees are reported within the Unallocated and other segment.

Ashland provides certain transition services to CD&R for a fee. During the three and nine months ended June 30, 2015, Ashland recognized transition service fees of $8 million and $25 million, respectively, within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. While the transition services vary in duration depending upon the type of service provided, Ashland will continue to reduce costs as the transition services are completed. See Note C for further information on the results of operations of Water Technologies for all periods presented.

Casting Solutions joint venture

During 2014, Ashland, in conjunction with its partner, initiated a process to sell the ASK Chemicals GmbH (ASK) joint venture, in which Ashland had 50% ownership. As part of the sale process, Ashland determined that the fair value of its investment in the ASK joint venture was less than the carrying value and that an other than temporary impairment had occurred. As a result, Ashland recognized an impairment of $4 million and $50 million related to its investment in the ASK joint venture during the three and nine months ended June 30, 2014, respectively. These charges were recognized within the equity and other income (loss) caption of the Statements of Consolidated Comprehensive Income.

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

NOTE C – DISCONTINUED OPERATIONS

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

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Such claims result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation (Riley), a former subsidiary of Ashland, which qualified as a discontinued operation, and from the 2009 acquisition of Hercules, a wholly-owned subsidiary of Ashland. Adjustments to the recorded litigation reserves and related insurance receivables are recorded within discontinued operations. During the nine months ended June 30, 2015, Ashland recorded an after-tax gain of $120 million within discontinued operations due to the January 2015 asbestos insurance settlement. See Note K for more information related to the adjustments on asbestos liabilities and

receivables.

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

NOTE C – DISCONTINUED OPERATIONS (continued)

As previously described in Note B, on July 31, 2014, Ashland completed the sale of the Water Technologies business to CD&R. Sales for the three and nine months ended June 30, 2014 were $441 million and $1,308 million, respectively. The results of operations for the three and nine months ended June 30, 2014 are included in the table below. Ashland has made certain post-closing adjustments, including the pension plan remeasurement discussed in Note J, as defined by the definitive agreement, during the nine months ended June 30, 2015.
On March 31, 2011, Ashland completed the sale of the Ashland Distribution (Distribution) reportable segment to Nexeo Solutions, LLC for substantially all of the assets and certain liabilities of this global distribution business. Ashland determined that this sale qualified as a discontinued operation, in accordance with U.S. GAAP, since Ashland does not have significant continuing involvement in the distribution business. Ashland has made subsequent adjustments to the gain on sale of Distribution, primarily relating to the tax effects of the sale.
Components of amounts reflected in the Statements of Consolidated Comprehensive Income related to discontinued operations are presented in the following table for the three and nine months ended June 30, 2015 and 2014.

	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Income (loss) from discontinued operations (net of tax)				
Asbestos-related litigation	$(10)	$(3)	$110	$(4)
Water Technologies (a)	2	33	—	74
Distribution	—	(2)	—	(3)
Gain on disposal of discontinued operations (net of tax)				
Water Technologies	—	—	3	—
Total income (loss) from discontinued operations (net of tax)	$(8)	$28	$113	$67

(a) For the three and nine months ended June 30, 2014, pretax income recorded for Water Technologies was $46 million and $101 million, respectively.

NOTE D – RESTRUCTURING ACTIVITIES

Ashland periodically implements company-wide restructuring programs related to acquisitions, divestitures or other cost reduction programs in order to enhance profitability through streamlined operations and an improved overall cost structure for each business.
During 2014, Ashland announced a global restructuring program to streamline the resources used across the organization. As part of this global restructuring program, Ashland announced a voluntary severance offer (VSO) to certain U.S. employees. Approximately 400 employees were formally approved for the VSO. Additionally, during 2014, an involuntary program for employees was also initiated as part of the global restructuring program. Substantially all payments related to the VSO and involuntary programs will be paid by the end of fiscal 2015. The VSO and involuntary programs resulted in $16 million and $91 million of expense being recognized during the three and nine months ended June 30, 2014, respectively. Of these amounts, $13 million was recorded within the cost of sales caption for the nine months ended June 30, 2014, and $16 million and $78 million during the three and nine months ended June 30, 2014, respectively, were recorded within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. In addition, the employee reductions resulted in a pension curtailment being recorded during the prior year period. See Note J for further information. As of June 30, 2015 and September 30, 2014,

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

NOTE D – RESTRUCTURING ACTIVITIES (continued)

the remaining restructuring reserve for this global restructuring program was $12 million and $53 million, respectively.

As of June 30, 2015 and September 30, 2014, the remaining $1 million and $3 million, respectively, in restructuring reserves for other previously announced programs principally consisted of expected future severance payments for programs implemented during 2011.

During the March 2014 quarter, Ashland incurred an additional $3 million lease abandonment charge related to its exit from an office facility that was obtained as part of the Hercules acquisition. The costs related to the reserve will be paid over the remaining lease term through May 2016. As of June 30, 2015 and September 30, 2014, the remaining restructuring reserve for all qualifying facility costs totaled $4 million and $9 million, respectively.

The following table summarizes the related activity in these reserves for the nine months ended June 30, 2015 and 2014. The severance reserves and facility costs reserves are included in accrued expenses and other liabilities in the Condensed Consolidated Balance Sheets.

(In millions)	Severance	Facility costs	Total
Balance as of September 30, 2014	$56	$9	$65
Reserve adjustments	(2)	(2)	(4)
Utilization (cash paid)	(41)	(3)	(44)
Balance at June 30, 2015	$13	$4	$17
Balance as of September 30, 2013	$17	$8	$25
Restructuring reserve	91	4	95
Reserve adjustments	(1)	—	(1)
Utilization (cash paid)	(34)	(2)	(36)
Balance at June 30, 2014	$73	$10	$83

Specialty Ingredients Restructuring

During the March 2015 quarter, Specialty Ingredients committed to a restructuring plan within an existing manufacturing facility. As a result, during the three and nine months ended June 30, 2015, restructuring charges of $2 million and $20 million, respectively, were recorded within the cost of sales caption of the Statements of Consolidated Comprehensive Income. As of June 30, 2015, the remaining restructuring reserve related to severance for the Specialty Ingredients' manufacturing facility totaled $13 million. The restructuring plan is expected to be completed during fiscal 2016.

NOTE E – FAIR VALUE MEASUREMENTS

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

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

NOTE E – FAIR VALUE MEASUREMENTS (continued)

For assets that are measured using quoted prices in active markets (Level 1), the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using significant other observable inputs (Level 2) are primarily valued by reference to quoted prices of similar assets or liabilities in active markets (market approach), adjusted for any terms specific to that asset or liability. For all other assets and liabilities for which unobservable inputs are used (Level 3), fair value is derived through the use of fair value models, such as a discounted cash flow model or other standard pricing models that Ashland deems reasonable. During the March 2015 quarter, Ashland recorded two impairments which represented nonrecurring fair value measurements relating to Valvoline assets using observable inputs considered Level 2 fair values within the fair value hierarchy.
The following table summarizes financial instruments subject to recurring fair value measurements as of June 30, 2015.

(In millions)	Carrying value	Total fair value	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets					
Cash and cash equivalents	$1,113	$1,113	$1,113	$—	$—
Restricted investments (a)	332	332	332	—	—
Deferred compensation investments (b)	187	187	43	144	—
Investments of captive insurance company (b)	3	3	3	—	—
Foreign currency derivatives	3	3	—	3	—
Total assets at fair value	$1,638	$1,638	$1,491	$147	$—
Liabilities					
Foreign currency derivatives	$2	$2	$—	$2	$—

(a) Included in restricted investments and $30 million within other current assets in the Condensed Consolidated Balance Sheets.
(b) Included in other noncurrent assets in the Condensed Consolidated Balance Sheets.
The following table summarizes financial asset instruments subject to recurring fair value measurements as of September 30, 2014.

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

NOTE E – FAIR VALUE MEASUREMENTS (continued)

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

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

Restricted investments

As discussed in Note A, during the June 2015 quarter, Ashland diversified the restricted investments, received from the January 2015 asbestos insurance settlement, into primarily equity and corporate bond mutual funds that are designated as available-for-sale securities, classified as Level 1 measurements within the fair value hierarchy. These securities were classified primarily as noncurrent restricted investment assets, with $30 million classified within other current assets, in the Condensed Consolidated Balance Sheets. The following table provides a summary of the available-for-sale securities portfolio as of June 30, 2015:

(In millions) As of June 30, 2015	Amortized Cost	Unrealized gain	Unrealized loss	Fair Value
Demand deposit	$22	$—	$—	$22
Equity mutual fund	195	—	(2)	193
Corporate bond mutual fund	120	—	(3)	117
Total	$337	$—	$(5)	$332

Investment income of $1 million was recognized during the current quarter within net interest and other financing expense in the Statements of Consolidated Comprehensive Income. The unrealized losses were recognized within accumulated other comprehensive income (AOCI). At June 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 the three and nine months ended June 30, 2015.

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

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

NOTE E – FAIR VALUE MEASUREMENTS (continued)

loans, denominated in currencies other than Ashland’s functional currency of an entity. These derivative contracts generally require exchange of one foreign currency for another at a fixed rate at a future date and generally have maturities of less than twelve months. All contracts are marked-to-market with net changes in fair value recorded within the selling, general and administrative expense caption. The impacts of these contracts were largely offset by gains and losses resulting from the impact of changes in exchange rates on transactions denominated in non-functional currencies. The following table summarizes the gains and losses recognized during the three and nine months ended June 30, 2015 and 2014 within the Statements of Consolidated Comprehensive Income.

	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Foreign currency derivative gain (loss)	$9	$(2)	$(7)	$3

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

(In millions)	June 30 2015	September 30 2014
Foreign currency derivative assets	$1	$2
Notional contract values	214	88
Foreign currency derivative liabilities	$2	$4
Notional contract values	383	281

Net investment hedges

During 2014, Ashland entered into foreign currency contracts in order to manage the foreign currency exposure of the net investment in certain foreign operations, as a result of certain proceeds from the sale of Water Technologies being received in non-U.S. denominated currencies. 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 Comprehensive Income when the hedged item affects net income. During the three and nine months ended June 30, 2015, these foreign currency contracts were settled and Ashland entered into new foreign currency contracts designated as hedges of net investments in foreign subsidiaries. These settlements resulted in net gains, within the cumulative translation adjustment within AOCI, of $12 million for the three and nine months ended June 30, 2015.

As of June 30, 2015 and September 30, 2014, the total notional value of foreign currency contracts equaled $189 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 June 30, 2015 and September 30, 2014.

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

NOTE E – FAIR VALUE MEASUREMENTS (continued)

(In millions)	Consolidated balance sheet caption	June 30 2015	September 30 2014
Net investment hedge assets	Accounts receivable	$2	$9
Net investment hedge liabilities (a)	Accrued expenses and other liabilities	—	5

(a) Denotes 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 the three and nine months ended June 30, 2015. No portion of the gain was reclassified to income during the three and nine months ended June 30, 2015. There was no hedge ineffectiveness with these instruments during the three and nine months ended June 30, 2015.

(In millions)	Three months ended June 30 2015	Nine months ended June 30 2015
Change in unrealized gain in AOCI	$2	$2
Tax impact of change in unrealized gain in AOCI	(1)	(1)

Other financial instruments

At June 30, 2015 and September 30, 2014, Ashland's long-term debt (including the current portion and excluding debt issuance costs) had a carrying value of $3,494 million and $2,951 million, respectively, compared to a fair value of $3,643 million and $3,102 million, respectively. The fair values of long-term debt are based on quoted market prices or, if market prices are not available, the present values of the underlying cash flows discounted at Ashland's incremental borrowing rates, which are deemed to be Level 2 measurements within the fair value hierarchy.

NOTE F – INVENTORIES

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

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

(In millions)	June 30 2015	September 30 2014
Finished products	$537	$557
Raw materials, supplies and work in process	205	239
LIFO reserve	(42)	(31)
	$700	$765

NOTE G – GOODWILL AND OTHER INTANGIBLES

Goodwill

Ashland reviews goodwill and indefinite-lived intangible assets for impairment annually or when events and circumstances indicate an impairment may have occurred. This annual assessment is performed as of July 1

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

NOTE G – GOODWILL AND OTHER INTANGIBLES (continued)

and consists of Ashland determining each reporting unit's current fair value compared to its current carrying value. For its July 1, 2014 assessment, Ashland determined that its reporting units for allocation of goodwill included the Specialty Ingredients and Valvoline reportable segments, and the Composites, Intermediates/Solvents, and Elastomers reporting units within the Performance Materials reportable segment, and determined at that time that no impairment existed. As discussed in Note B, Ashland sold the Elastomers division on December 1, 2014 and as a result, Elastomers is no longer a reporting unit as of June 30, 2015.
The following is a progression of goodwill by reportable segment for the nine months ended June 30, 2015.

(In millions)	Specialty Ingredients	Performance Materials (a)	Valvoline	Total
Balance at September 30, 2014	$2,129	$346	$168	$2,643
Acquisitions (b)	—	—	3	3
Divestiture (c)	—	(10)	(1)	(11)
Currency translation adjustment	(108)	(18)	—	(126)
Balance at June 30, 2015	$2,021	$318	$170	$2,509

(a) As of June 30, 2015, goodwill consisted of $172 million for the Intermediates/Solvents reporting unit and $146 million for the Composites reporting unit.
(b) Relates to Valvoline Instant Oil Change[SM] center acquisitions during the June 30, 2015 quarter.
(c) Divestiture caption represents the amounts of goodwill for the sale of Elastomers and Valvoline car care products. See Note B for additional information.

Other intangible assets

Intangible assets principally consist of trademarks and trade names, intellectual property, customer relationships, and in-process research and development (IPR&D). Intangible assets classified as finite are amortized on a straight-line basis over their estimated useful lives. The cost of trademarks and trade names is amortized principally over 4 to 25 years, intellectual property over 5 to 20 years, and customer relationships over 3 to 24 years.
IPR&D and certain intangible assets within trademarks and trade names have been classified as indefinite-lived and had a balance of $322 million as of June 30, 2015 and September 30, 2014. During the nine months ended June 30, 2014, Ashland incurred a $9 million impairment related to certain IPR&D assets associated with the acquisition of International Specialty Products Inc. (ISP). This charge was included in the research and development expense caption of the Statements of Consolidated Comprehensive Income. Ashland annually reviews indefinite-lived intangible assets for possible impairment or whenever events or changes in circumstances indicate that carrying amounts may not be recoverable.
Intangible assets were comprised of the following as of June 30, 2015 and September 30, 2014.

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

NOTE G – GOODWILL AND OTHER INTANGIBLES (continued)

	June 30, 2015		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets			
Trademarks and trade names (a) (b)	$59	$(43)	$16
Intellectual property (a)	809	(256)	553
Customer relationships (b)	429	(140)	289
Total definite-lived intangible assets	1,297	(439)	858
Indefinite-lived intangible assets			
IPR&D	19	—	19
Trademarks and trade names	303	—	303
Total intangible assets	$1,619	$(439)	$1,180

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

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

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

Amortization expense recognized on intangible assets was $19 million and $22 million for the three months ended June 30, 2015 and 2014, respectively, and $60 million and $67 million for the nine months ended June 30, 2015 and 2014, respectively, and is included in the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. Estimated amortization expense for future periods is $79 million in 2015 (includes nine months actual and three months estimated), $77 million in 2016, $77 million in 2017, $77 million in 2018 and $73 million in 2019.

NOTE H – DEBT

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

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

NOTE H – DEBT (continued)

(In millions)	June 30 2015	September 30 2014
4.750% notes, due 2022	$1,120	$1,120
3.875% notes, due 2018	700	700
3.000% notes, due 2016	50	600
6.875% notes, due 2043	376	376
Term Loan, due 2020	1,100	—
Accounts receivable securitization (a)	205	255
6.50% junior subordinated notes, due 2029	136	134
Revolving credit facility	—	45
Other international loans, interest at a weighted-average rate of 6.4% at June 30, 2015 (5.6% to 9.8%)	26	29
Medium-term notes, due 2019, interest of 9.4% at June 30, 2015	5	14
Other (b)	(20)	(24)
Total debt	3,698	3,249
Short-term debt	(231)	(329)
Current portion of long-term debt	(105)	(9)
Long-term debt (less current portion and debt issuance costs)	$3,362	$2,911

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

(b) Other includes $27 million and $31 million of debt issuance costs as of June 30, 2015 and September 30, 2014, respectively.

The scheduled aggregate maturities of debt by year are as follows: $277 million remaining in 2015, $73 million in 2016, $69 million in 2017, $810 million in 2018 and $143 million in 2019. The borrowing capacity remaining under the $1.2 billion senior unsecured revolving credit facility (the 2015 revolving credit facility) was $1,128 million, due to a reduction of $72 million for letters of credit outstanding at June 30, 2015. Ashland's total borrowing capacity at June 30, 2015 was $1,147 million, which includes $19 million of available capacity from the accounts receivable securitization facility.

Senior notes refinancing and 2015 Senior Credit Agreement

During the June 2015 quarter, Ashland completed certain refinancing transactions related to the $600 million 3.000% senior notes due 2016 (2016 senior notes). Ashland commenced 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 the June 2015 quarter Ashland entered into a Credit Agreement (the 2015 Senior Credit Agreement), which replaced 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) and a five-year senior unsecured term loan facility in an aggregate principal amount of $1.1 billion (the term loan facility).

During the June 2015 quarter, 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 J, 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, Ashland

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

NOTE H – DEBT (continued)

recognized an $8 million charge related to an early redemption premium payment, which is included in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income for the three and nine months ended June 30, 2015.

Ashland incurred $10 million of new debt issuance costs in connection with the 2015 Senior Credit Agreement, of which $3 million was recognized immediately within the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income for the three and nine months ended June 30, 2015. The remaining $7 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 $3 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 for the three and nine months ended June 30, 2015.

Covenant restrictions

Ashland's debt contains usual and customary representations, warranties and affirmative and negative covenants, including financial covenants for leverage and interest coverage ratios, limitations on liens, additional subsidiary indebtedness, restrictions on subsidiary distributions, investments, mergers, sale of assets and restricted payments and other customary limitations. As of June 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 from June 30, 2015 through December 31, 2016 and 3.5 from March 31, 2017 and each fiscal quarter thereafter. At June 30, 2015, Ashland’s calculation of the consolidated leverage ratio was 2.6, which is below the maximum consolidated leverage ratio of 3.75.

The minimum required consolidated interest coverage ratio under the 2015 Senior Credit Agreement during its entire duration is 3.0. At June 30, 2015, Ashland’s calculation of the interest coverage ratio was 6.6, which exceeds the minimum required consolidated ratio of 3.0.

NOTE I – INCOME TAXES

Current fiscal year

Ashland’s estimated annual effective income tax rate used to determine income tax expense in interim financial reporting for the year ending September 30, 2015 is 25%. Ashland’s effective tax rate in any interim period is subject to adjustments related to discrete items and changes within foreign effective tax rates resulting from income or loss fluctuations. The overall effective tax rate was 19% and 18% for the three and nine months ended June 30, 2015, respectively. The current quarter and period tax rate was impacted by net favorable tax discrete items of $7 million and $10 million, respectively, primarily related to recording return to provision adjustments for foreign and domestic entities. These favorable tax discrete adjustments were partially offset by an accrual for an unrecognized tax benefit. The current period tax rate was also impacted by the release of a valuation reserve on certain deferred taxes.

Prior fiscal year

Ashland’s annual effective income tax rate used to determine income tax expense in interim financial reporting for the year ending September 30, 2014 was 22%. The overall effective tax rate was 28% and 3% for the three and nine months ended June 30, 2014, respectively. The prior year quarter tax rate was impacted by net unfavorable tax discrete items of $9 million, primarily related to recognition of outside tax basis for the Water

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

NOTE I – INCOME TAXES (continued)

Technologies business. In addition, the prior year period tax rate was impacted by net charges for tax discrete items of $11 million, which consisted of $15 million in a foreign income tax rate change and other divestiture-related deferred tax adjustments, partially offset by $11 million for the reversal of unrecognized tax benefits and by $2 million primarily related to the release of a foreign valuation allowance and certain non-taxable pretax income amounts as well as the $9 million unfavorable tax discrete item referenced in the quarter.

Unrecognized tax benefits

Changes in unrecognized tax benefits are summarized as follows for the nine months ended June 30, 2015.

(In millions)		
Balance at October 1, 2014	$155	
Increases related to positions taken on items from prior years	8	
Decreases related to positions taken on items from prior years	(18	)
Increases related to positions taken in the current year	15	
Lapse of the statute of limitations	(3	)
Settlement of uncertain tax positions with tax authorities	(8	)
Balance at June 30, 2015	$149	

In the next twelve months, Ashland expects a decrease in the amount accrued for uncertain tax positions of up to $14 million for continuing operations and $8 million for discontinued operations related primarily to audit settlements and statute of limitations expirations in various tax jurisdictions. It is reasonably possible that there could be other material changes to the amount of uncertain tax positions due to activities of the taxing authorities, settlement of audit issues or the reassessment of existing uncertain tax positions; however, Ashland is not able to estimate the impact of these items at this time.

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

Other matters

During the March 2015 quarter, Ashland received funds as a result of a tax indemnity settlement. As a result, Ashland recognized $16 million of income during the nine months ended June 30, 2015 within selling, general and administrative expenses in the Statements of Consolidated Comprehensive Income.

NOTE J – EMPLOYEE BENEFIT PLANS

For the nine months ended June 30, 2015, Ashland contributed $580 million to its U.S. pension plans and $12 million to its non-U.S. pension plans. The contributions included $500 million to the U.S. pension plans impacted by the pension plan settlement program discussed below, during the three and nine months ended June 30, 2015. Ashland expects to make additional contributions to the U.S. plans of approximately $5 million and to the non-U.S. plans of approximately $4 million during the remainder of 2015.

Pension plan settlement program

During the current quarter, Ashland began informing approximately 20,000 former employees, who are included in the approximately 53,000 participants within the primary U.S. pension plans, that Ashland is 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

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

NOTE J – EMPLOYEE BENEFIT PLANS (continued)

when the participant may choose to initiate payment. Participants eligible for this program will have until August 2015 to make their election with the expected payout for those participants occurring in September 2015. Settlement payments are expected to be funded with pension plan assets.

Ashland expects to record an adjustment to income in the September 2015 quarter for settling these obligations. The actual amount of such charge will depend upon the number of eligible participants electing the lump sum payment or reduced annuity option, the actual return on plan assets, the discount rate and various actuarial assumptions.

Components of net periodic benefit costs (income)

During the nine months ended June 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 the nine months ended June 30, 2015. Of these amounts, all of the curtailment gain and $2 million of the actuarial loss were attributable to the Water Technologies business and therefore included in the discontinued operations caption of the Statements of Consolidated Comprehensive Income for the nine months ended June 30, 2015.

During the three and nine months ended June 30, 2014, Ashland settled two non-U.S. pension plans, which in accordance with U.S. GAAP requires the plans to be remeasured. These remeasurements resulted in Ashland recognizing settlement losses of $16 million and $38 million during the three and nine months ended June 30, 2014, respectively, and actuarial losses of $4 million and $17 million during the three and nine months ended June 30, 2014, respectively. Of these amounts, for the three and nine months ended June 30, 2014, $3 million and $6 million of the settlement losses, respectively, and $1 million and $3 million of the actuarial losses, respectively, 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, 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. As a result of the remeasurements, Ashland recognized a curtailment loss of $6 million and actuarial loss of $83 million during the nine months ended June 30, 2014. In accordance with U.S. GAAP, $14 million of the actuarial loss was attributable to the Water Technologies business and included in the discontinued operations caption of the Statements of Consolidated Comprehensive Income for the nine months ended June 30, 2014.

For segment reporting purposes, service cost for continuing operations is proportionately allocated to each segment, excluding the Unallocated and other segment, while all other costs for continuing operations are recorded within the Unallocated and other segment. In accordance with U.S. GAAP, during 2014, a portion of the other components of pension and other postretirement benefit costs (i.e. interest cost, expected return on assets, and amortization of prior service credit) related to Water Technologies was reclassified from the Unallocated and other segment to the discontinued operations caption of the Statements of Consolidated Comprehensive Income. For the three and nine months ended June 30, 2014, income of $2 million and $6 million, respectively, was classified within discontinued operations.

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

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

NOTE J – EMPLOYEE BENEFIT PLANS (continued)

	Pension benefits		Other postretirement benefits	
(In millions)	2015	2014	2015	2014
Three months ended June 30				
Service cost (a)	$7	$9	$—	$—
Interest cost	43	45	2	3
Expected return on plan assets	(53)	(58)	—	—
Amortization of prior service credit	(1)	(1)	(4)	(5)
Curtailment, settlement and other	—	17	—	(1)
Actuarial loss	—	3	—	1
	$(4)	$15	$(2)	$(2)
Nine months ended June 30				
Service cost	$20	$30	$1	$1
Interest cost	131	144	6	7
Expected return on plan assets	(162)	(177)	—	—
Amortization of prior service credit	(2)	(2)	(13)	(16)
Curtailment, settlement and other	(7)	45	—	(1)
Actuarial loss	11	99	—	1
	$(9)	$139	$(6)	$(8)

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

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES

Asbestos litigation

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

Ashland asbestos-related litigation

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

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

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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

Ashland asbestos-related liability

From the range of estimates, Ashland records the amount it believes to be the best estimate of future payments for litigation defense and claim settlement costs, which generally approximates the mid-point of the estimated range of exposure from model results. Ashland reviews this estimate and related assumptions quarterly and annually updates the results of a non-inflated, non-discounted approximate 50-year model developed with the assistance of HR&A. As a result of the most recent annual update of this estimate, completed during the June 2015 quarter, it was determined that the liability total for asbestos claims did not need to be adjusted. Total reserves for asbestos claims were $416 million at June 30, 2015 compared to $438 million at September 30, 2014.

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

	Nine months ended June 30		Years ended September 30		
(In millions)	2015	2014	2014	2013	2012
Asbestos reserve - beginning of period	$438	$463	$463	$522	$543
Reserve adjustment	—	4	4	(28)	11
Amounts paid	(22)	(24)	(29)	(31)	(32)
Asbestos reserve - end of period	$416	$443	$438	$463	$522

Ashland asbestos-related receivables

Ashland has insurance coverage for certain litigation defense and claim settlement costs incurred in connection with its asbestos claims, and coverage-in-place agreements exist with the insurance companies that provide 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 50% of the receivable is from insurance companies rated by A. M. Best, all of which have a credit rating of BBB+ or higher as of June 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 entities wrongfully interfered with Underwriters' and Chartis' performance of their

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

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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

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

As a result of this settlement, Ashland recorded an after-tax gain of $120 million within the discontinued operations caption of the Statements of Consolidated Comprehensive Income during the nine months ended June 30, 2015. The Ashland insurance receivable balance was also reduced as a result of this settlement by $227 million within the Condensed Consolidated Balance Sheets.

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

At June 30, 2015, Ashland’s receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to $152 million, of which $12 million relates to costs previously paid. Receivables from insurers amounted to $402 million at September 30, 2014. During the June 2015 quarter, the annual update of the model used for purposes of valuing the asbestos reserve and its impact on valuation of future recoveries from insurers was completed. This model update resulted in a $3 million decrease in the receivable for probable insurance recoveries.

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

	Nine months ended June 30		Years ended September 30		
(In millions)	2015	2014	2014	2013	2012
Insurance receivable - beginning of period	$402	$408	$408	$423	$431
Receivable adjustment	(3)	7	22	(3)	19
Insurance settlement	(227)	—	—	—	—
Amounts collected	(20)	(7)	(28)	(12)	(27)
Insurance receivable - end of period	$152	$408	$402	$408	$423

Hercules asbestos-related litigation

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

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

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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

Hercules asbestos-related liability

From the range of estimates, Ashland records the amount it believes to be the best estimate of future payments for litigation defense and claim settlement costs, which generally approximates the mid-point of the estimated range of exposure from model results. Ashland reviews this estimate and related assumptions quarterly and annually updates the results of a non-inflated, non-discounted approximate 50-year model developed with the assistance of HR&A. As a result of the most recent annual update of this estimate, completed during the June 2015 quarter, it was determined that the liability for Hercules asbestos-related claims should be increased by $4 million. Total reserves for asbestos claims were $319 million at June 30, 2015 compared to $329 million at September 30, 2014.

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

	Nine months ended June 30		Years ended September 30		
(In millions)	2015	2014	2014	2013	2012
Asbestos reserve - beginning of period	$329	$342	$342	$320	$311
Reserve adjustment	4	10	10	46	30
Amounts paid	(14)	(19)	(23)	(24)	(21)
Asbestos reserve - end of period	$319	$333	$329	$342	$320

Hercules asbestos-related receivables

For the Hercules asbestos-related obligations, certain reimbursement obligations pursuant to coverage-in-place agreements with insurance carriers exist. As a result, any increases in the asbestos reserve have been partially offset by probable insurance recoveries. Ashland has estimated the value of probable insurance recoveries associated with its asbestos reserve based on management’s interpretations and estimates surrounding the available or applicable insurance coverage, including an assumption that all solvent insurance carriers remain solvent. The estimated receivable consists exclusively of domestic insurers. 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 June 30, 2015.

As of June 30, 2015 and September 30, 2014, the receivables from insurers amounted to $56 million and $77 million, respectively. During the June 2015 quarter, the annual update of the model used for purposes of valuing the asbestos reserve and its impact on valuation of future recoveries from insurers was completed. This model update resulted in a $1 million increase in the receivable for probable insurance recoveries.

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

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

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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

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

Asbestos liability projection

Projecting future asbestos costs is subject to numerous variables that are extremely difficult to predict. In addition to the significant uncertainties surrounding the number of claims that might be received, other variables include the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, Ashland believes that the asbestos reserves for Ashland and Hercules represent the best estimate within a range of possible outcomes. As a part of the process to develop these estimates of future asbestos costs, a range of long-term cost models was developed. These models are based on national studies that predict the number of people likely to develop asbestos-related diseases and are heavily influenced by assumptions regarding long-term inflation rates for indemnity payments and legal defense costs, as well as other variables mentioned previously. Ashland has currently estimated in various models ranging from approximately 40 to 50 year periods that it is reasonably possible that total future litigation defense and claim settlement costs on an inflated and undiscounted basis could range as high as approximately $880 million for the Ashland asbestos-related litigation and approximately $560 million for the Hercules asbestos-related litigation (or approximately $1.4 billion in the aggregate), depending on the combination of assumptions selected in the various models. If actual experience is worse than projected, relative to the number of claims filed, the severity of alleged disease associated with those claims or costs incurred to resolve those claims, Ashland may need to further increase the estimates of the costs associated with asbestos claims and these increases could be material over time.

Environmental remediation and asset retirement obligations

Ashland is subject to various federal, state and local environmental laws and regulations that require environmental assessment or remediation efforts (collectively environmental remediation) at multiple locations. At June 30, 2015, such locations included 83 waste treatment or disposal sites where Ashland has been identified as a potentially responsible party under Superfund or similar state laws, 138 current and former operating facilities (including certain operating facilities conveyed to Marathon Ashland Petroleum LLC (MAP) in 2005) and about 1,225 service station properties, of which 73 are being actively remediated.

Ashland's reserves for environmental remediation amounted to $188 million at June 30, 2015 compared to $197 million at September 30, 2014, of which $141 million at June 30, 2015 and $158 million at September 30, 2014 were classified in other noncurrent liabilities on the Condensed Consolidated Balance Sheets.

The following table provides a reconciliation of the changes in the environmental contingencies and asset retirement obligations during the nine months ended June 30, 2015 and 2014.

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

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

	Nine months ended June 30	
(In millions)	2015	2014
Reserve - beginning of period	$197	$211
Disbursements	(35)	(29)
Revised obligation estimates and accretion	26	24
Reserve - end of period	$188	$206

The total reserves for environmental remediation reflect Ashland's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated reserves for environmental remediation. Ashland continues to discount certain environmental sites and regularly adjusts its reserves as environmental remediation continues. Ashland has estimated the value of its probable insurance recoveries associated with its environmental reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage. At June 30, 2015 and September 30, 2014, Ashland's recorded receivable for these probable insurance recoveries was $23 million and $24 million, respectively, of which $17 million and $24 million, respectively, were classified in other noncurrent assets on the Condensed Consolidated Balance Sheets.

Components of environmental remediation expense included within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income are presented in the following table for the three and nine months ended June 30, 2015 and 2014.

	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Environmental expense	$8	$13	$22	$22
Accretion	3	—	4	2
Legal expense	1	2	4	4
Total expense	12	15	30	28
Insurance receivable	—	(1)	(1)	(3)
Total expense, net of receivable activity (a)	$12	$14	$29	$25

(a) Net expense of $1 million and $3 million for the three and nine months ended June 30, 2015, respectively, and $1 million and $2 million for the three and nine months ended June 30, 2014, 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 identified sites could be as high as approximately $385 million. No individual remediation location is significant, as the largest reserve for any site is 14% or less of the remediation reserve.

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

NOTE K – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

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 June 30, 2015 and September 30, 2014. There is a reasonable possibility that a loss exceeding amounts already recognized may be incurred related to these actions; however, Ashland believes that such potential losses were immaterial as of June 30, 2015.

NOTE L – EARNINGS PER SHARE

The following is the computation of basic and diluted earnings per share (EPS) from continuing operations. Stock appreciation rights (SARs) and warrants available to purchase shares outstanding for each reporting period whose grant price was greater than the average market price of Ashland Common Stock for each applicable period were not included in the computation of income from continuing operations per diluted share because the effect of these instruments would be antidilutive. The total number of these shares outstanding was approximately 0.6 million at June 30, 2015 and 2014. Earnings per share is reported under the treasury stock method.

	Three months ended June 30		Nine months ended June 30	
(In millions except per share data)	2015	2014	2015	2014
Numerator				
Numerator for basic and diluted EPS – Income from continuing operations	$115	$71	$250	$98
Denominator				
Denominator for basic EPS – Weighted-average common shares outstanding	68	78	68	78
Share-based awards convertible to common shares (a)	—	1	1	1
Denominator for diluted EPS – Adjusted weighted-average shares and assumed conversions	68	79	69	79
EPS from continuing operations				
Basic	$1.70	$0.91	$3.66	$1.26
Diluted	1.68	0.90	3.61	1.24

(a) Denotes a value of less than one million shares.

NOTE M – STOCKHOLDERS' EQUITY ITEMS

Stock repurchase programs
In April 2015, Ashland's Board of Directors approved a new $1 billion share repurchase authorization that will expire on December 31, 2017. This authorization allows for the same repurchase methods as the March 2014 repurchase program.

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

NOTE M – STOCKHOLDERS' EQUITY ITEMS (continued)

During the March 2014 quarter, the Board of Directors of Ashland authorized a $1.35 billion common stock repurchase program. Under the program, Ashland’s common shares may be repurchased in open market transactions, privately negotiated transactions or pursuant to one or more accelerated stock repurchase programs or Rule 10b5-1 plans. This repurchase program was completed during the current quarter, with delivery of the final shares occurring during July 2015.

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

Accelerated share repurchase agreements

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

During the nine months ended June 30, 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 June 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 July 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.

Ashland announced in the September 30, 2014 quarter that it had entered into an agreement with each of Deutsche Bank Securities Inc. and JPMorgan to repurchase an aggregate of $250 million of Ashland's common stock. Under the terms of the agreement, the financial institutions purchased a pre-determined number of shares on various trading days dependent upon Ashland's prevailing stock price on that date. During fiscal 2014, Ashland received 1.2 million shares of common stock for a total cost of $124 million. During the nine

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

NOTE M – STOCKHOLDERS' EQUITY ITEMS (continued)

months ended June 30, 2015, Ashland completed these agreements, receiving an additional 1.2 million shares of common stock for a total cost of $127 million. The settlement price, which represents the average amount spent after commissions over the common shares repurchased throughout the program, was $104.51 per share. In total, Ashland paid $250 million and received 2.4 million shares of common stock under the agreements.

Stockholder dividends

During the three months ended June 30, 2015, the Board of Directors of Ashland announced and paid a quarterly cash dividend of 39 cents per share to eligible shareholders of record. This was an increase from the quarterly dividends of 34 cents in the December 2014 and March 2015 quarters as well as each quarter of fiscal 2014.

Accumulated other comprehensive income

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

(In millions)	2015 Before tax	Tax benefit	Net of tax	2014 Before tax	Tax benefit	Net of tax
Three months ended June 30						
Other comprehensive income (loss)						
Unrealized translation gain	$67	$1	$68	$11	$—	$11
Pension and postretirement obligation adjustment:						
Amortization of unrecognized prior service credits included in net income (a)	(5)	3	(2)	(6)	3	(3)
Unrealized loss on available-for-sale securities	(5)	2	(3)	—	—	—
Total other comprehensive income	$57	$6	$63	$5	$3	$8
Nine months ended June 30						
Other comprehensive income (loss)						
Unrealized translation gain (loss)	$(315)	$1	$(314)	$25	$—	$25
Pension and postretirement obligation adjustment:						
Amortization of unrecognized prior service credits included in net income (a)	(18)	5	(13)	(18)	6	(12)
Unrealized loss on available-for-sale securities	(5)	2	(3)	—	—	—
Total other comprehensive income (loss)	$(338)	$8	$(330)	$7	$6	$13

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

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

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

NOTE M – STOCKHOLDERS' EQUITY ITEMS (continued)

	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Cost of sales	$(2)	$(2)	$(5)	$(5)
Selling, general and administrative expense	(3)	(3)	(10)	(10)
Discontinued operations	—	(1)	(3)	(3)
Total amortization of unrecognized prior service credits	$(5)	$(6)	$(18)	$(18)

NOTE N – STOCK INCENTIVE PLANS

Ashland has stock incentive plans under which key employees or directors are granted stock-settled stock appreciation rights (SARs), performance share awards or nonvested stock awards. Each program is typically a long-term incentive plan designed to link employee compensation with increased shareholder value or reward superior performance and encourage continued employment with Ashland. Ashland recognizes compensation expense for the grant date fair value of stock-based awards over the applicable vesting period within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. Stock-based compensation expense was $7 million and $9 million for the three months ended June 30, 2015 and 2014, respectively. For the nine months ended June 30, 2015 and 2014, stock-based compensation expense was $30 million and $26 million, respectively. The nine months ended June 30, 2015 included a $7 million award modification within performance shares that was designated as a cash item and $1 million of expense related to cash-settled restricted stock awards.

SARs

SARs are granted to employees or directors at a price equal to the fair market value of the stock on the date of grant and typically become exercisable over periods of one to three years. Unexercised SARs lapse ten years and one month after the date of grant. SARs granted for the nine months ended June 30, 2015 and 2014 were 0.3 million and 0.4 million, respectively. No SARS were granted for the three months ended June 30, 2015 and 2014. As of June 30, 2015, there was $11 million of total unrecognized compensation costs related to SARs. That cost is expected to be recognized over a weighted-average period of 1.8 years. Ashland estimates the fair value of SARs granted using the Black-Scholes option-pricing model. This model requires several assumptions, which Ashland has developed and updates based on historical trends and current market observations. The accuracy of these assumptions is critical to the estimate of fair value for these equity instruments.

Nonvested stock awards

Nonvested stock awards are granted to employees or directors at a price equal to the fair market value of the stock on the date of grant and generally vest over a one-to-five-year period. However, such shares are subject to forfeiture upon termination of service before the vesting period ends. Nonvested stock awards entitle employees or directors to vote the shares. Dividends on nonvested stock awards granted are in the form of additional shares of nonvested stock awards, which are subject to vesting and forfeiture provisions. Nonvested stock awards granted were 1,800 and 56,500 for the three months ended June 30, 2015 and 2014, respectively, and 169,400 and 182,570 were granted for the nine months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, there was $17 million of total unrecognized compensation costs related to nonvested stock awards. That cost is expected to be recognized over a weighted-average period of 1.6 years.

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

NOTE N – STOCK INCENTIVE PLANS (continued)

Performance shares
Ashland sponsors a long-term incentive plan that awards performance shares/units to certain key employees that are tied to Ashland's overall financial performance relative to the financial performance of selected industry peer groups and/or internal targets. Awards are granted annually, with each award covering a three-year performance cycle. Each performance share/unit is convertible to one share of Ashland Common Stock. These plans are recorded as a component of stockholders' equity in the Condensed Consolidated Balance Sheets. Performance measures used to determine the actual number of performance shares issuable upon vesting include an equal weighting of Ashland's total shareholder return (TSR) performance and Ashland's return on investment (ROI) performance as compared to the internal targets over the three-year performance cycle. TSR relative to peers is considered a market condition while ROI is considered a performance condition under applicable U.S. GAAP. Nonvested performance shares/units do not entitle employees to vote the shares or to receive any dividends thereon. Performance shares/units granted for the nine months ended June 30, 2015 and 2014 were 0.1 million. No performance shares/units were granted for the three months ended June 30, 2015 and 2014. As of June 30, 2015, there was $9 million of total unrecognized compensation costs related to performance shares/units. That cost is expected to be recognized over a weighted-average period of 2.0 years.
During the December 2014 quarter, Ashland modified certain awards of its performance shares. The awards were modified to provide that the instruments be paid in cash instead of stock. This change in payment designation caused Ashland to recognize $7 million in incremental stock-based compensation expense related to this award modification during the nine months ended June 30, 2015.
NOTE O – REPORTABLE SEGMENT INFORMATION
Ashland determines its reportable segments based on how operations are managed internally for the products and services sold to customers and does not aggregate operating segments to arrive at these reportable segments. Subsequent to the sale of Water Technologies and a business realignment during 2014, Ashland's businesses are managed within three reportable segments: Specialty Ingredients, Performance Materials and Valvoline.
Reportable segment business descriptions
Specialty Ingredients is a global leader in cellulose ethers and vinyl pyrrolidones. It offers industry-leading products, technologies and resources for solving formulation and product-performance challenges. Specialty Ingredients uses natural, synthetic and semisynthetic polymers derived from plant and seed extract, cellulose ethers and vinyl pyrrolidones, as well as acrylic and polyurethane-based adhesives. Specialty Ingredients includes two divisions; Consumer Specialties and Industrial Specialties that offer comprehensive and innovative solutions for today's demanding consumer and industrial applications. Key customers include: pharmaceutical companies; makers of personal care products, food and beverages; manufacturers of paint, coatings and construction materials; packaging and converting; and oilfield service companies.
During the June 2015 quarter, Ashland entered into a definitive agreement to sell the industrial biocides assets within Specialty Ingredients. See Note B for information on the divestiture of these assets.
Subsequent to the sale of Elastomers on December 1, 2014, Performance Materials is comprised of two divisions: Composites and Intermediates/Solvents. Elastomers results were included in Performance Materials' results of operations within the Statements of Consolidated Comprehensive Income until its December 1, 2014 sale.
Performance Materials is the global leader in unsaturated polyester resins and vinyl ester resins. The 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; infrastructure engineers; wind blade and pipe manufacturers; automotive

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

NOTE O – REPORTABLE SEGMENT INFORMATION (continued)

and truck OEM suppliers; boatbuilders; adhesives, engineered plastics and electronic producers; and specialty chemical manufacturers.

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

Valvoline is a leading, worldwide producer and distributor of premium-branded automotive, commercial and industrial lubricants, 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℠ centers in the United States. It also markets Valvoline™ lubricants and automotive chemicals; MaxLife™ lubricants created for higher-mileage engines; NextGen™ motor oil, created with recycled, re-refined base oil; SynPower™ synthetic motor oil; and Zerex™ antifreeze. Key customers include: retail auto parts stores and mass merchandisers who sell to consumers; installers, such as car dealers, repair shops and quick lubes; commercial fleets; and distributors. During the June 2015 quarter, Ashland sold its Valvoline car care product assets, including Car Brite™ and Eagle One™ automotive appearance products, and sold its joint venture equity investment within Venezuela.

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

Reportable segment results

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

The following table presents various financial information for each reportable segment for the three and nine months ended June 30, 2015 and 2014.

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

NOTE O – REPORTABLE SEGMENT INFORMATION (continued)

	Three months ended June 30		Nine months ended June 30	
(In millions - unaudited)	2015	2014	2015	2014
SALES				
Specialty Ingredients	$579	$653	$1,722	$1,862
Performance Materials	278	420	902	1,199
Valvoline	510	532	1,483	1,522
	$1,367	$1,605	$4,107	$4,583
OPERATING INCOME (LOSS)				
Specialty Ingredients	$75	$80	$200	$192
Performance Materials	13	22	68	—
Valvoline	107	90	273	246
Unallocated and other (a)	1	(49)	18	(216)
	$196	$143	$559	$222

(a) As a result of the sale of Water Technologies on July 31, 2014, Unallocated and other is impacted by certain items related to discontinued operations accounting. For the three and nine months ended June 30, 2014, Unallocated and other includes $9 million and $28 million, respectively, of costs previously charged to the Water Technologies business for primarily indirect corporate cost allocations that U.S. GAAP provisions require to be included within continuing operations.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements including, without limitation, statements made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation" (MD&A), within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Ashland has identified some of these forward-looking statements with words such as "anticipates," "believes," "expects," "estimates," "is likely," "predicts," "projects," "forecasts," "may," "will," "should" and "intends" and the negative of these words or other com terminology. In addition, Ashland may from time to time make forward-looking statements in its annual report, quarterly reports and other filings with the Securities and Exchange Commission (SEC), news releases and other written and oral communications. These forward-looking statements are based on Ashland's expectations and assumptions, as of the date such statements are made, regarding Ashland's future operating performance and financial condition, the economy and other future events or circumstances. Ashland's expectations and assumptions include, without limitation, those mentioned within the MD&A, internal forecasts and analyses of current and future market conditions and trends, management plans and strategies, operating efficiencies and economic conditions (such as prices, supply and demand, cost of raw materials, and the ability to recover raw material cost increases through price increases), and risks and uncertainties associated with the following: Ashland's substantial indebtedness (including the possibility that such indebtedness and related restrictive covenants may adversely affect Ashland's future cash flows, results of operations, financial condition and its ability to repay debt), the impact of acquisitions and/or divestitures Ashland has made or may make (including the possibility that Ashland may not realize the anticipated benefits from such transactions), the global restructuring program (including the possibility that Ashland may not realize the anticipated revenue and earnings growth, cost reductions and other expected benefits from the program), Ashland's ability to generate sufficient cash to finance its stock repurchase plans, severe weather, natural disasters, and legal proceedings and claims (including environmental and asbestos matters). Various risks and uncertainties may cause actual results to differ materially from those stated, projected or implied by any forward-looking statements, including, without limitation, risks and uncertainties affecting Ashland that are contained in "Use of estimates, risks and uncertainties" in Note A of Notes to Consolidated Financial Statements and in Item 1A in its most recent Form 10-K filed with the SEC which is available on Ashland's website at http://investor.ashland.com or on the SEC's website at www.sec.gov. Ashland believes its expectations and assumptions are reasonable, but there can be no assurance that the expectations reflected herein will be achieved. Unless legally required, Ashland undertakes no obligation to update any forward-looking statements made in this Form 10-Q whether as a result of new information, future events or otherwise.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the accompanying Notes to Condensed Consolidated Financial Statements herein.

BUSINESS OVERVIEW

Ashland profile

Ashland is a leading, global specialty chemical company that provides products, services and solutions that meet customers' needs throughout a variety of industries. Ashland's chemistry is used in a wide variety of markets and applications, including architectural coatings, automotive, construction, energy, food and beverage, personal care and pharmaceutical. With approximately 10,000 employees worldwide, Ashland serves customers in more than 100 countries.

Ashland's sales generated outside of North America were 47% for the nine months ended June 30, 2015 and 2014. Sales by region expressed as a percentage of total consolidated sales for the three and nine months ended June 30 were as follows:

	Three months ended June 30				Nine months ended June 30			
Sales by Geography	2015		2014		2015		2014	
North America (a)	52	%	53	%	53	%	53	%
Europe	24	%	25	%	24	%	25	%
Asia Pacific	17	%	15	%	16	%	15	%
Latin America & other	7	%	7	%	7	%	7	%
	100	%	100	%	100	%	100	%

(a)Ashland includes only U.S. and Canada in its North America designation.

Reportable segments

Ashland's reporting structure is composed of three reportable segments: Ashland Specialty Ingredients (Specialty Ingredients), Ashland Performance Materials (Performance Materials) and Valvoline. For further descriptions of each reportable segment, see "Results of Operations – Reportable Segment Review" beginning on page 50.

The contribution to sales by each reportable segment expressed as a percentage of total consolidated sales for the three and nine months ended June 30 were as follows:

	Three months ended June 30				Nine months ended June 30			
Sales by Reportable Segment	2015		2014		2015		2014	
Specialty Ingredients	43	%	41	%	42	%	41	%
Performance Materials	20	%	26	%	22	%	26	%
Valvoline	37	%	33	%	36	%	33	%
	100	%	100	%	100	%	100	%

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KEY DEVELOPMENTS
The following recent transactions and operational decisions had an impact on Ashland's current and future cash flows, results of operations and financial position.
Financing activities
Senior notes refinancing and 2015 Senior Credit Agreement
During the June 2015 quarter, Ashland completed certain refinancing transactions related to the $600 million 3.000% senior notes due 2016 (2016 senior notes). Ashland commenced 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 the June 2015 quarter Ashland entered into a Credit Agreement (the 2015 Senior Credit Agreement), which replaced 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) and a five-year senior unsecured term loan facility in an aggregate principal amount of $1.1 billion (the term loan facility).
During the June 2015 quarter, 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 J of the Notes to Condensed Consolidated Financial Statements, 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, Ashland recognized an $8 million charge related to an early redemption premium payment, which is included in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income for the three and nine months ended June 30, 2015.
Ashland incurred $10 million of new debt issuance costs in connection with the 2015 Senior Credit Agreement, of which $3 million was recognized immediately within the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income for the three and nine months ended June 30, 2015. The remaining $7 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 $3 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 for the three and nine months ended June 30, 2015.
Stock repurchase programs
In April 2015, Ashland's Board of Directors approved a new $1 billion share repurchase authorization that will expire on December 31, 2017. This authorization allows for the same repurchase methods as the March 2014 repurchase program.
During the March 2014 quarter, the Board of Directors of Ashland authorized a $1.35 billion common stock repurchase program. Under this program, Ashland's common shares may be repurchased in open market transactions, privately negotiated transactions or pursuant to one or more accelerated stock repurchase programs or Rule 10b5-1 plans. Ashland completed this program during the current quarter, with delivery of the final shares occurring during July 2015. The following summarizes stock repurchase agreements that have been entered into as part of the $1.35 billion common stock repurchase program.

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

In total, Ashland has spent $1.35 billion in stock repurchase programs and has received approximately 11.8 million shares of common stock to date.

Divestitures

Industrial Biocides

During May 2015, Ashland entered into a definitive sale agreement to sell the industrial biocides assets within Specialty Ingredients, which closed on July 1, 2015. As a result of the sale, Ashland expects to report net cash proceeds of approximately $30 million in the Statement of Condensed Consolidated Cash Flows during the upcoming September 2015 quarter and recognize a nominal gain before tax and after customary closing costs.

The sale of Specialty Ingredient's industrial biocides assets did not qualify for discontinued operations treatment since it did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results.

Valvoline Car Care Products

In April 2015, Ashland entered into a definitive sale agreement to sell Valvoline's car care product assets for $24 million, which included Car Brite™ and Eagle One™ automotive appearance products. During the March 2015 quarter, Ashland recognized a loss of $26 million before tax to recognize the assets at fair value less cost to sell since the assets met the U.S. GAAP held for sale criteria at March 31, 2015. The loss is reported within the net gain (loss) on divestitures caption within the Statements of Consolidated Comprehensive Income. The transaction closed on June 30, 2015 and Ashland received net proceeds of $19 million after adjusting for certain customary closing costs and final working capital totals.

The sale of Valvoline's car care product assets did not qualify for discontinued operations treatment since it did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results.

Valvoline Joint Venture

During April 2015, Ashland sold a Valvoline joint venture equity investment in Venezuela. During the nine months ended June 30, 2015, Ashland recognized a $14 million impairment, for which there was no tax effect, within the equity and other income (loss) caption of the Statements of Consolidated Comprehensive Income.

Ashland’s decision to sell the equity investment and the resulting charge recorded in the prior quarter is reflective of the continued devaluation of the Venezuelan currency (bolivar) based on changes to the Venezuelan currency exchange rate mechanisms during the prior quarter. In addition, the continued lack of exchangeability between the Venezuelan bolivar and U.S. dollar had restricted the joint venture’s ability to pay dividends and obligations denominated in U.S. dollars. These exchange regulations and cash flow limitations, combined with other recent Venezuelan regulations and the impact of declining oil prices on the Venezuelan economy, had significantly restricted Ashland’s ability to conduct normal business operations through the joint venture

arrangement. Ashland determined this divestiture does not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results, and thus it does not qualify for discontinued operations treatment.

Elastomers

On October 9, 2014, Ashland entered into a definitive agreement to sell the Elastomers division of the Performance Materials reportable segment, which operates a 250-person manufacturing facility in Port Neches, Texas, to Lion Copolymer Holdings, LLC. The Elastomers division, which primarily serves the North American replacement tire market, accounted for approximately 5% of Ashland's 2014 sales of $6.1 billion and 18% of Ashland Performance Materials' $1.6 billion in sales in 2014. The sale was completed on December 1, 2014 in a transaction valued at approximately $120 million which was subject to working capital adjustments. The total post-closing adjusted cash proceeds received before taxes by Ashland during the current period was $109 million, which includes working capital adjustments and transaction costs, as defined in the definitive agreement.

Elastomers' net assets as of November 30, 2014 were $191 million which primarily included accounts receivable, inventory, property, plant and equipment, non-deductible goodwill and other intangibles and payables. Since the net proceeds received were less than book value, Ashland recorded a loss of $86 million pre-tax within the net gain (loss) on divestiture caption within the Statements of Consolidated Comprehensive Income for the nine months ended June 30, 2015. The related tax effect was a benefit of $28 million included in the income tax expense caption within the Statements of Consolidated Comprehensive Income.

Ashland determined that the sale of Elastomers did not represent a strategic shift that had or will have a major effect on Ashland's operations and financial results. As such, Elastomers' results were included in the Performance Materials reportable segment results of operations and financial position within the Statements of Consolidated Comprehensive Income and Condensed Consolidated Balance Sheets, respectively, until its December 1, 2014 sale.

Insurance settlement

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

As a result of this settlement, during the nine months ended June 30, 2015, Ashland recorded an after-tax gain of $120 million within the discontinued operations caption of the Statements of Consolidated Comprehensive Income and a $249 million reduction in the receivable balance, consisting of $227 million and $22 million for Ashland and Hercules, respectively, within the Condensed Consolidated Balance Sheets. See Note K of the Notes to Condensed Consolidated Financial Statements for further information.

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. These funds are presented primarily as noncurrent assets, with $30 million classified within other current assets in the Condensed Consolidated Balance Sheets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Pension plan settlement program

During the current quarter, Ashland began informing approximately 20,000 former employees, who are included in the approximately 53,000 participants within the primary U.S. pension plans, that Ashland is 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. Participants eligible for this program will have until August 2015 to make their election with the expected payout for those participants occurring in September 2015. Settlement payments are expected to be funded with pension plan assets.

During the June 2015 quarter, Ashland contributed $500 million to the U.S. pension plans impacted by the pension plan settlement program. Ashland expects to record an adjustment to income in the September 2015 quarter for settling these obligations. The actual amount of such charge will depend upon the number of eligible participants electing the lump sum payment or reduced annuity option, the actual return on plan assets, the discount rate and various actuarial assumptions.

Global restructuring

During 2014, in conjunction with the divestitures of Water Technologies and the Castings Solutions joint venture, Ashland announced a global restructuring program to streamline the resources used across the organization. As part of this global restructuring program, Ashland announced a voluntary severance offer (VSO) to certain U.S. employees. Approximately 400 employees were formally approved for the VSO. Additionally, during 2014, an involuntary program for employees was also initiated as part of the global restructuring program. The VSO and involuntary programs resulted in expense of $95 million being recognized during 2014.

The global restructuring program is expected to improve operational performance while recognizing significant annualized cost savings. Ashland's global restructuring program, which targeted $200 million in annualized run-rate cost savings, is substantially complete. See Note D of the Notes to Condensed Consolidated Financial Statements for further information.

Cash dividends

During the three months ended June 30, 2015, the Board of Directors of Ashland announced and paid a quarterly cash dividend of 39 cents per share to eligible shareholders of record. This was an increase from the quarterly dividends of 34 cents in the December 2014 and March 2015 quarters as well as each quarter of fiscal 2014.

RESULTS OF OPERATIONS – CONSOLIDATED REVIEW

Use of non-GAAP measures

Ashland has included within this document certain non-GAAP measures which include EBITDA (net income (loss), plus income tax expense (benefit), net interest and other financing expenses, and depreciation and amortization), Adjusted EBITDA (EBITDA adjusted for discontinued operations, other income and (expense) and key items, which may include pro forma effects for significant acquisitions or divestitures, as applicable) and Adjusted EBITDA margin (Adjusted EBITDA, which can include pro forma adjustments, divided by sales). Such measurements are not prepared in accordance with U.S. GAAP and as related to pro forma adjustments, contain Ashland's best estimates of cost allocations and shared resource costs. Management believes the use of non-GAAP measures on a consolidated and reportable segment basis assists investors in understanding the ongoing operating performance by presenting comparable financial results between periods. The non-GAAP information provided is used by Ashland management and may not be determined in a manner consistent with the methodologies used by other companies. EBITDA and Adjusted EBITDA provide a supplemental presentation of Ashland's operating performance on a consolidated and reportable

segment basis. Adjusted EBITDA generally includes adjustments for unusual, non-operational or restructuring-related activities. In addition, certain financial covenants related to Ashland's senior credit facility are based on similar non-GAAP measures and are defined further in the sections that reference this metric.

In accordance with U.S. GAAP, Ashland recognizes actuarial gains and losses for defined benefit pension and other postretirement benefit plans annually in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for a remeasurement during a fiscal year. Actuarial gains and losses occur when actual experience differs from the estimates used to allocate the change in value of pension and other postretirement benefit plans to expense throughout the year or when assumptions change, as they may each year. Significant factors that can contribute to the recognition of actuarial gains and losses include changes in discount rates used to remeasure pension and other postretirement obligations on an annual basis or upon a qualifying remeasurement, differences between actual and expected returns on plan assets and other changes in actuarial assumptions, such as the life expectancy of plan participants. Management believes Adjusted EBITDA, which includes the expected return on pension plan assets and excludes both the actual return on pension plan assets and the impact of actuarial gains and losses, provides investors with a meaningful supplemental presentation of Ashland's operating performance. Management believes these actuarial gains and losses are primarily financing activities that are more reflective of changes in current conditions in global financial markets (and in particular interest rates) that are not directly related to the underlying business and that do not have an immediate, corresponding impact on the compensation and benefits provided to eligible employees and retirees. For further information on the actuarial assumptions and plan assets referenced above, see MD&A - Critical Accounting Policies - Employee benefit obligations in the Annual Report on Form 10-K for the fiscal year ended September 30, 2014 and Note J of the Notes to Condensed Consolidated Financial Statements.

Ashland has included free cash flow as an additional non-GAAP metric of cash flow generation. Ashland believes free cash flow is relevant because capital expenditures are an important element of Ashland's ongoing cash activities. By deducting capital expenditures from operating cash flows, Ashland is able to provide a better indication of the ongoing cash being generated that is ultimately available for both debt and equity holders as well as other investment opportunities.

Consolidated review

Net income

Current Quarter - Ashland's net income amounted to $107 million and $99 million for the three months ended June 30, 2015 and 2014, respectively, or $1.56 and $1.25 diluted earnings per share, respectively. Ashland's net income is primarily affected by results within operating income, net interest and other financing expense, income taxes, discontinued operations and other significant events or transactions that are unusual or nonrecurring.

Income from continuing operations, which excludes results from discontinued operations, amounted to $115 million and $71 million for the three months ended June 30, 2015 and 2014, respectively, or $1.68 and $0.90 diluted earnings per share, respectively. Operating income was $196 million for the three months ended June 30, 2015 and $143 million for the three months ended June 30, 2014. See the "Operating income" discussion for an analysis of these results.

Ashland incurred pretax net interest and other financing expense of $54 million and $41 million for the three months ended June 30, 2015 and 2014, respectively. The increase in the current quarter is due to the premium payment of $8 million for the early redemption of the 2016 senior notes , $3 million of accelerated amortization related to previously capitalized debt issuance costs, and $3 million of new debt issuance costs recognized immediately in June 2015. For further information on items reported within this caption, see the net interest and other financing expense caption discussion in the comparative Statements of Consolidated Comprehensive

Income caption review analysis as well as the "Key Developments" section of Management's Discussion and Analysis herein.

The effective income tax expense rates of 19% and 28% for the three months ended June 30, 2015 and 2014, respectively, were both affected by certain discrete items disclosed in further detail within the income tax expense caption discussion in the comparative Statements of Consolidated Comprehensive Income caption review analysis.

Discontinued operations, which are reported net of taxes, resulted in a loss of $8 million and income of $28 million for the three months ended June 30, 2015 and 2014, respectively. For further information on items reported within this caption, see the discontinued operations caption discussion in the comparative Statements of Consolidated Comprehensive Income caption review analysis.

Year-to-Date - Ashland's net income amounted to $363 million and $165 million for the nine months ended June 30, 2015 and 2014, respectively, or $5.24 and $2.09 diluted earnings per share, respectively. Ashland's net income is primarily affected by results within operating income, net interest and other financing expense, income taxes, discontinued operations and other significant events or transactions that are unusual or nonrecurring.

Income from continuing operations, which excludes results from discontinued operations, amounted to $250 million and $98 million for the nine months ended June 30, 2015 and 2014, respectively, or $3.61 and $1.24 diluted earnings per share, respectively. Operating income was $559 million and $222 million for the nine months ended June 30, 2015 and 2014, respectively. See the "Operating income" discussion for an analysis of these results.

Ashland incurred pretax net interest and other financing expense of $136 million and $124 million for the nine months ended June 30, 2015 and 2014, respectively. The increase in the current period is due to the premium payment of $8 million for the early redemption of the 2016 senior notes, $3 million of previously capitalized debt issuance costs, and $3 million of new debt issuance costs recognized immediately in June 2015. For further information on items reported within this caption, see the net interest and other financing expense caption discussion in the comparative Statements of Consolidated Comprehensive Income caption review analysis as well as the "Key Developments" section of Management's Discussion and Analysis herein.

The effective income tax expense rates of 18% and 3% for the nine months ended June 30, 2015 and 2014, respectively, were both affected by certain discrete items disclosed in further detail within the income tax expense caption discussion in the comparative Statements of Consolidated Comprehensive Income caption review analysis.

Discontinued operations, which are reported net of taxes, resulted in income of $113 million and $67 million for the nine months ended June 30, 2015 and 2014, respectively. For further information on items reported within this caption, see the discontinued operations caption discussion in the comparative Statements of Consolidated Comprehensive Income caption review analysis.

Operating income

Current Quarter - Operating income amounted to $196 million and $143 million for the three months ended June 30, 2015 and 2014, respectively. The current and prior year quarters' operating income include certain key items that are excluded to arrive at Adjusted EBITDA. These key items are summarized as follows:

- $16 million during the three months ended June 30, 2014 of key items related to pension and other postretirement plan remeasurement losses;
- $31 million, which included $9 million of accelerated depreciation, during the three months ended June 30, 2014 of global restructuring program costs;

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MANAGEMENT'S DISCUSSION AND ANALYSIS

- $2 million of accelerated depreciation related to a manufacturing facility during the three months ended June 30, 2015;
- a $9 million and $13 million environmental reserve charge related to previously divested businesses during the three months ended June 30, 2015 and 2014, respectively;
- a $5 million charge related to a foreign tax indemnification receivable adjustment during the three months ended June 30, 2014; and
- a $4 million impairment related to the ASK joint venture equity investment during the three months ended June 30, 2014.

Operating income for the three months ended June 30, 2015 and 2014 included depreciation and amortization of $83 million and $89 million, respectively (which excluded accelerated depreciation of $2 million and $9 million for the three months ended June 30, 2015 and 2014, respectively). EBITDA totaled $271 million and $257 million for the three months ended June 30, 2015 and 2014, respectively. Adjusted EBITDA results in the table below have been prepared to illustrate the ongoing effects of Ashland's operations, which exclude certain key items.

	Three months ended June 30	
(In millions)	2015	2014
Net income	$107	$99
Income tax expense	27	28
Net interest and other financing expense	54	41
Depreciation and amortization (a)	83	89
EBITDA	271	257
Loss (income) from discontinued operations (net of tax)	8	(28)
Losses on pension and other postretirement plan remeasurements	—	16
Restructuring and other costs	—	22
Environmental reserve adjustment	9	13
Foreign tax indemnification receivable adjustment	—	5
Impairment of equity investment	—	4
Accelerated depreciation	2	9
Adjusted EBITDA	$290	$298

(a) Excludes $2 million and $9 million of accelerated depreciation for the three months ended June 30, 2015 and 2014, respectively.

Year-to-Date - Operating income amounted to $559 million and $222 million for the nine months ended June 30, 2015 and 2014, respectively. The current and prior year periods' operating income included certain key items that are excluded to arrive at Adjusted EBITDA. In addition to the key items within the the current and prior year quarters previously discussed, the following are also excluded on a year-to-date basis:

- $9 million and $121 million during the nine months ended June 30, 2015 and 2014, respectively, of key items related to pension and other postretirement plan remeasurement losses;
- $118 million, which included $16 million of accelerated depreciation, during the nine months ended June 30, 2014 of global restructuring program costs;
- $16 million of severance and other costs and $4 million of accelerated depreciation relating to a manufacturing facility, and $1 million of global restructuring program costs during the nine months ended June 30, 2015;

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- a $14 million impairment related to the Valvoline joint venture equity investment within Venezuela during the nine months ended June 30, 2015, and a $50 million impairment related to the ASK joint venture equity investment during the nine months ended June 30, 2014;
- $16 million of tax indemnity income during the nine months ended June 30, 2015;
- a $9 million impairment related to certain in-process research and development (IPR&D) assets associated with the acquisition of International Specialty Products Inc. (ISP) during the nine months ended June 30, 2014; and
- a $7 million charge for a stock incentive plan award modification for the nine months ended June 30, 2015.

Operating income for the nine months ended June 30, 2015 and 2014 each included depreciation and amortization of $251 million and $265 million, respectively (which excluded accelerated depreciation of $4 million and $16 million for the nine months ended June 30, 2015 and 2014, respectively). EBITDA totaled $805 million and $557 million for the nine months ended June 30, 2015 and 2014, respectively. Adjusted EBITDA results in the table below have been prepared to illustrate the ongoing effects of Ashland's operations, which exclude certain key items.

	Nine months ended June 30	
(In millions)	2015	2014
Net income	$363	$165
Income tax expense	55	3
Net interest and other financing expense	136	124
Depreciation and amortization (a)	251	265
EBITDA	805	557
Income from discontinued operations (net of tax)	(113)	(67)
Net loss on divestitures	118	—
Losses on pension and other postretirement plan remeasurements	9	121
Restructuring and other costs	17	102
Impairment of equity investments	14	50
Tax indemnity income	(16)	—
Environmental reserve adjustments	9	13
Accelerated depreciation	4	16
Stock incentive award modification	7	—
Impairment of IPR&D assets	—	9
Foreign tax indemnification receivable adjustment	—	5
Adjusted EBITDA	$854	$806

(a) Excludes $4 million and $16 million of accelerated depreciation for the nine months ended June 30, 2015 and 2014, respectively.

Statements of Consolidated Comprehensive Income – caption review

A comparative analysis of the Statements of Consolidated Comprehensive Income by caption is provided as follows for the three and nine months ended June 30, 2015 and 2014.

	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Sales	$1,367	$1,605	$(238)	$4,107	$4,583	$(476)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Current Quarter - Sales for the current quarter decreased $238 million compared to the prior year quarter. Unfavorable foreign currency exchange, primarily due to the U.S. dollar strengthening compared to various foreign currencies, and the divestiture of Elastomers on December 1, 2014 decreased sales by $84 million, or 5%, and $78 million, or 5%, respectively. Pricing declines also decreased sales by $47 million, or 3%, while volume and change in product mix combined to decrease sales by $29 million, or 2%.
Year-to-Date - Sales for the current period decreased $476 million compared to the prior year period. Unfavorable foreign currency exchange and the divestiture of Elastomers on December 1, 2014 decreased sales by $187 million, or 4%, and $170 million, or 4%, respectively. Pricing declines also decreased sales by $98 million, or 2%, while volume and change in product mix combined to decrease sales by $21 million.

	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Cost of sales	$939	$1,161	$(222)	$2,845	$3,377	$(532)
Gross profit as a percent of sales	31.3%	27.7%		30.7%	26.3%	

Fluctuations in cost of sales are driven primarily by raw material prices, volume and changes in product mix, currency exchange, net losses or gains on pension and other postretirement benefit plan remeasurements, and other certain charges incurred as a result of changes or events within the businesses or restructuring activities. The following table provides a quantified reconciliation of the changes in cost of sales between the three and nine months ended June 30, 2015 and 2014.

(In millions)	Three months ended June 30, 2015	Nine months ended June 30, 2015
Changes in:		
Production costs	$(69)	$(182)
Volumes and product mix	(19)	(33)
Divestitures	(66)	(144)
Currency exchange	(59)	(128)
Losses on pension plan remeasurements	(2)	(36)
Severance and other costs	—	3
Accelerated depreciation	(7)	(12)
Change in cost of sales	$(222)	$(532)

Current Quarter - Cost of sales for the current quarter decreased $222 million compared to the prior year quarter due to lower production costs which decreased cost of sales by $69 million, or 6%. The Elastomers divestiture and foreign currency exchange decreased cost of sales by $66 million, or 6%, and $59 million, or 5%, respectively. Volumes and changes in product mix combined decreased cost of sales by $19 million, or 2%.
Additionally, cost of sales for the prior year quarter included $2 million of key items related to pension and other postretirement plan remeasurement losses and $9 million of accelerated depreciation associated with plant closures. The current quarter also included $2 million of accelerated depreciation relating to a manufacturing facility within the Specialty Ingredients reportable segment.
Year-to-Date - Cost of sales for the current period decreased $532 million compared to the prior year period primarily due to lower production costs which decreased cost of sales by $182 million, or 5%. The Elastomers divestiture and foreign currency exchange decreased cost of sales by $144 million, or 4%, and $128 million, or 4%, respectively. Volumes and changes in product mix combined decreased cost of sales by $33 million, or 1%. The current and prior year periods also included $4 million and $40 million, respectively, of key items related to the pension and other postretirement plan remeasurement net losses. The current period also included $16 million of severance and $4 million of accelerated depreciation relating to a manufacturing facility within

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the Specialty Ingredients reportable segment. Cost of sales for the prior year period included $29 million of costs associated with plant closures, including $13 million of severance and $16 million of accelerated depreciation.

	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Selling, general and administrative expense	$216	$286	$(70)	$645	$891	$(246)
As a percent of sales	15.8%	17.8%		15.7%	19.4%	

Current Quarter - Selling, general and administrative expenses for the current quarter decreased $70 million compared to the prior year quarter, and expenses as a percent of sales decreased 2.0 percentage points. The prior year quarter included expense of $22 million for the global restructuring costs, including severance and other restructuring charges, while the current quarter included $28 million of cost savings from the global restructuring program. In addition, expenses for the current quarter included a foreign currency exchange decline of $12 million, partially offset by $9 million in environmental expenses. Expenses in the prior year quarter included $14 million of key items related to the pension and other postretirement plan remeasurement net losses, expense of $13 million for environmental reserve adjustments and $5 million related to a foreign tax indemnification receivable adjustment associated with ISP.
Year-to-Date - Selling, general and administrative expenses for the current period decreased $246 million compared to the prior year period, and expenses as a percent of sales decreased 3.7 percentage points. There was an $88 million decrease in global restructuring costs incurred during the prior year period to the current period. In addition, savings from the global restructuring program that was initiated during the prior year period decreased expense by $82 million. Foreign currency exchange caused a $26 million decline in costs during the current period while tax indemnification income of $16 million also decreased current period costs. These reductions in expense were partially offset by increases of $12 million in employee related costs, primarily within salary and other benefit costs, and $7 million related to a stock incentive award modification. In addition, expenses in the current period decreased by $76 million related to the change in key items for the pension and other postretirement plan remeasurement losses of $5 million in the current period and $81 million in the prior year period.

	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Research and development expense	$24	$23	$1	$74	$87	$(13)

Current Quarter - Research and development expense remained relatively consistent with the prior year quarter.
Year-to-Date - Research and development expense decreased $13 million compared to the prior year period as the prior year period included impairment charges of $9 million related to certain IPR&D assets associated with the acquisition of ISP. The remaining decrease is primarily due to favorable foreign currency exchange within the Specialty Ingredients reportable segment.

	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Equity and other income (loss)						
Equity income (loss)	$4	$4	$—	$(2)	$(28)	$26
Other income	4	4	—	18	22	(4)
	$8	$8	$—	$16	$(6)	$22

Current Quarter - Equity and other income remained consistent with the prior year quarter. The prior year quarter included a $4 million impairment within the ASK joint venture equity investment in the Performance Materials reportable segment as a result of the sale of the joint venture in June 2014. This impairment was more than offset by equity income earned from this joint venture and another joint venture within the Valvoline reportable segment in the prior year quarter.

Year-to-Date - Equity loss in the prior year period included a $50 million impairment within the ASK joint venture equity investment, partially offset by $10 million of equity income earned from the ASK joint venture prior to its divestiture in June 2014. The current period included a $14 million impairment of a Venezuelan joint venture equity investment within the Valvoline reportable segment. Other income in the prior year period included $6 million from a favorable arbitration ruling on a commercial contract within the Valvoline reportable segment.

	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Net interest and other financing expense (income)						
Interest expense	$47	$41	$6	$128	$123	$5
Interest income	(2)	(2)	—	(5)	(5)	—
Available-for-sale securities income	(1)	—	(1)	(1)	—	(1)
Other financing costs	10	2	8	14	6	8
	$54	$41	$13	$136	$124	$12

Current Quarter - Interest expense in the current quarter included accelerated amortization of $3 million for previously capitalized debt issuance costs and $3 million of new debt issuance costs recognized immediately. Other financing costs included an $8 million charge related to the early redemption premium payment for the tender of the 2016 senior notes. The available-for-sale securities income of $1 million represents investment income related to the restricted investments discussed in Note E of the Notes to Condensed Consolidated Financial Statements.

Year-to-Date - Excluding the charges related to the current quarter debt refinancing previously discussed and the available-for-sale securities income, net interest and other financing expense remained consistent compared to the prior year period.

	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Net gain (loss) on divestitures						
Valvoline car care products	$—	$—	$—	$(26)	$—	$(26)
Elastomers	—	—	—	(86)	—	(86)
MAP Transaction adjustments	—	(3)	3	(6)	3	(9)
	$—	$(3)	$3	$(118)	$3	$(121)

Current Quarter - The prior year quarter loss on divestitures relates to subsequent adjustments related to the 2005 transfer of Ashland's 38% interest in the Marathon Ashland Petroleum joint venture and two other small businesses to Marathon Oil Corporation (Marathon) (the MAP Transaction). This loss resulted from subsequent tax adjustments related to the MAP transaction for certain state tax attributes.

Year-to-Date - The current period loss includes the pre-tax loss on sale related to Elastomers of $86 million, the $26 million impairment for the Valvoline car care product assets, and the $6 million reduction of the MAP Transaction receivable primarily due to the January 2015 asbestos insurance settlement. The prior year period gain resulted from the receipt of a tax credit reimbursement related to the MAP Transaction.

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	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Income tax expense	$27	$28	$(1)	$55	$3	$52
Effective tax rate	19.0 %	28.3 %		18.0 %	3.0 %	

Current Quarter - The overall effective tax rate was 19% for the three months ended June 30, 2015. The tax rate was impacted by net favorable tax discrete items of $7 million, primarily related to recording return to provision adjustments for foreign and domestic entities. These favorable discrete adjustments were partially offset by an accrual for an unrecognized tax benefit.

The overall effective tax rate was 28% for the three months ended June 30, 2014. The tax rate was impacted by net unfavorable tax discrete items of $9 million, primarily related to recognition of outside tax basis for the Water Technologies business.

Year-to-Date - The overall effective tax rate was 18% for the nine months ended June 30, 2015. The tax rate was impacted by net favorable tax discrete items of $10 million, primarily related to recording return to provision adjustments for foreign and domestic entities and release of a valuation reserve on certain deferred taxes. These favorable discrete adjustments were partially offset by an accrual for an unrecognized tax benefit.

The overall effective tax rate was 3% for the nine months ended June 30, 2014. The rate was impacted by net charges for tax discrete items of $11 million, which consisted of $15 million in a foreign income tax rate change and other divestiture-related deferred tax adjustments, partially offset by $11 million for the reversal of unrecognized tax benefits and by $2 million primarily related to the release of a foreign valuation allowance and certain non-taxable pretax income amounts as well as the $9 million unfavorable tax discrete item referenced in the quarter.

	Three months ended June 30			Nine months ended June 30		
(In millions)	2015	2014	Change	2015	2014	Change
Income (loss) from discontinued operations (net of tax)						
Asbestos-related litigation	$(10)	$(3)	$(7)	$110	$(4)	$114
Water Technologies	2	33	(31)	3	74	(71)
Distribution	—	(2)	2	—	(3)	3
	$(8)	$28	$(36)	$113	$67	$46

Current Quarter - The current and prior year quarter included after-tax net adjustments to the asbestos reserves and receivables of $10 million and $3 million of expense, respectively, including the adjustments for the annual update as well as a deferred tax adjustment in the current quarter.

The prior year quarter results include Water Technologies' operating results. As a result of the Water Technologies divestiture and in accordance with the U.S. GAAP provisions, the operating results related to Water Technologies have been reflected as discontinued operations (net of tax) within the Statements of Consolidated Comprehensive Income for the prior year quarter. Water Technologies' sales for the prior year quarter included in discontinued operations were $441 million. Gross profit margin was 34.6% and pre-tax income totaled $46 million during the prior year quarter.

For discontinued operations reporting purposes, certain indirect corporate costs of $9 million previously allocated to Water Technologies were reclassified and allocated to the Unallocated and other segment in the prior year quarter. Additionally, the reported results during the prior year quarter included $4 million of pension plan remeasurement net losses as discussed in Note J of the Notes to the Condensed Consolidated Financial Statements.

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Year-to-Date - The current period included an after-tax gain of $120 million related to January 2015 asbestos insurance settlement partially offset by after-tax net expense adjustments to the asbestos reserves and receivables, including the adjustments for the annual update as well as a deferred tax adjustment. The current period Water Technologies' activity relates to post-closing adjustments as defined by the definitive agreement, including income of $5 million related to a foreign pension plan remeasurement discussed in Note J of the Notes to the Condensed Consolidated Financial Statements.

The prior year period results include three quarters of Water Technologies operating results, as well as net adjustments to the asbestos reserve and receivables of $4 million in expense. Water Technologies' sales for the prior year period included in discontinued operations were $1,308 million. Gross profit margin was 34.2% and pre-tax income totaled $101 million during the prior year period.

The reported results for Water Technologies in the prior year period included $29 million from depreciation and amortization that was recorded before the announced definitive agreement. After the definitive agreement was announced, depreciation and amortization was no longer recorded. For discontinued operations reporting purposes, certain indirect corporate costs of $28 million previously allocated to Water Technologies were reclassified and allocated to the Unallocated and other segment in the prior year period. Additionally, the reported results for the prior year period included $23 million of pension plan remeasurement net losses as discussed in Note J of the Notes to the Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS – REPORTABLE SEGMENT REVIEW

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.

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

The EBITDA and Adjusted EBITDA amounts presented within this business section are provided as a means to enhance the understanding of financial measurements that Ashland has internally determined to be relevant measures of comparison for each segment. Each of these non-GAAP measures is defined as follows: EBITDA (operating income (loss) plus depreciation and amortization), Adjusted EBITDA (EBITDA adjusted for key items, which may include pro forma effects for significant acquisitions or divestitures, as applicable), and Adjusted EBITDA margin (Adjusted EBITDA, which may include pro forma adjustments, divided by sales or sales adjusted for pro forma results). Ashland does not allocate items to each reportable segment below operating income, such as interest expense and income taxes. As a result, reportable segment EBITDA and Adjusted EBITDA are reconciled directly to operating income since it is the most directly comparable Statements of Consolidated Comprehensive Income caption.

The following table discloses sales, operating income (loss), depreciation and amortization and statistical operating information by reportable segment for the three and nine months ended June 30, 2015 and 2014.

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	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Sales				
Specialty Ingredients	$579	$653	$1,722	$1,862
Performance Materials	278	420	902	1,199
Valvoline	510	532	1,483	1,522
	$1,367	$1,605	$4,107	$4,583
Operating income (loss)				
Specialty Ingredients	$75	$80	$200	$192
Performance Materials	13	22	68	—
Valvoline	107	90	273	246
Unallocated and other	1	(49)	18	(216)
	$196	$143	$559	$222
Depreciation and amortization				
Specialty Ingredients	$62	$61	$183	$180
Performance Materials	14	27	44	71
Valvoline	9	9	28	27
Unallocated and other	—	1	—	3
	$85	$98	$255	$281
Operating information				
Specialty Ingredients				
Sales per shipping day	$9.0	$10.2	$9.1	$9.9
Metric tons sold (thousands)	83.6	95.0	246.2	264.1
Gross profit as a percent of sales (a)	32.8%	31.5%	32.4%	31.7%
Performance Materials				
Sales per shipping day	$4.3	$6.6	$4.8	$6.3
Metric tons sold (thousands)	118.2	154.7	366.0	446.0
Gross profit as a percent of sales (a)	16.2%	14.9%	18.6%	13.0%
Valvoline				
Lubricant sales gallons	44.4	42.8	123.9	121.1
Premium lubricants (percent of U.S. branded volumes)	40.8%	37.8%	40.0%	36.9%
Gross profit as a percent of sales (a)	37.0%	32.7%	35.5%	32.0%

(a) Gross profit is defined as sales, less cost of sales divided by sales.

Specialty Ingredients

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

During the June 2015 quarter, Ashland entered into a definitive sale agreement to sell the industrial biocides assets within Specialty Ingredients. The transaction closed on July 1, 2015. For additional information on the divestiture of the industrial biocides assets, see the "Key Developments" section of Management's Discussion and Analysis herein.

June 2015 quarter compared to June 2014 quarter

Specialty Ingredients' sales decreased $74 million to $579 million in the current quarter. Excluding the effect of the energy market, sales decreased by $45 million, with unfavorable foreign currency exchange decreasing sales by $34 million due to the U.S. dollar strengthening compared to various foreign currencies. Pricing declines decreased sales by $8 million, while volume and changes in product mix decreased sales by $3 million. Sales in the energy market decreased $29 million compared to prior year quarter.

Gross profit during the current quarter decreased $16 million compared to the prior year quarter. The current quarter included $2 million of accelerated depreciation relating to a manufacturing facility restructuring plan. The energy market gross profit, driven primarily by lower volumes, decreased compared to the prior year quarter by $10 million. Excluding the energy market and accelerated depreciation costs previously discussed, gross profit decreased by $4 million compared to the prior year quarter, with unfavorable currency exchange decreasing gross profit by $16 million. Lower raw material costs, partially offset by pricing declines, increased gross profit by $9 million, while volume and change in product mix combined to increase gross profit by $3 million. In total, gross profit margin during the current quarter increased 1.3 percentage points to 32.8% compared to the prior year quarter.

Selling, general and administrative expenses (which include research and development expenses throughout the reportable segment discussion and analysis) decreased $10 million in the current quarter as compared to the prior year quarter. The decrease was primarily due to $16 million of expense savings realized from the 2014 global restructuring program and a favorable foreign currency exchange of $7 million, partially offset by an $11 million increase in allocated resource costs. Equity and other income (loss) increased $1 million compared to the prior year quarter due to an increase in income from a joint venture investment.

Operating income totaled $75 million for the current quarter compared to $80 million in the prior year quarter. EBITDA decreased $6 million to $135 million in the current quarter, while Adjusted EBITDA decreased $5 million to $137 million in the current quarter. Adjusted EBITDA margin increased 2.0 percentage points in the current quarter to 23.7%.

Fiscal 2015 year-to-date compared to fiscal 2014 year-to-date

Specialty Ingredients' sales decreased $140 million to $1,722 million in the current year. Excluding the effect of the energy market, sales decreased by $72 million, with unfavorable foreign currency exchange decreasing sales by $77 million due to the U.S. dollar strengthening compared to various foreign currencies. Pricing declines of $14 million also decreased sales. These decreases were partially offset by volume and changes in product mix that combined to increase sales by $19 million. The energy market decreased $68 million compared to the prior year period, primarily due to lower volume, in part due to the exit of the straight guar powder market.

Gross profit during the current period decreased $32 million compared to the prior year period. The current period includes $16 million of severance and other costs and $4 million of accelerated depreciation relating to a manufacturing facility restructuring plan. The energy market gross profit decreased $10 million compared to the prior year period primarily driven by lower volumes. Excluding the energy market and the restructuring costs noted previously, gross profit decreased $2 million versus the prior year period. Unfavorable foreign currency exchange decreased gross profit by $37 million. Lower raw material costs, partially offset by pricing declines, increased gross profit by $22 million, while volume and change in product mix combined to increase gross profit by $13 million. In total, gross profit margin during the current period increased 0.7 percentage points to 32.4% compared to the prior year period.

Selling, general and administrative expenses decreased $40 million in the current period as compared to the prior year period. The prior period included a $9 million research and development impairment related to certain IPR&D assets associated with the acquisition of ISP. The remainder of the decrease was primarily due

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to $50 million of expense savings realized from the 2014 global restructuring program and a favorable foreign currency exchange of $15 million, partially offset by a $26 million increase in allocated resource costs. Equity and other income remained consistent with the prior year period.

Operating income totaled $200 million for the current period compared to $192 million in the prior year period. EBITDA increased $7 million to $379 million in the current period, while Adjusted EBITDA increased $17 million to $399 million in the current period. Adjusted EBITDA margin increased 2.7 percentage points in the current period to 23.2%.

EBITDA and Adjusted EBITDA reconciliation

The following EBITDA presentation for the three and nine months ended June 30, 2015 and 2014 below is provided as a means to enhance the understanding of financial measurements that Ashland has internally determined to be relevant measures of comparison for the results of Specialty Ingredients. Adjusted EBITDA results have been prepared to illustrate the ongoing effects of Ashland's operations, which exclude certain key items. The $16 million of severance and other costs and $4 million of accelerated depreciation relates to a manufacturing facility restructuring plan during the current period, with $2 million of accelerated depreciation during the current quarter. The $9 million adjustment in the prior year period relates to an impairment related to certain IPR&D assets associated with the acquisition of ISP. The $1 million environmental charge in the prior year quarter relates to a site associated with the acquisition of ISP.

	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Operating income	$75	$80	$200	$192
Depreciation and amortization (a)	60	61	179	180
EBITDA	135	141	379	372
Severance and other costs	—	—	16	—
Environmental reserve adjustment	—	1	—	1
Accelerated depreciation	2	—	4	—
Impairment of IPR&D assets	—	—	—	9
Adjusted EBITDA	$137	$142	$399	$382

(a) Excludes $2 million and $4 million of accelerated depreciation for the three and nine ended June 30, 2015, respectively.

Performance Materials

Performance Materials is the 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; infrastructure engineers; wind blade and pipe manufacturers; automotive and truck OEM suppliers; boatbuilders; adhesives, engineered plastics and electronic producers; and specialty chemical manufacturers.

Subsequent to the sale of Elastomers on December 1, 2014, Performance Materials is comprised of two divisions: Composites and Intermediates/Solvents. The Elastomers division, which primarily served the North American replacement tire market, accounted for approximately 18% of Ashland Performance Materials' $1.6 billion in sales in 2014 and operated a 250-person manufacturing facility in Port Neches, Texas. Elastomers results were included in the Performance Materials reportable segment results of operations within the Statements of Consolidated Comprehensive Income until its December 1, 2014 sale.

In addition, prior to the sale on June 30, 2014, the Performance Materials business unit also provided metal casting consumables and design services for effective foundry management through its 50% ownership in the ASK Chemicals GmbH joint venture.

For additional information on the divestiture of the Elastomers division, see the "Key Developments" section of Management's Discussion and Analysis herein.

June 2015 quarter compared to June 2014 quarter

Performance Materials' sales decreased $142 million to $278 million in the current quarter. The divestiture of the Elastomers division decreased sales by $78 million, or 19%. Unfavorable foreign currency exchange and lower product pricing within both Composites and Intermediates/Solvents divisions decreased sales by $29 million, or 7%, and $23 million, or 5%, respectively. Unfavorable foreign currency exchange was due to the U.S. dollar strengthening compared to various foreign currencies, primarily the Euro rate during the current quarter. Changes in product mix and volume decreased sales by $7 million and $5 million, respectively.

Gross profit decreased $18 million in the current quarter compared to the prior year quarter, which included $9 million of accelerated depreciation associated with plant closures and Elastomers' gross profit of $12 million. The current quarter was negatively impacted by the plant maintenance shutdowns at both Intermediates/Solvents manufacturing facilities, which resulted in a $14 million decrease in gross profit. Excluding the impact of these shutdowns, lower input costs, partially offset by pricing declines, increased gross profit by $11 million. Changes in product mix and unfavorable foreign currency exchange also decreased gross profit by $9 million and $3 million, respectively. In total, gross profit margin increased 1.3 percentage points to 16.2%, as compared to the prior year quarter.

Selling, general and administrative expenses decreased $8 million during the current quarter compared to the prior year quarter, primarily due to the sale of the Elastomers division, which included $6 million of costs in the prior year quarter as well as a decline in incentive compensation expense and a favorable foreign currency exchange.

Equity and other income increased $1 million compared to the prior year quarter primarily due to the $4 million impairment for the ASK joint venture equity investment in the prior year quarter, partially offset by a $3 million decrease due to the loss of ASK equity income from the sale of the joint venture in June 2014.

Operating income totaled $13 million in the current year compared to income of $22 million in the prior year quarter. EBITDA decreased $13 million to $27 million in the current quarter, while Adjusted EBITDA decreased $26 million to $27 million in the current quarter. Adjusted EBITDA margin decreased 2.9 percentage points in the current quarter to 9.7%.

Fiscal 2015 year-to-date compared to fiscal 2014 year-to-date

Performance Materials' sales decreased $297 million in the current period to $902 million. The divestiture of the Elastomers division decreased sales $170 million, or 14%. Unfavorable foreign currency exchange and lower product pricing within both Composites and Intermediates/Solvents divisions decreased sales by $64 million, or 5%, and $57 million, or 5%, respectively. Lower volume also decreased sales by $6 million.

Gross profit increased $12 million in the current period compared to the prior year period. The prior year period included $29 million of costs associated with plant closures as well as $26 million of Elastomers' gross profit. As noted in the quarterly review analysis, the current period was negatively impacted by plant maintenance shutdowns at both Intermediates/Solvents manufacturing facilities, which resulted in a $14 million decrease in gross profit. Excluding the impact of these shutdowns, lower input costs, partially offset by pricing declines, combined to increase gross profit by $35 million. Unfavorable foreign currency exchange and changes in volume and product mix combined to decrease gross profit by $10 million and $2 million, respectively. In total, gross profit margin increased 5.6 percentage points to 18.6%, as compared to the prior year period.

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Selling, general and administrative expenses decreased $16 million during the current period compared to the prior year period, primarily due to the sale of the Elastomers division, which included $13 million of costs in the prior year period as well as decline in allocated resource costs and a favorable foreign currency exchange.
Equity and other income (loss) increased $40 million in the current period compared to the prior year period. This increase was primarily due to the $50 million impairment for the ASK joint venture equity investment in the prior year period, partially offset by a $10 million decrease due to the loss of ASK equity income in the current period as a result of its June 2014 sale.
Operating income totaled income of $68 million in the current period compared to zero in the prior year period.
EBITDA increased $57 million to $112 million in the current period, while Adjusted EBITDA decreased $22 million to $112 million in the current period. Adjusted EBITDA margin increased 1.2 percentage points in the current period to 12.4%.
EBITDA and Adjusted EBITDA reconciliation
The following EBITDA presentation for the three and nine months ended June 30, 2015 and 2014 below is provided as a means to enhance the understanding of financial measurements that Ashland has internally determined to be relevant measures of comparison for the results of Performance Materials. Adjusted EBITDA results have been prepared to illustrate the ongoing effects of Ashland's operations, which exclude certain key items. The $4 million and $50 million impairment of the ASK joint venture equity investment are included in the prior year quarter and period adjustments, respectively. Plant closure costs included severance of $13 million in the prior year period and accelerated depreciation of $9 million and $16 million for the prior year quarter and period, respectively. There were no unusual or key items that affected comparability for EBITDA in the current quarter or period.

	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Operating income	$13	$22	$68	$—
Depreciation and amortization (a)	14	18	44	55
EBITDA	27	40	112	55
Impairment of ASK joint venture	—	4	—	50
Severance	—	—	—	13
Accelerated depreciation	—	9	—	16
Adjusted EBITDA	$27	$53	$112	$134

(a) Excludes $9 million and $16 million of accelerated depreciation for the three and nine months ended June 30, 2014, respectively.

Valvoline
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[SM] centers in the United States. It also markets Valvoline™ lubricants and automotive chemicals; MaxLife™ lubricants created for higher-mileage engines; NextGen™ motor oil, created with 50-percent recycled, re-refined oil; SynPower™ synthetic motor oil; and Zerex™ antifreeze. Key customers include: retail auto parts stores and mass merchandisers who sell to consumers; installers, such as car dealers, repair shops and quick lubes; commercial fleets; and distributors.
During the June 2015 quarter, Ashland sold its Valvoline car care product assets, which included Car Brite™ and Eagle One™ automotive appearance products, and sold its joint venture equity investment within

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Venezuela. For additional information on the divestitures, see the "Key Developments" section of Management's Discussion and Analysis herein.

June 2015 quarter compared to June 2014 quarter

Valvoline's sales decreased $22 million to $510 million in the current quarter. Unfavorable foreign currency exchange and lower product pricing decreased sales by $20 million, or 4%, and $15 million, or 3%, respectively. Unfavorable foreign currency exchange was due to the U.S. dollar strengthening compared to various foreign currencies, primarily the Euro and Australian dollar. Higher volume levels and changes in product mix increased sales by $8 million, or 2%, and $5 million, or 1%, respectively.

Gross profit increased $15 million during the current quarter compared to the prior year quarter. Lower raw material costs, partially offset by lower product pricing, increased gross profit by $17 million. Changes in volume and product mix combined to increase gross profit by $4 million, while unfavorable foreign currency exchange decreased gross profit by $6 million. In total, gross profit margin increased 4.3 percentage points to 37.0%.

Selling, general and administrative expenses decreased $4 million during the current quarter as compared to the prior year quarter, primarily driven by $8 million of expense savings from the 2014 global restructuring and a favorable foreign currency exchange of $3 million. These decreases were partially offset by increases in employee and allocated resource costs of $6 million. Equity and other income decreased by $2 million during the current quarter primarily due to lower royalty and other income.

Operating income totaled $107 million in the current quarter as compared to $90 million in the prior year quarter. EBITDA increased $17 million to $116 million in the current quarter, while EBITDA margin increased 4.1 percentage points to 22.7% in the current quarter. There were no unusual or key items that affected comparability for EBITDA during the current and prior year quarter.

Fiscal 2015 year-to-date compared to fiscal 2014 year-to-date

Valvoline's sales decreased $39 million in the current period to $1,483 million. Unfavorable foreign currency exchange and lower product pricing decreased sales by $45 million, or 3%, and $23 million, or 2%, respectively. Unfavorable foreign currency exchange was due to the U.S. dollar strengthening compared to various foreign currencies, primarily the Euro and Australian dollar. Higher volume levels and changes in product mix increased sales by $21 million and $8 million, or 1% each, respectively.

Gross profit increased $40 million during the current period compared to the prior year period. Lower raw material costs, partially offset by lower product pricing, increased gross profit by $43 million, while unfavorable foreign currency exchange decreased gross profit by $12 million. Changes in volume and product mix combined to increase gross profit by $9 million. In total, gross profit margin increased 3.5 percentage points to 35.5%.

Selling, general and administrative expense decreased $8 million during the current period as compared to the prior year period, primarily driven by $23 million of expense savings from the 2014 global restructuring as well as declines from a favorable foreign currency exchange of $6 million. These decreases were partially offset by increased employee and allocated resource costs of $12 million as well as legal and technology expenses of $4 million.

Equity and other income decreased $21 million during the current period primarily due to a $6 million favorable arbitration ruling on a commercial contract in the prior year period and the $14 million impairment of a joint venture equity investment within Venezuela in the current period. The impairment was recorded in the March 2015 quarter due to the continued weakness in the local currency as well as market value indicators that resulted from the ongoing sale process for the investment. For additional information see Note B in the Notes to Condensed Consolidated Financial Statements.

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Operating income totaled $273 million in the current period as compared to $246 million in the prior year period. EBITDA increased $28 million to $301 million in the current period, while Adjusted EBITDA increased $42 million to $315 million. Adjusted EBITDA margin increased 3.3 percentage points to 21.2% in the current period.

EBITDA and Adjusted EBITDA reconciliation

The following EBITDA presentation for the three and nine months ended June 30, 2015 and 2014 is provided as a means to enhance the understanding of financial measurements that Ashland has internally determined to be relevant measures of comparison for the results of Valvoline. Adjusted EBITDA results have been prepared to illustrate the ongoing effects of Ashland's operations, which exclude certain key items. The $14 million adjustment in the current period relates to the impairment of a joint venture equity investment within Venezuela. There were no unusual or key items that affected comparability for EBITDA during the current quarter or prior year quarter and period.

	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Operating income	$107	$90	$273	$246
Depreciation and amortization	9	9	28	27
EBITDA	116	99	301	273
Impairment of equity investment	—	—	14	—
Adjusted EBITDA	$116	$99	$315	$273

Unallocated and other

June 2015 quarter compared to June 2014 quarter

Unallocated and other recorded income of $1 million and expense of $49 million for the three months ended June 30, 2015 and 2014, respectively. Unallocated and other includes pension and other postretirement net periodic costs and income that have not been allocated to reportable segments. These include interest cost, expected return on assets and amortization of prior service credit as these items are considered financing activities managed at the corporate level, as opposed to service costs which are allocated to reportable segments. As a result of the sale of Water Technologies and in accordance with U.S. GAAP, a portion of the pension and other postretirement net periodic costs and income previously reported in Unallocated and other, but attributable to Water Technologies' employees were reclassified to discontinued operations within the Statements of Consolidated Comprehensive Income for the prior year quarter. The pension and other postretirement components in Unallocated and other resulted in income during the current and prior year quarter of $13 million and $14 million, respectively. The change in pension and other postretirement income in the current quarter is driven by changes to assumptions used to calculate each fiscal year's expense and income, including discount rate and expected return on assets. The prior year quarter also included charges of $16 million for key items related to pension and other postretirement plan remeasurements as discussed in Note J of the Notes to the Condensed Consolidated Financial Statements.

Additionally, for the three months ended June 30, 2015 and 2014 certain indirect corporate costs of $3 million and $9 million, respectively, that would have previously been allocated to the Elastomers division and Water Technologies business are now included within the Unallocated and other segment.

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The remaining unallocated items for the current quarter primarily included expense of $9 million for environmental reserve adjustments and $2 million related to global restructuring expense partially offset by a favorable facility cost reserve adjustment. In the prior year quarter, unallocated costs also included expense of $22 million related to restructuring expense, primarily related to severance and other costs associated with the global realignment, and expense of $12 million for environmental reserve adjustments.

Fiscal 2015 year-to-date compared to fiscal 2014 year-to-date

Unallocated and other recorded income of $18 million and expense of $216 million for the nine months ended June 30, 2015 and 2014, respectively. Pension and other postretirement plans resulted in income, within continuing operations, during the current and prior year period of $40 million and $38 million, respectively. Fluctuations in these amounts from period to period result primarily from changes in the discount rate. The current and prior year period also included charges of $9 million and $121 million, respectively, for key items related to pension and other postretirement plan remeasurements as discussed in Note J of the Notes to the Condensed Consolidated Financial Statements.

As previously noted the current and prior year periods included certain indirect corporate costs of $8 million and $28 million, respectively, previously allocated to Elastomers and Water Technologies, respectively.

The remaining unallocated items for the current period also included expense of $24 million for environmental reserve adjustments, $16 million of tax indemnity income, expense of $7 million for the stock incentive plan award modification, and global restructuring expense partially offset by a facility cost adjustment of $3 million. In the prior year period, unallocated costs also included restructuring expense of $89 million, primarily related to severance and other costs associated with the global restructuring, and expense of $21 million for environmental reserve adjustments.

The following table presents income and expense components for the three and nine months ended June 30, 2015 and 2014.

	Three months ended June 30		Nine months ended June 30	
(In millions)	2015	2014	2015	2014
Losses on pension and other postretirement plan remeasurements	$—	$(16)	$(9)	$(121)
Pension and other postretirement net periodic income (excluding service cost)	13	14	40	38
Restructuring activities (includes severance, integration and AWT stranded divestiture costs)	(2)	(31)	(3)	(117)
Tax indemnity income	—	—	16	—
Environmental expense for divested businesses	(9)	(12)	(24)	(21)
Other income (expense)	(1)	(4)	(2)	5
Total unallocated income (expense)	$1	$(49)	$18	$(216)

FINANCIAL POSITION

Liquidity

Ashland's cash flows from operating, investing and financing activities, as reflected in the Statements of Condensed Consolidated Cash Flows, are summarized as follows for the nine months ended June 30, 2015 and 2014. Ashland had $1,113 million in cash and cash equivalents as of June 30, 2015, of which $884 million was held by foreign subsidiaries and had no significant limitations that would prohibit remitting the funds to satisfy corporate obligations. However, if such amounts were repatriated to the United States, additional taxes

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would likely need to be accrued and paid depending on the source of the earnings remitted. Most amounts are intended to be indefinitely reinvested and Ashland currently has no plans to repatriate any amounts for which additional U.S. taxes would need to be accrued. In making this assessment, Ashland has taken into account numerous factors including evidence that certain earnings have already been reinvested outside the U.S., future plans to reinvest the earnings outside the U.S., financial requirements of Ashland and its foreign subsidiaries, long- and short-term operational and fiscal objectives and the cost of remitting such foreign earnings.

	Nine months ended June 30			
(In millions)	2015		2014	
Cash provided (used) by:				
Operating activities from continuing operations	$(159	)	$404	
Investing activities from continuing operations	(325	)	(53	)
Financing activities from continuing operations	(34	)	(148	)
Discontinued operations	280		21	
Effect of currency exchange rate changes on cash and cash equivalents	(42	)	—	
Net increase (decrease) in cash and cash equivalents	$(280	)	$224	

Operating activities

The following discloses the cash flows associated with Ashland's operating activities for the nine months ended June 30, 2015 and 2014.

	Nine months ended June 30			
(In millions)	2015		2014	
Cash flows provided (used) by operating activities from continuing operations				
Net income	$363		$165	
Income from discontinued operations (net of tax)	(113	)	(67	)
Adjustments to reconcile income from continuing operations to cash flows from operating activities				
Depreciation and amortization	255		281	
Debt issuance cost amortization	17		11	
Deferred income taxes	(16	)	(20	)
Equity income from affiliates	(12	)	(22	)
Distributions from equity affiliates	18		7	
Stock based compensation expense	22		26	
Loss on early retirement of debt	8		—	
Gain on available-for-sale securities	(1	)	—	
Net loss (gain) on divestitures	118		(3	)
Impairments of equity investments and in-process research and development	14		59	
Pension contributions	(592	)	(27	)
Losses on pension and other postretirement plan remeasurements	9		121	
Change in operating assets and liabilities (a)	(249	)	(127	)
Total cash flows provided (used) by operating activities from continuing operations	$(159	)	$404	

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

Cash flows generated from operating activities from continuing operations, a major source of Ashland's liquidity, amounted to a cash outflow of $159 million in the current period and a cash inflow of $404 million in the prior year period. The cash results during each period are primarily driven by net income, excluding discontinued operation results, adjusted for certain non-cash items including depreciation and amortization (including debt issuance cost amortization), losses and gains on divestitures, losses on pension and other postretirement plan remeasurements, impairments as well as changes in working capital, which are fluctuations within accounts receivable, inventory, trade payables and accrued expenses. Ashland continues to emphasize working capital management as a high priority and focus.

The significant decline in operating cash flow during the current period related primarily to $592 million of pension contributions, which includes the $500 million voluntary pension plan contribution made in June 2015 for plans impacted by the pension settlement program. See Note J in Notes to Condensed Consolidated Financial Statements for further information. Operating cash flows for the prior year period also included pension contributions of $27 million.

During the nine months ended June 30, 2015 and 2014, working capital was an outflow of $26 million and $75 million, respectively, within the change in operating assets and liabilities. The outflow for the current period was primarily due to the decline within trade payables and certain accrued expenses. These decreases were primarily the result of incentive compensation payouts to employees from the prior year paid during the first quarter of each fiscal year, severance payments related to the 2014 global restructuring program and other employee related payments made during the period. These declines were partially offset by decreases in accounts receivable, as a result of overall lower sales in the current period.

The outflow in working capital for the prior year period primarily related to increased accounts receivable balances resulting from the timing of cash receipts and inventory balances resulting from increased volumes. The remaining outflows of $223 million and $52 million relate primarily to income taxes, interest paid, and adjustments to certain accruals and long term assets and liabilities.

Operating cash flows for the current period included income from continuing operations of $250 million and noncash adjustments of $255 million for depreciation and amortization, $112 million for the losses on the divestitures of the Elastomers division and on the Valvoline car care product assets, $6 million related to the MAP Transaction receivable decrease, $9 million related to the loss on the pension plan remeasurement, a $14 million impairment related to the Valvoline joint venture equity investment within Venezuela, and $17 million for debt issuance cost amortization. Debt issuance cost amortization includes $3 million of accelerated amortization of previously capitalized debt issuance costs and $3 million related to the immediate recognition of new debt issuance costs during current period.

Operating cash flows for the prior year period included income from continuing operations of $98 million, noncash adjustments of $281 million for depreciation and amortization, $11 million for debt issuance cost amortization, $59 million related to an impairment on Ashland's investment in the ASK joint venture and IPR&D assets, and $121 million related to the losses on pension and other postretirement plan remeasurement.

Investing activities

The following discloses the cash flows associated with Ashland's investing activities for the nine months ended June 30, 2015 and 2014.

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(In millions)	Nine months ended June 30 2015	2014
Cash flows provided (used) by investing activities from continuing operations		
Additions to property, plant and equipment	$(147)	$(152)
Proceeds from disposal of property, plant and equipment	2	9
Purchase of operations - net of cash acquired	(5)	(2)
Proceeds from sale of operations or equity investments	133	92
Proceeds from sales of available-for-sale securities	315	—
Purchase of available-for-sale securities	(315)	—
Funds restricted for specific transactions	(320)	—
Proceeds from the settlement of derivative instruments	17	—
Payments from the settlement of derivative instruments	(5)	—
Total cash flows used by investing activities from continuing operations	$(325)	$(53)

Cash used by investing activities was $325 million for the current period as compared to $53 million for the prior year period. The significant cash investing activities for the current and prior year periods primarily related to cash outflows from property additions of $147 million and $152 million, respectively. The current period included proceeds, net of estimated working capital adjustments and transactions costs, of $109 million from the sale of the Elastomers division and $24 million from the sale of Valvoline car care product assets. The prior year period included proceeds related to the sale of the ASK equity investment of $87 million and $5 million related to a tax receipt from a previously divested business. In addition, proceeds from disposals of property, plant and equipment were $2 million and $9 million during the nine months ended June 30, 2015 and 2014, respectively, while the purchase of operations, net of cash acquired were $5 million and $2 million during the nine months ended June 30, 2015 and 2014, respectively.

Funds restricted for specific transactions represent the restriction of the January 2015 asbestos insurance settlement funds into the trust of $335 million, partially offset by the reclassification into cash and cash equivalents of $15 million of assets previously restricted in use for property transactions. Additionally, the purchase of and proceeds from the sale of available-for-sale securities of $315 million relate the purchase of the equity and corporate bond funds within the asbestos trust. Proceeds and payments from the settlement of derivative instruments of $17 million and $5 million, respectively, represent the settlement of net investment hedges. See Note E in the Notes to Condensed Consolidated Financial Statements for further information on this activity.

Financing activities

The following discloses the cash flows associated with Ashland's financing activities for the nine months ended June 30, 2015 and 2014.

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(In millions)	Nine months ended June 30 2015	2014
Cash flows provided (used) by financing activities from continuing operations		
Proceeds from issuance of long-term debt	$1,100	$—
Repayment of long-term debt	(559)	(12)
Premium on long-term debt repayment	(8)	—
Proceeds (repayment) from short-term debt	(98)	58
Repurchase of common stock	(397)	(125)
Debt issuance costs	(9)	—
Cash dividends paid	(72)	(79)
Excess tax benefits related to share-based payments	9	10
Total cash flows used by financing activities from continuing operations	$(34)	$(148)

Cash used by financing activities was $34 million for the current period as compared to $148 million for the prior year period. Significant cash financing activities for the current period relate primarily to the entrance into the 2015 Senior Credit Agreement and tender of the 2016 senior notes in June 2015. As a result of this activity, cash used by financing activities included proceeds from the issuance of the term loan facility of $1,100 million, $550 million for the repayment of the tendered portion of the 2016 senior notes, and the early redemption premium payment for the 2016 senior notes of $8 million. Repayment of short-term debt of $98 million relates to the repayment of loans outstanding under the 2013 Senior Credit Facility, and activity within the accounts receivable securitization and international loans. In addition, $9 million of additional long-term debt related to the medium-term notes was repaid during the current period.

Additionally, the current period included $397 million for the repurchase of common stock, cash dividends paid of $1.07 per share, for a total of $72 million, partially offset by $9 million for excess tax benefits related to share-based payments.

Significant cash financing activities for the prior year period included repayment of long-term debt of $12 million, $125 million for the repurchase of common stock and cash dividends paid of $1.02 per share, for a total of $79 million, partially offset by cash inflows of $58 million for proceeds from short-term debt and $10 million for proceeds from the exercise of stock options and excess tax benefits related to share-based payments.

Cash provided by discontinued operations

The following discloses the cash flows associated with Ashland's discontinued operations for the nine months ended June 30, 2015 and 2014.

(In millions)	Nine months ended June 30 2015	2014
Cash provided (used) by discontinued operations		
Operating cash flows	$261	$48
Investing cash flows	19	(27)
Total cash flows provided by discontinued operations	$280	$21

Cash flows for discontinued operations for the current period is primarily driven by $398 million of cash received, before taxes, related to the January 2015 asbestos insurance settlement, and $42 million of delayed cash proceeds for a foreign entity from the sale of Water Technologies. These inflows were partially offset by $91 million in tax payments primarily from the Water Technologies sale, a $20 million payment for the working

capital settlement related to the disposition of Water Technologies, and $6 million for the payment of incentive compensation for former employees of Water Technologies.

Cash flows for discontinued operations related to Water Technologies operating results in the prior year period, which was an inflow of $66 million. The remaining cash flows in both periods relate to other previously divested businesses, including net payments of asbestos and environmental liabilities.

Free cash flow and other liquidity resources

The following represents Ashland's calculation of free cash flow for the disclosed periods. Free cash flow does not reflect adjustments for certain non-discretionary cash flows such as mandatory debt repayments.

	Nine months ended June 30	
(In millions)	2015	2014
Cash flows provided (used) by operating activities from continuing operations	$(159)	$404
Adjustments:		
Additions to property, plant and equipment	(147)	(152)
Discretionary contribution to pension plans	$500	$—
Free cash flows	$194	$252

At June 30, 2015, working capital (current assets minus current liabilities, excluding long-term debt due within one year) amounted to $1,823 million as of June 30, 2015, compared to $1,883 million at September 30, 2014. Ashland's working capital is affected by its use of the LIFO method of inventory valuation that valued inventories below their replacement costs by $42 million at June 30, 2015 and $31 million at September 30, 2014. Liquid assets (cash, cash equivalents and accounts receivable) amounted to 155% and 154% of current liabilities at June 30, 2015 and September 30, 2014, respectively.

The following summary reflects Ashland's cash and unused borrowing capacity as of June 30, 2015 and September 30, 2014.

	June 30	September 30
(In millions)	2015	2014
Cash and cash equivalents	$1,113	$1,393
Unused borrowing capacity		
Revolving credit facility	$1,128	$1,084
Accounts receivable securitization facility	$19	$—

Total borrowing capacity remaining under the $1.2 billion senior unsecured revolving credit facility (the 2015 revolving credit facility) was $1,128 million, due to a reduction of $72 million for letters of credit outstanding at June 30, 2015. In total, Ashland's available liquidity position, which includes cash, the 2015 revolving credit facility and the accounts receivable securitization facility, was $2,260 million at June 30, 2015, compared to $2,477 million at September 30, 2014.

Capital resources

Debt

The following summary reflects Ashland's debt as of June 30, 2015 and September 30, 2014.

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(In millions)	June 30 2015	September 30 2014
Short-term debt	$231	$329
Long-term debt (including current portion and debt issuance costs) (a)	3,467	2,920
Total debt	$3,698	$3,249

(a)Includes $27 million and $31 million of debt issuance costs as of June 30, 2015 and September 30, 2014, respectively.

The current portion of long-term debt was $105 million at June 30, 2015 and $9 million at September 30, 2014. Debt as a percent of capital employed was 54% at June 30, 2015 and 48% at September 30, 2014. At June 30, 2015, Ashland's total debt had an outstanding principal balance of $3,876 million, discounts of $151 million, and debt issuance costs of $27 million. The scheduled aggregate maturities of debt by year are as follows: $277 million remaining in 2015, $73 million in 2016, $69 million in 2017, $810 million in 2018 and $143 million in 2019.

Senior notes refinancing and 2015 Senior Credit Agreement

During the June 2015 quarter, Ashland completed certain refinancing transactions related to the $600 million 3.000% senior notes due 2016 (2016 senior notes). Ashland commenced 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 the June 2015 quarter Ashland entered into a Credit Agreement (the 2015 Senior Credit Agreement), which replaced 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) and a five-year senior unsecured term loan facility in an aggregate principal amount of $1.1 billion (the term loan facility).

During the June 2015 quarter, 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 J of the Notes to Condensed Consolidated Financial Statements, 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, Ashland recognized an $8 million charge related to an early redemption premium payment, which is included in the net interest and other financing expense caption of the Statements of Consolidated Comprehensive Income for the three and nine months ended June 30, 2015.

Debt covenant restrictions

Ashland's debt contains usual and customary representations, warranties and affirmative and negative covenants, including financial covenants for leverage and interest coverage ratios, limitations on liens, additional subsidiary indebtedness, restrictions on subsidiary distributions, investments, mergers, sale of assets and restricted payments and other customary limitations. As of June 30, 2015, Ashland is in compliance with all debt agreement covenant restrictions.

The 2015 Senior Credit Agreement defines the consolidated leverage ratio as the ratio of consolidated indebtedness minus 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

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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 calculation of EBITDA and Adjusted EBITDA, which have been reconciled previously on pages 44 and 45. 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 guarantees. The maximum consolidated leverage ratios permitted under the 2015 Senior Credit Agreement are as follows: 3.75 from June 30, 2015 through December 31, 2016 and 3.5 from March 31, 2017 and each fiscal quarter thereafter.

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. The minimum required consolidated interest coverage ratio under the 2015 Senior Credit Agreement during its entire duration is 3.0.

At June 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 June 30, 2015, Ashland's calculation of the consolidated interest coverage ratio was 6.6, which exceeds the minimum required ratio of 3.0. Any change in Covenant Adjusted EBITDA of $100 million would have an approximate 0.2x effect on the consolidated leverage ratio and a 0.7x effect on the consolidated interest coverage ratio. Any change in consolidated indebtedness of $100 million would affect the consolidated leverage ratio by approximately 0.1x.

Credit ratings

Ashland's corporate credit ratings have remained unchanged from those reported in its Form 10-K filed in November 2014. Standard & Poor's ratings are BB, while Moody's Investor Services are Ba1, with a stable outlook from both. Subsequent changes to these ratings may have an effect on Ashland's borrowing rate or ability to access capital markets in the future.

Cash projection

Ashland projects that cash flow from operations and other available financial resources, such as cash on hand and revolving credit, should be sufficient to meet investing and financing requirements to enable Ashland to comply with the covenants and other terms of its financing obligations. These projections are based on various assumptions that include, but are not limited to: operational results, working capital cash generation, capital expenditures, divestitures and acquisitions, pension funding requirements and tax payments and receipts.

Based on Ashland's current debt structure, future annual interest expense is expected to range from approximately $165 million to $175 million based on applicable fixed and floating interest rates, assuming interest rates remain stable.

Stockholders' equity

Stockholders' equity decreased $416 million since September 30, 2014 to $3,167 million at June 30, 2015. This decrease was due to a decline of $397 million for the stock repurchase agreements, $314 million related to deferred translation losses, regular cash dividends of $72 million, adjustments to pension and postretirement obligations of $13 million, and $3 million for an unrealized loss on available-for-sale securities. These decreases were partially offset by net income during the period of $363 million and $20 million for common shares issued under stock incentive and other plans.

During the March 2014 quarter, the Board of Directors of Ashland authorized a $1.35 billion common stock repurchase program. Under the program, Ashland's common shares may be repurchased in open market transactions, privately negotiated transactions or pursuant to one or more accelerated stock repurchase programs or Rule 10b5-1 plans. Ashland completed this program during the current quarter, with delivery of the final shares occurring during July 2015.

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

Accelerated share repurchase agreements

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

During the nine months ended June 30, 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 June 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 July 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.

Ashland announced in the September 30, 2014 quarter that it had entered into an agreement with each of Deutsche Bank Securities Inc. and JPMorgan to repurchase an aggregate of $250 million of Ashland's common stock. Under the terms of the agreement, the financial institutions purchased a pre-determined number of shares on various trading days dependent upon Ashland's prevailing stock price on that date. During fiscal 2014, Ashland received 1.2 million shares of common stock for a total cost of $124 million. During the nine months ended June 30, 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.

In April 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 the same repurchase methods as the March 2014 quarter

repurchase program.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash dividends

During the three months ended June 30, 2015, the Board of Directors of Ashland announced and paid a quarterly cash dividend of 39 cents per share to eligible shareholders of record. This was an increase from the quarterly dividends of 34 cents in the December 2014 and March 2015 quarters as well as each quarter of fiscal 2014.

Capital expenditures

Ashland is currently forecasting approximately $265 million to $275 million of capital expenditures for 2015, funded primarily from operating cash flows. Capital expenditures were $147 million for the nine months ended June 30, 2015 and averaged $251 million during the last three fiscal years.

Contractual obligations and other commitments

During the June 2015 quarter, Ashland completed certain refinancing transactions related to the $600 million 3.000% senior notes due 2016. As a result, the contractual table commitments for debt outstanding previously disclosed in Ashland's most recent Form 10-K has been modified for the new debt instruments entered into as a part of this refinancing during the current quarter. For additional information on the annual scheduled payments for Ashland's new debt instruments outstanding as of June 30, 2015, see Note H of the Notes to Condensed Consolidated Financial Statements for further information.

CRITICAL ACCOUNTING POLICIES

The preparation of Ashland's Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses, and the disclosures of contingent assets and liabilities. Significant items that are subject to such estimates and assumptions include, but are not limited to, long-lived assets (including goodwill and other intangible assets), employee benefit obligations, income taxes, other liabilities and receivables associated with asbestos litigation and environmental remediation. These accounting policies are discussed in detail in "Management's Discussion and Analysis – Critical Accounting Policies" in Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 2014. Although management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, actual results could differ significantly from the estimates under different assumptions or conditions. Management has reviewed the estimates affecting these items with the Audit Committee of Ashland's Board of Directors. No material changes have been made to the valuation techniques during the three and nine months ended June 30, 2015.

OUTLOOK

Ashland expects the typical seasonal declines during the September 2015 quarter in Specialty Ingredients, compared to the third quarter, leading to a sequential sales decline of 3 to 5 percent or approximately $550 million to $560 million. However, Specialty Ingredients is expected to continue to report increased growth in the higher-margin, higher value-add areas of the business, which is expected to result in EBITDA margins of 23 to 23.5 percent.

For the upcoming fourth quarter Ashland expects overall results to decline sequentially within Performance Materials due to normal seasonality. Ashland expects another quarter of solid performance within the Composites division to be offset by continued pricing weakness within the Intermediates/Solvents division. As a result, sales are expected to be approximately $255 million to $265 million and EBITDA margin is expected to be 8 to 8.5 percent.

Ashland expects Valvoline's strong performance to continue during the upcoming September 2015 quarter across each area of its business. However, normal seasonal declines are expected to reduce sales by 5 to 7

percent sequentially to approximately $475 million to $485 million. In addition, the Do-It-Yourself division results are expected to decline to more historical levels from the previously strong results reported during the third quarter. In total, Ashland expects the EBITDA margin for Valvoline to be approximately 19 to 20 percent.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Ashland’s market risk exposure at June 30, 2015 is generally consistent with the types and amounts of market risk exposures presented in Ashland’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures - As of the end of the period covered by this quarterly report, Ashland, under the supervision and with the participation of its management, including Ashland’s Chief Executive Officer and its Chief Financial Officer, evaluated the effectiveness of Ashland’s disclosure controls and procedures pursuant to Rule 13a-15(b) and 15d-15(b) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of June 30, 2015.

Changes in Internal Control over Financial Reporting - During the three months ended June 30, 2015, there were no significant changes in Ashland’s internal control over financial reporting, or in other factors, that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, Ashland’s internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
The following is a description of Ashland's material legal proceedings.
Asbestos-Related Litigation
Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Such claims result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation (Riley), a former subsidiary. Although Riley was neither a producer nor a manufacturer of asbestos, its industrial boilers contained some asbestos-containing components provided by other companies.
Hercules, a wholly-owned subsidiary of Ashland, is also subject to liabilities from asbestos-related personal injury lawsuits involving claims which 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.
Ashland and Hercules are also defendants in lawsuits alleging exposure to asbestos at facilities formerly or presently owned or operated by Ashland or Hercules.
In October 2012, Ashland and Hercules initiated various arbitration proceedings against Underwriters at Lloyd's, certain London companies and/or Chartis (AIG) member companies seeking to enforce these insurers' contractual obligations to provide indemnity for asbestos liabilities and defense costs under existing coverage-in-place agreements. In addition, Ashland and Hercules initiated a lawsuit in Kentucky state court against certain Berkshire Hathaway entities (National Indemnity Company and Resolute Management, Inc.) on grounds that these Berkshire entities wrongfully interfered with Underwriters' and Chartis' performance of their respective contractual obligations to provide asbestos coverage by directing the insurers to reduce and delay certain claim payments.
On January 13, 2015, Ashland and Hercules entered into a comprehensive settlement agreement related to certain insurance coverage for asbestos bodily injury claims with Underwriters at Lloyd's, certain London Companies and Chartis (AIG) member companies, along with National Indemnity and Resolute Management, Inc., under which Ashland and Hercules received a total of $398 million. In exchange, all claims were released against these entities for past, present and future coverage obligations arising out of the asbestos coverage-in-place agreements that were the subject of the pending arbitration proceedings. In addition, as part of this settlement, Ashland and Hercules released all claims against National Indemnity and Resolute Management, Inc. in the Kentucky state court action. As a result, the arbitration proceedings and the Kentucky state court action have been terminated.
As a result of this settlement, during the three and six months ended March 31, 2015, Ashland recorded an after-tax gain of $120 million within the discontinued operations caption of the Statements of Consolidated Comprehensive Income and a $249 million reduction in the receivable balance, consisting of $227 million and $22 million for Ashland and Hercules, respectively, within the Condensed Consolidated Balance Sheets. See Note K of the Notes to Condensed Consolidated Financial Statements for further information.
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.
For additional detailed information regarding liabilities arising from asbestos-related litigation, see Note K of Notes to Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q.
Environmental Proceedings
(a) CERCLA and Similar State Law Sites – Under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and similar state laws, Ashland and its subsidiaries may be subject to joint and several liability for cleanup costs in connection with alleged releases of hazardous substances at sites where it has been identified as a "potentially responsible party" (PRP). As of June 30, 2015, Ashland and its subsidiaries have been identified as a PRP by U.S. federal and state authorities, or by private parties seeking contribution, for the cost of environmental investigation and/or cleanup at 83 waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by the United States Environmental Protection Agency (USEPA) or a

state agency, in which Ashland or its subsidiaries are typically participating as a member of a PRP group. Generally, the type of relief sought includes remediation of contaminated soil and/or groundwater, reimbursement for past costs of site cleanup and administrative oversight and/or long-term monitoring of environmental conditions at the sites. The ultimate costs are not predictable with assurance.

(b) Hattiesburg, Mississippi Resource Conservation and Recovery Act Matter – In November 2008, the Mississippi Department of Environmental Quality (MDEQ) issued a Notice of Violation to Hercules' now-closed Hattiesburg, Mississippi manufacturing facility alleging that a storm water retention basin at the facility had been operated as a hazardous waste storage and treatment facility without a permit in violation of the Resource Conservation and Recovery Act. In May 2011, the USEPA issued an inspection report from a September 2010 inspection with allegations similar to those of the MDEQ and promulgated an information request. Ashland has been working with the MDEQ and USEPA to settle this matter in the context of the shutdown and ongoing remediation of the Hattiesburg facility. The USEPA proposed a settlement penalty in excess of $100,000. While it is reasonable to believe that this matter will involve a penalty from the MDEQ and/or the USEPA exceeding $100,000, the potential liability with respect to this matter should not be material to Ashland.

(c) Lower Passaic River, New Jersey Matters – Ashland, through two formerly owned facilities, and ISP, through a now-closed facility, have been identified as "potentially responsible parties" (PRPs), along with approximately 70 other companies (the Cooperating Parties Group or the CPG), in a May 2007 Administrative Order of Consent (AOC) with the USEPA. The parties are required to perform a remedial investigation and feasibility study (RI/FS) of the entire 17 miles of the Passaic River. In June 2007, the EPA separately commenced a Focused Feasibility Study (FFS) as an interim measure. In accordance with the 2007 AOC, in June 2012 the CPG voluntarily entered into another AOC for an interim removal action focused solely at mile 10.9 of the Passaic River. The allocations for the 2007 AOC and the 2012 removal action are based on interim allocations, are immaterial and have been accrued. In April 2014, the EPA released the FFS. The CPG submitted the Draft RI/FS Report on April 30, 2015. The EPA is expected to release the FFS Record of Decision for the lower 8 miles in September 2015. Based on current knowledge and proceedings, Ashland does not believe the release of the FFS or outcome of the contemplated proceedings related to the RI/FS will have a material adverse impact on its business and financial operations; however, there are a number of contingencies in the future that could possibly have a material impact including adverse rulings or verdicts, allocation proceedings and related orders.

(d) Zwijndrecht Plant Matter – Since August 2012, Dutch environmental authorities have found several violations of a waste water discharge permit by Ashland Industries Nederland B.V. (Ashland Nederland), as owner of the manufacturing site at Zwijndrecht, The Netherlands. An administrative penalty of €50,000 and a sanction of €50,000 were paid in calendar year 2013 for violations of the law and permit from December 2011 through August 2012. In February 2014, the Dutch environmental authorities claimed payment of administrative fines totaling €250,000 in connection with additional violations of the waste water discharge permit. In June 2014, Ashland Nederland lost its appeal on this decision. In addition to the €250,000 fines, the Dutch authorities announced prosecution with regards to the violations of the same permit during the period of October 2012 through January 2014. Ashland initiated a settlement proposal and is awaiting a response to the proposal. While it is reasonable to believe that this matter will involve a penalty exceeding $100,000, the potential liability with respect to this matter should not be material to Ashland.

For additional information regarding environmental matters and reserves, see Note K of Notes to Condensed Consolidated Financial Statements in this quarterly report on Form 10-Q.

Other Pending Legal Proceedings

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 June 30, 2015 and September 30, 2014. There is a reasonable possibility that a loss exceeding amounts already recognized may be incurred related to these actions; however, Ashland believes that such potential losses were immaterial as of June 30, 2015.

ITEM 1A. RISK FACTORS

During the period covered by this report, there were no material changes from the risk factors previously disclosed in Ashland’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share repurchase activity during the three months ended June 30, 2015 was as follows:

Issuer Purchases of Equity Securities

Q3 Fiscal Periods	Total Number of Shares Purchased	Average Price Paid Per Share, including commission	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)(1)
April 1, 2015 to April 30, 2015:	—	—	—	—
May 1, 2015 to May 31, 2015:				1,000
Employee Tax Withholdings	22 (3)	$112.85	—	
June 1, 2015 to June 30, 2015:	— (2)	— (2)	— (2)	1,000
Total	22			$1,000

(1)In February 2014, the Company's Board of Directors approved a $1.35 billion share repurchase authorization. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 of the Exchange Act. After completion of the accelerated share repurchase programs discussed below in footnote 2, there was no remaining availability under the $1.35 billion authorization. As a result, on April 28, 2015, the Company’s Board of Directors approved a new $1 billion share repurchase authorization that expires December 31, 2017 and allows for the same repurchase methods as the prior authorization. The $1 billion represents the remaining amount available to repurchase as of June 30, 2015 under the authorized repurchase program.

(2)In August 2014, the Company entered into an accelerated share repurchase program with two financial institutions to purchase $750 million of the Company's common stock (the 2014 ASR Agreements). In exchange for an up-front payment totaling $750 million, the financial institutions initially delivered approximately 5.9 million shares of Ashland common stock. The 2014 ASR Agreements had a variable maturity, at the financial institutions’ option, with a pricing period termination date of no later than June 30, 2015. In June 2015, the 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 to be delivered by the financial institutions was 6.4 million shares. Ashland received the additional 563,905 shares from the financial institutions in the September 2015 quarter to settle the difference between the initial share delivery and the total number of shares repurchased.

Additionally, in January 2015, the Company entered into accelerated share repurchase programs to purchase $269.6 million of the Company's common stock (the 2015 ASR Agreements). In exchange for an up-front payment totaling $269.6 million, the financial institutions initially delivered approximately 1.9 million shares of Ashland common stock. The 2015 ASR Agreements had a variable maturity, at the financial institutions’ option, with a pricing period termination date of no later than July 31, 2015. In June 2015, the financial institutions 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 to be delivered by the financial institutions under the 2015 ASR Agreements was 2.2 million shares. Ashland received the additional 302,315 shares from the financial institutions in the September 2015 quarter to settle the difference between the initial share delivery and the total number of shares repurchased. The average price paid by the Company for the shares delivered under the 2014 ASR Agreements and the 2015 ASR Agreements was $119.43.

(3)Shares withheld from employees to cover their withholding requirements for personal income taxes related to the vesting of restricted stock.

ITEM 6. EXHIBITS

(a) Exhibits

10.1	Credit Agreement dated as of June 23, 2015, among Ashland Inc., as Borrower, The Bank of Nova Scotia, as Administrative Agent, Swing Line Lender and an L/C Issuer, Citibank, N.A., as Syndication Agent, Bank of America, N.A., Deutsche Bank Securities Inc. and PNC Bank, National Association, as Co-Documentation Agents, JPMorgan Chase Bank, N.A., Mizuho Bank LTD., U.S. Bank National Association, and Wells Fargo Bank, National Association, as Managing Agents, and the other Lenders party thereto (filed as Exhibit 10.1 to Ashland's Form 8-K filed on June 23, 2015 (SEC File No. 001-32532) and incorporated herein by reference).
10.2	Ashland Inc. Supplemental Defined Contribution Plan for Certain Employees effective January 1, 2015 (filed as Exhibit 10.1 to Ashland's Form 8-K filed on May 18, 2015 (SEC File No. 001-32532) and incorporated herein by reference).
10.3	Amended and Restated 2015 Ashland Inc. Incentive Plan (filed as Exhibit 10.1 to Ashland's Form 8-K filed on July 20, 2015 (SEC File No. 001-32532) and incorporated herein by reference).
10.4	Form of Restricted Stock Award Agreement (Double-Trigger Form) (filed as Exhibit 10.2 to Ashland's Form 8-K filed on July 20, 2015 (SEC File No. 001-32532) and incorporated herein by reference).
10.5	Form of Restricted Stock Unit Award Agreement (Double-Trigger Form) (filed as Exhibit 10.3 to Ashland's Form 8-K filed on July 20, 2015 (SEC File No. 001-32532) and incorporated herein by reference).
10.6	Form of Stock Appreciation Rights Award Agreement (Double-Trigger Form) (filed as Exhibit 10.4 to Ashland's Form 8-K filed on July 20, 2015 (SEC File No. 001-32532) and incorporated herein by reference).
10.7	Form of Performance Unit (LTIP) Award Agreement (Double-Trigger Form) (filed as Exhibit 10.5 to Ashland's Form 8-K filed on July 20, 2015 (SEC File No. 001-32532) and incorporated herein by reference).

10.8	Form of Performance Unit (LTIP) Award Agreement (International) (Double-Trigger Form) (filed as Exhibit 10.6 to Ashland's Form 8-K filed on July 20, 2015 (SEC File No. 001-32532) and incorporated herein by reference).
10.9	Form of Restricted Stock Equivalent Agreement (Double-Trigger Form) (filed as Exhibit 10.7 to Ashland's Form 8-K filed on July 20, 2015 (SEC File No. 001-32532) and incorporated herein by reference).
10.10*	Amendment to the Ashland Inc. Supplemental Early Retirement Plan for Certain Employees.
12*	Computation of Ratio of Earnings to Fixed Charges.
31.1*	Certificate of William A. Wulfsohn, Chief Executive Officer of Ashland pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certificate of J. Kevin Willis, Chief Financial Officer of Ashland pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certificate of William A. Wulfsohn, Chief Executive Officer of Ashland, and J. Kevin Willis, Chief Financial Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

*Filed herewith.
**Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Statements of Consolidated Comprehensive Income for the three and nine months ended June 30, 2015 and June 30, 2014; (ii) Condensed Consolidated Balance Sheets at June 30, 2015 and September 30, 2014; (iii) Statements of Consolidated Stockholders' Equity at June 30, 2015; (iv) Statements of Condensed Consolidated Cash Flows for the nine months ended June 30, 2015 and June 30, 2014; and (v) Notes to Condensed Consolidated Financial Statements. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.
℠ Service mark, Ashland or its subsidiaries, registered in various countries.
™ Trademark, Ashland or its subsidiaries, registered in various countries.

SIGNATURE

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

	Ashland Inc. (Registrant)
July 30, 2015	/s/ J. Kevin Willis J. Kevin Willis Senior Vice President and Chief Financial Officer (on behalf of the Registrant and as principal financial officer)

EXHIBIT INDEX

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*Filed herewith.
**Submitted electronically with this report.