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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D. C. 20549

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**FORM 8-K**  
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**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

**Date of report (Date of earliest event reported): July 23, 2010**

**ASHLAND INC.**  
(Exact name of registrant as specified in its charter)

Kentucky  
(State or other jurisdiction of incorporation)

1-32532  
(Commission File Number)

20-0865835  
(I.R.S. Employer Identification No.)

**50 E. RiverCenter Boulevard, Covington, Kentucky 41011**  
(Address of principal executive offices) (Zip Code)

**P.O. Box 391, Covington, Kentucky 41012-0391**  
(Mailing Address) (Zip Code)

**Registrant's telephone number, including area code (859) 815-3333**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition

On July 23, 2010, Ashland Inc. (“Ashland”) announced its third quarter results, which are discussed in more detail in the news release attached hereto as Exhibit 99.1, which is incorporated by reference into this Item 2.02.

The information in this report, being furnished pursuant to Item 2.02 of Form 8-K, shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that Section, and is not incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 News Release dated July 23, 2010.

## SIGNATURES

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 hereunto duly authorized.

ASHLAND INC.

(Registrant)

July 23, 2010

/s/ Lamar M. Chambers

Lamar M. Chambers  
Senior Vice President and  
Chief Financial Officer

## **EXHIBIT INDEX**

99.1 News Release dated July 23, 2010.

# News Release



## FOR ADDITIONAL INFORMATION:

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## FOR IMMEDIATE RELEASE

July 23, 2010

### Ashland Inc. reports preliminary Q3 results: \$1.67 EPS from continuing operations; adjusted EPS of \$1.22 excluding key items

COVINGTON, Ky. – Ashland Inc. (NYSE: ASH) today announced preliminary<sup>(1)</sup> results for the quarter ended June 30, 2010, the third quarter of its 2010 fiscal year.

#### Quarterly Highlights

| (in millions except per-share amounts)      | Quarter Ended<br>June 30, 2010 | Quarter Ended<br>June 30, 2009 |
|---|--------------------------------|--------------------------------|
| Operating income                            | \$ 163                         | \$ 152                         |
| Key items*                                  | -                              | 16                             |
| Adjusted operating income*                  | \$ 163                         | \$ 168                         |
| Adjusted EBITDA*                            | \$ 237                         | \$ 248                         |
| Diluted earnings per share (EPS)            |                                |                                |
| From net income                             | \$ 1.85                        | \$ 0.66                        |
| From continuing operations                  | \$ 1.67                        | \$ 0.68                        |
| Key items*                                  | (0.45)                         | 0.33                           |
| Adjusted EPS from continuing operations*    | \$ 1.22                        | \$ 1.01                        |
| Cash flows provided by operating activities |                                |                                |
| from continuing operations                  | \$ 80                          | \$ 355                         |
| Free cash flow*                             | 28                             | 322                            |

\* See Tables 5, 6 and 7 for definitions and U.S. GAAP reconciliations.

#### Fiscal Third-Quarter GAAP<sup>(2)</sup> Results

For its 2010 third quarter, Ashland reported sales of \$2,362 million, operating income of \$163 million, income from continuing operations of \$134 million (\$1.67 per share) and net income of \$148 million (\$1.85 per share). Net income included income from discontinued operations of \$14 million aftertax (18 cents per share), largely the result of a net favorable adjustment to asbestos-related obligations. Cash flows provided by operating activities from continuing operations amounted to \$80 million.

#### Adjusted Results

Adjusting for the impact of key items in both the current and prior-year quarters, Ashland's results for the June 2010 quarter were as follows:

- sales increased 16 percent over the June 2009 quarter to \$2,362 million;

- adjusted operating income was \$163 million in the June 2010 quarter versus \$168 million in the prior-year quarter;
- adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$237 million as compared with \$248 million in the June 2009 quarter; and
- adjusted EPS from continuing operations rose 21 percent from \$1.01 to \$1.22.

## **Key Items**

In total, three key items had a net favorable EPS impact on continuing operations of 45 cents in the June 2010 quarter:

- a \$20 million (25 cents positive EPS impact) aftertax gain from Ashland's buyout in April of Ara Quimica, formerly a 50-50 Brazilian joint venture;
- a \$22 million (28 cents positive EPS impact) tax benefit from the identification of prior years' U.S. research-and-development tax credits attributable to the acquired Hercules businesses; and
- a \$6 million (8 cents negative EPS impact) tax expense from the previously announced restructuring of Ashland's European legal entities.

In the year-ago quarter, three key items combined for a net unfavorable impact on earnings of 33 cents per share. Refer to Table 5 of the accompanying financial statements for details of key items in both periods.

Results also included noncash intangible amortization expense of \$17 million pretax (14 cents negative EPS impact) in the June 2010 quarter and \$12 million pretax (10 cents negative EPS impact) in the June 2009 quarter. Amounts in both periods primarily reflect the addition of intangible assets from the Hercules acquisition.

## **Performance Summary**

Commenting on Ashland's adjusted results for the June 2010 quarter, Chairman and Chief Executive Officer James J. O'Brien said, "We delivered another quarter of solid results. All of our commercial units achieved year-over-year volume and sales increases, on a comparable basis. Even with significant, rising raw material costs that compressed margins, we generated \$237 million of EBITDA. Also during the June quarter, our board of directors doubled the dividend rate, reflecting confidence in our solid financial position and future cash-generating ability."

During the quarter, Ashland averaged 6-percent sequential raw-material cost inflation, following a 7-percent average increase from the December 2009 to March 2010 quarters.

Commenting on Ashland's pricing actions to counter these rising costs, O'Brien said, "We continue to implement price increases across all of our commercial units to offset our increased raw material costs. While in the short term, the lag between cost increases and full implementation of price increases compresses margins, when raw material costs ultimately stabilize, our pricing actions should enable us to fully recover our increased costs."

## **Business Performance**

In order to aid understanding of Ashland's ongoing business performance, the results of Ashland's business segments are presented on an adjusted basis and EBITDA is reconciled to operating income in Table 7 of this news release.

Ashland Aqualon Functional Ingredients recorded sales of \$227 million in the June 2010 quarter. Excluding the amounts associated with the Pinova business divested in January 2010, sales improved 7 percent versus the June 2009 quarter and were roughly flat sequentially, with various key products in a sold-out position. During the quarter, Functional Ingredients' production capacity approached full utilization. Excluding Pinova, volumes increased 13 percent over the prior-year quarter and 5 percent sequentially. Gross profit as a percent of sales was 37.6 percent in the June 2010 quarter as compared with 27.6 percent in the June 2009 quarter. The large increase in gross profit margin reflects overall mix improvement resulting from the divestiture of the relatively lower-margin Pinova business, along with purchase-accounting

valuation adjustments in the prior year that both increased cost of goods sold and decreased selling, general and administrative expenses by \$10 million. In total, Functional Ingredients' EBITDA in the June 2010 quarter increased 16 percent versus the prior June quarter, to \$58 million, and was even with the immediately prior quarter. EBITDA for the June 2010 quarter equaled 25.6 percent of sales, a 410-basis-point improvement over the year-ago quarter and a 140-point increase sequentially.

Ashland Hercules Water Technologies' sales were \$431 million in the June 2010 quarter. Excluding the marine business sold in August 2009, sales grew 8 percent over the year-ago quarter. On this same basis, sales were off 4 percent sequentially, as the declining euro had a \$12 million negative currency-translation effect. Regionally, Latin America achieved an 8-percent increase in sales sequentially and Asia Pacific also remained strong with a 5-percent sequential increase. Gross profit as a percent of sales of 33.7 percent was 100 basis points below the June 2009 quarter and 80 points below the March 2010 quarter. These declines reflect continued raw material inflation, which increased on average 4 percent sequentially. Selling, general, and administrative and research and development (SG&A) expenses were flat versus the year-ago quarter and down 4 percent sequentially. In total, Water Technologies' EBITDA of \$48 million was 14 percent below the prior-year quarter, primarily the result of the marine divestiture. Also, EBITDA was down 8 percent sequentially. EBITDA amounted to 11.1 percent of sales in the June 2010 quarter, 170 basis points below the prior-year quarter and a decline of 50 basis points sequentially.

Ashland Performance Materials achieved sales growth of 39 percent versus the year-ago June quarter, to \$357 million, and 17-percent growth sequentially. Excluding the results of Ara Quimica, the former Brazilian composites joint venture, of which Ashland acquired its partner's 50-percent interest in April, sales still increased 34 percent over the prior-year quarter and 13 percent sequentially. On this same basis, volume per day increased 29 percent over the June 2009 quarter and 11 percent sequentially. Volume growth was broad-based across regions and markets. At 16.7 percent, gross profit as a percent of sales was 20 basis points above the March 2010 quarter. However, ongoing raw-material cost inflation led to a 360-basis-point decline versus the year-ago June quarter, which was adjusted for certain key items identified in Table 5. Ashland continues to announce price increases to offset these costs, with the most recent major price increase announced in late May. SG&A expenses rose 9 percent over the year-ago quarter and 6 percent sequentially, primarily reflecting the consolidation of Ara Quimica. In total, EBITDA increased to \$24 million in the June 2010 quarter, a 20-percent increase over the year-ago June quarter and a 33-percent increase sequentially. EBITDA as a percent of sales was 6.7 percent, 110 basis points below the year-ago quarter, but an 80-point increase sequentially.

Ashland Consumer Markets' sales of \$463 million increased 5 percent over the year-ago June quarter and 8 percent sequentially. While total lubricant volume increased by 1 percent versus the June 2009 quarter, with the onset of the summer driving season, volumes increased 6 percent sequentially. Same-store sales at Valvoline Instant Oil Change increased by 10 percent over the prior June quarter, and international operations also contributed to sales and volume growth. Rising raw material costs led to gross profit as a percent of sales of 32.4 percent in the June 2010 quarter, a 510-basis-point decline versus the record year-ago quarter, when raw material costs were falling. Sequentially, the gross profit margin declined by 60 basis points. SG&A expenses rose 8 percent over the year-ago quarter, primarily reflecting the furlough program in place last year. Sequentially, SG&A increased 4 percent. In total, Consumer Markets' June 2010 quarterly EBITDA was \$82 million, as compared with the all-time quarterly record of \$103 million set in the year-ago June quarter, and represented a 5-percent increase over the March 2010 quarter. The EBITDA margin for the June 2010 quarter was 17.7 percent, as Ashland's ongoing pricing actions enabled another solid quarter. The most recent pricing action, announced in May, should be fully reflected by the end of the September quarter.

Ashland Distribution's sales for the June 2010 quarter increased 32 percent over the year-ago quarter, to \$923 million. This was an 8-percent increase over the immediately prior quarter. Volume per day increased 9 percent over the June 2009 quarter and was equal to the March 2010 quarter. Sales increases outpaced volume, reflecting ongoing pricing actions in the face of rising input costs. Gross profit as a

percent of sales of 9.0 percent declined 110 basis points versus the June 2009 quarter. SG&A expenses rose 2 percent versus the prior-year quarter and 5 percent sequentially. In total, EBITDA of \$24 million for the June 2010 quarter rose 85 percent over the prior June quarter and equaled the March 2010 quarter. The EBITDA margin of 2.6 percent reflected a 70-basis-point increase over the June 2009 quarter, but was down 20 points sequentially.

## **Outlook**

Commenting on Ashland's outlook, O'Brien said, "Each of our commercial units is taking the steps that are fully within our control to improve their positions both strategically and financially. For example, we recently signed an agreement to form a global joint venture with Süd-Chemie to combine our foundry chemicals businesses. The product offerings and geographic footprints of these companies are very complementary to one another, giving this new joint venture the benefit of well-established channels to market and a much more comprehensive portfolio of metal casting additives and consumables with which to serve customers worldwide.

"As we consider the next few quarters, we anticipate sustained, gradual growth of the overall economy. We continue to see growth in both volume and sales. Ultimately, as the economy grows, our businesses are leveraged to benefit significantly from an improving demand environment."

## **Conference Call Webcast**

Today at 9 a.m. EDT, Ashland will provide a live webcast of its third-quarter conference call with securities analysts. The webcast will be accessible through Ashland's website, [www.ashland.com](http://www.ashland.com). Following the live event, an archived version of the webcast will be available for 12 months at <http://investor.ashland.com>.

## **Use of Non-GAAP Measures**

This news release includes certain non-GAAP measures. Such measurements are not prepared in accordance with GAAP and should not be construed as an alternative to reported results determined in accordance with GAAP. Management believes the use of such non-GAAP measures assists investors in understanding the ongoing operating performance of the company and its segments. The non-GAAP information provided may not be consistent with the methodologies used by other companies. All non-GAAP information is reconciled with reported GAAP results in Tables 5, 6 and 7 of the financial statements provided below.

## **About Ashland**

Ashland Inc. (NYSE: ASH) provides specialty chemical products, services and solutions for many of the world's most essential industries. Serving customers in more than 100 countries, it operates through five commercial units: Ashland Aqualon Functional Ingredients, Ashland Hercules Water Technologies, Ashland Performance Materials, Ashland Consumer Markets (Valvoline) and Ashland Distribution. To learn more about Ashland, visit [www.ashland.com](http://www.ashland.com).

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## **Forward-Looking Statements**

This news release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon a number of assumptions, including those mentioned within this news release. Performance estimates are also based upon internal forecasts and analyses of current and future market conditions and trends; management plans and strategies; operating efficiencies and economic conditions; and legal proceedings and claims (including environmental and asbestos matters). Other risks and uncertainties include those that are described in filings made by Ashland with the Securities and Exchange Commission, including its most recent Forms 10-K and 10-Q, which are available on Ashland's website at <http://investor.ashland.com> or at [www.sec.gov](http://www.sec.gov). Ashland believes its expectations are reasonable, but cannot assure they will be achieved. Forward-looking information may prove to be inaccurate, and actual results may differ significantly from those anticipated. Ashland is not obligated to subsequently update or revise the forward-looking statements made in this news release.



<sup>(1)</sup> **Preliminary Results**

Financial results are preliminary until Ashland's quarterly report on Form 10-Q is filed with the U.S. Securities and Exchange Commission.

<sup>(2)</sup> Generally accepted accounting principles (U.S.)

Ashland Inc. and Consolidated Subsidiaries  
**STATEMENTS OF CONSOLIDATED INCOME**  
(In millions except per share data - preliminary and unaudited)

Table 1

|  | Three months ended<br>June 30 |          | Nine months ended<br>June 30 |          |
|--|-------------------------------|----------|------------------------------|----------|
|  | 2010                          | 2009     | 2010                         | 2009     |
| <b>SALES</b>   | \$ 2,362                      | \$ 2,037 | \$ 6,630                     | \$ 5,993 |
| <b>COSTS AND EXPENSES</b>  |                               |          |                              |          |
| Cost of sales (a)  | 1,838                         | 1,544    | 5,110                        | 4,716    |
| Selling, general and administrative expenses (a)                 | 351                           | 330      | 1,038                        | 976      |
| Research and development expenses (b)                            | 23                            | 23       | 63                           | 73       |
|  | 2,212                         | 1,897    | 6,211                        | 5,765    |
| <b>EQUITY AND OTHER INCOME</b>                                   | 13                            | 12       | 42                           | 29       |
| <b>OPERATING INCOME</b>  | 163                           | 152      | 461                          | 257      |
| Net interest and other financing expense (c)                     | (26)                          | (62)     | (172)                        | (144)    |
| Net gain on acquisitions and divestitures (d)                    | 23                            | 1        | 18                           | 2        |
| Other income and expenses (e)                                    | -                             | -        | 1                            | (86)     |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                         |                               |          |                              |          |
| <b>BEFORE INCOME TAXES</b>                                       | 160                           | 91       | 308                          | 29       |
| Income tax expense   | 26                            | 40       | 79                           | 49       |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>                  | 134                           | 51       | 229                          | (20)     |
| Income (loss) from discontinued operations (net of income taxes) | 14                            | (1)      | 27                           | (2)      |
| <b>NET INCOME (LOSS)</b>   | \$ 148                        | \$ 50    | \$ 256                       | \$ (22)  |
| <b>DILUTED EARNINGS PER SHARE</b>                                |                               |          |                              |          |
| Income (loss) from continuing operations                         | \$ 1.67                       | \$ .68   | \$ 2.89                      | \$ (.27) |
| Income (loss) from discontinued operations                       | .18                           | (.02)    | .34                          | (.03)    |
| Net income (loss)  | \$ 1.85                       | \$ .66   | \$ 3.23                      | \$ (.30) |
| <b>AVERAGE COMMON SHARES AND ASSUMED CONVERSIONS</b>             | 80                            | 75       | 79                           | 72       |
| <b>SALES</b>   |                               |          |                              |          |
| Functional Ingredients   | \$ 227                        | \$ 233   | \$ 677                       | \$ 575   |
| Water Technologies   | 431                           | 436      | 1,323                        | 1,187    |
| Performance Materials  | 357                           | 256      | 932                          | 839      |
| Consumer Markets   | 463                           | 441      | 1,294                        | 1,236    |
| Distribution   | 923                           | 698      | 2,508                        | 2,249    |
| Intersegment sales   | (39)                          | (27)     | (104)                        | (93)     |
|  | \$ 2,362                      | \$ 2,037 | \$ 6,630                     | \$ 5,993 |
| <b>OPERATING INCOME (LOSS)</b>                                   |                               |          |                              |          |
| Functional Ingredients   | \$ 34                         | \$ 24    | \$ 96                        | \$ 13    |
| Water Technologies   | 26                            | 31       | 95                           | 38       |
| Performance Materials  | 12                            | (5)      | 26                           | 6        |
| Consumer Markets   | 73                            | 95       | 209                          | 180      |
| Distribution   | 17                            | 3        | 39                           | 44       |
| Unallocated and other  | 1                             | 4        | (4)                          | (24)     |
|  | \$ 163                        | \$ 152   | \$ 461                       | \$ 257   |

(a) The three and nine months ended June 30, 2009 include \$9 million and \$13 million, respectively, within the cost of sales caption and \$4 million and \$39 million, respectively, within the selling, general and administrative expenses caption for restructuring charges related to the ongoing integration and reorganization from the Hercules Incorporated (Hercules) acquisition and other cost reduction programs. In addition, a charge of \$37 million for the nine months ended June 30, 2009 was recorded within the cost of sales caption for a one-time fair value assessment of Hercules inventory as of the date of the transaction.

(b) The nine months ended June 30, 2009 includes a \$10 million charge related to the valuation of the ongoing research and development projects at Hercules as of the merger date. In accordance with GAAP and SEC accounting regulations applicable at the date of acquisition, these purchased in-process research and development costs were expensed upon acquisition.

(c) The nine months ended June 30, 2010 includes a \$66 million charge related to the refinancing of the Senior Credit Facility and related extinguishment of debt during the March quarter.

(d) Includes a gain of \$23 million for the three and nine months ended June 30, 2010 related to Ashland's acquisition of the additional 50% interest in Ara Quimica S.A. (Ara Quimica).

(e) The nine months ended June 30, 2009 includes a \$54 million loss on currency swaps related to the Hercules acquisition and a \$32 million loss on auction rate securities.

|   | June 30         |                 |
|---|-----------------|-----------------|
|   | 2010            | 2009            |
| <b>ASSETS</b>                               |                 |                 |
| Current assets                              |                 |                 |
| Cash and cash equivalents                   | \$ 484          | \$ 256          |
| Accounts receivable                         | 1,569           | 1,405           |
| Inventories                                 | 611             | 517             |
| Deferred income taxes                       | 102             | 95              |
| Other current assets                        | 50              | 57              |
| Current assets held for sale                | 2               | 89              |
|   | <u>2,818</u>    | <u>2,419</u>    |
| Noncurrent assets                           |                 |                 |
| Auction rate securities                     | 54              | 188             |
| Goodwill                                    | 2,131           | 2,150           |
| Intangibles                                 | 1,103           | 1,178           |
| Asbestos insurance receivable               | 463             | 464             |
| Deferred income taxes                       | 99              | -               |
| Other noncurrent assets                     | 545             | 564             |
| Noncurrent assets held for sale             | 20              | 88              |
|   | <u>4,415</u>    | <u>4,632</u>    |
| Property, plant and equipment               |                 |                 |
| Cost  | 3,370           | 3,448           |
| Accumulated depreciation and amortization   | (1,458)         | (1,334)         |
|   | <u>1,912</u>    | <u>2,114</u>    |
| Total assets                                | <u>\$ 9,145</u> | <u>\$ 9,165</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                 |                 |
| Current liabilities                         |                 |                 |
| Short-term debt                             | \$ 287          | \$ 44           |
| Current portion of long-term debt           | 32              | 71              |
| Trade and other payables                    | 1,020           | 783             |
| Accrued expenses and other liabilities      | 474             | 455             |
| Current liabilities held for sale           | -               | 17              |
|   | <u>1,813</u>    | <u>1,370</u>    |
| Noncurrent liabilities                      |                 |                 |
| Long-term debt                              | 1,102           | 1,878           |
| Employee benefit obligations                | 1,129           | 657             |
| Asbestos litigation reserve                 | 855             | 828             |
| Deferred income taxes                       | -               | 147             |
| Other noncurrent liabilities                | 590             | 578             |
|   | <u>3,676</u>    | <u>4,088</u>    |
| Stockholders' equity                        | <u>3,656</u>    | <u>3,707</u>    |
| Total liabilities and stockholders' equity  | <u>\$ 9,145</u> | <u>\$ 9,165</u> |

Ashland Inc. and Consolidated Subsidiaries  
**STATEMENTS OF CONSOLIDATED CASH FLOWS**  
(In millions - preliminary and unaudited)

Table 3

|   | Nine months ended<br>June 30 |         |
|---|------------------------------|---------|
|   | 2010                         | 2009    |
| <b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS</b>                             |                              |         |
| Net income (loss)   | \$ 256                       | \$ (22) |
| (Income) loss from discontinued operations (net of income taxes)  | (27)                         | 2       |
| Adjustments to reconcile income (loss) from continuing operations to cash flows from operating activities |                              |         |
| Depreciation and amortization   | 226                          | 244     |
| Debt issuance cost amortization   | 77                           | 35      |
| Purchased in-process research and development amortization  | -                            | 10      |
| Deferred income taxes   | 45                           | 33      |
| Equity income from affiliates   | (16)                         | (9)     |
| Distributions from equity affiliates  | 11                           | 13      |
| Gain from sale of property and equipment  | (5)                          | -       |
| Stock based compensation expense  | 10                           | 6       |
| Stock contributions to qualified savings plans  | 18                           | 8       |
| Net gain on acquisitions and divestitures   | (18)                         | (2)     |
| Loss on early retirement of debt  | 5                            | -       |
| Inventory fair value adjustment related to Hercules acquisition   | -                            | 37      |
| Loss on currency swaps related to Hercules acquisition  | -                            | 54      |
| (Gain) loss on auction rate securities  | (1)                          | 32      |
| Change in operating assets and liabilities (a)  | (283)                        | 208     |
|   | 298                          | 649     |
| <b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS</b>                      |                              |         |
| Additions to property, plant and equipment  | (100)                        | (107)   |
| Proceeds from disposal of property, plant and equipment   | 13                           | 5       |
| Purchase of operations - net of cash acquired   | (24)                         | (2,080) |
| Proceeds from sale of operations  | 60                           | 7       |
| Settlement of currency swaps related to Hercules acquisition  | -                            | (95)    |
| Proceeds from sales and maturities of available-for-sale securities                                       | 118                          | 55      |
|   | 67                           | (2,215) |
| <b>CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS</b>                      |                              |         |
| Proceeds from issuance of long-term debt  | 313                          | 2,628   |
| Repayment of long-term debt   | (776)                        | (1,502) |
| Proceeds from/repayments of issuance of short-term debt   | 264                          | 3       |
| Debt issuance costs   | (13)                         | (161)   |
| Cash dividends paid   | (23)                         | (17)    |
| Proceeds from exercise of stock options   | 6                            | 2       |
| Excess tax benefits related to share-based payments   | 2                            | -       |
|   | (227)                        | 953     |
| <b>CASH PROVIDED (USED) BY CONTINUING OPERATIONS</b>  |                              |         |
| Cash provided (used) by discontinued operations   | 138                          | (613)   |
| Operating cash flows  | -                            | (1)     |
| Effect of currency exchange rate changes on cash and cash equivalents                                     | (6)                          | (16)    |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   |                              |         |
|   | 132                          | (630)   |
| Cash and cash equivalents - beginning of year   | 352                          | 886     |
| <b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>  |                              |         |
|   | \$ 484                       | \$ 256  |
| <b>DEPRECIATION AND AMORTIZATION</b>  |                              |         |
| Functional Ingredients  | \$ 75                        | \$ 77   |
| Water Technologies  | 67                           | 66      |
| Performance Materials   | 36                           | 48      |
| Consumer Markets  | 27                           | 26      |
| Distribution  | 21                           | 21      |
| Unallocated and other   | -                            | 6       |
|   | \$ 226                       | \$ 244  |
| <b>ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT</b>   |                              |         |
| Functional Ingredients  | \$ 42                        | \$ 42   |
| Water Technologies  | 17                           | 13      |
| Performance Materials   | 13                           | 16      |
| Consumer Markets  | 16                           | 19      |
| Distribution  | 2                            | 2       |
| Unallocated and other   | 10                           | 15      |
|   | \$ 100                       | \$ 107  |

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

|  | Three months ended<br>June 30 |         | Nine months ended<br>June 30 |         |
|--|-------------------------------|---------|------------------------------|---------|
|  | 2010                          | 2009    | 2010                         | 2009    |
| <b>FUNCTIONAL INGREDIENTS (a) (b)</b>                |                               |         |                              |         |
| Sales per shipping day                               | \$ 3.6                        | \$ 3.7  | \$ 3.6                       | \$ 3.7  |
| Metric tons sold (thousands)                         | 41.5                          | 41.2    | 120.8                        | 112.0   |
| Gross profit as a percent of sales                   | 37.6%                         | 27.6%   | 35.5%                        | 23.1%   |
| <b>WATER TECHNOLOGIES (a) (b)</b>                    |                               |         |                              |         |
| Sales per shipping day                               | \$ 6.8                        | \$ 6.9  | \$ 7.0                       | \$ 6.3  |
| Gross profit as a percent of sales                   | 33.7%                         | 34.7%   | 34.9%                        | 32.8%   |
| <b>PERFORMANCE MATERIALS (a)</b>                     |                               |         |                              |         |
| Sales per shipping day                               | \$ 5.7                        | \$ 4.1  | \$ 5.0                       | \$ 4.5  |
| Pounds sold per shipping day                         | 5.0                           | 3.8     | 4.5                          | 3.9     |
| Gross profit as a percent of sales                   | 16.7%                         | 16.9%   | 17.2%                        | 17.3%   |
| <b>CONSUMER MARKETS (a)</b>                          |                               |         |                              |         |
| Lubricant sales (gallons)                            | 46.2                          | 45.7    | 130.1                        | 116.4   |
| Premium lubricants (percent of U.S. branded volumes) | 30.1%                         | 29.0%   | 29.4%                        | 28.5%   |
| Gross profit as a percent of sales                   | 32.4%                         | 37.5%   | 33.1%                        | 30.8%   |
| <b>DISTRIBUTION (a)</b>                              |                               |         |                              |         |
| Sales per shipping day                               | \$ 14.6                       | \$ 11.1 | \$ 13.3                      | \$ 12.0 |
| Pounds sold per shipping day                         | 15.4                          | 14.1    | 15.0                         | 14.6    |
| Gross profit as a percent of sales (c)               | 9.0%                          | 10.1%   | 9.2%                         | 10.4%   |

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

(b) Industry segment results from November 14, 2008 forward include operations acquired from Hercules Incorporated.

(c) Distribution's gross profit as a percentage of sales for the three and nine months ended June 30, 2009 includes a LIFO quantity credit of \$3 million and \$14 million, respectively.

**RECONCILIATION OF NON-GAAP DATA - INCOME (LOSS) FROM CONTINUING OPERATIONS**

(In millions - preliminary and unaudited)

**Three Months Ended June 30, 2010**

|  | Functional<br>Ingredients | Water<br>Technologies | Performance<br>Materials | Consumer<br>Markets | Distribution | Unallocated<br>& Other | Total         |
|--|---------------------------|-----------------------|--------------------------|---------------------|--------------|------------------------|---------------|
| <b>OPERATING INCOME</b>                          | \$ 34                     | \$ 26                 | \$ 12                    | \$ 73               | \$ 17        | \$ 1                   | \$ 163        |
| <b>NET INTEREST AND OTHER FINANCING EXPENSE</b>  |                           |                       |                          |                     |              | (26)                   | (26)          |
| <b>NET GAIN ON ACQUISITIONS AND DIVESTITURES</b> |                           |                       |                          |                     |              |                        |               |
| Gain on Ara Quimica acquisition                  |                           |                       |                          |                     |              | 23                     | 23            |
| <b>INCOME TAX (EXPENSE) BENEFIT</b>              |                           |                       |                          |                     |              |                        |               |
| Hercules research and development deduction      |                           |                       |                          |                     |              | 22                     | 22            |
| European legal entity restructuring              |                           |                       |                          |                     |              | (6)                    | (6)           |
| Ara Quimica acquisition                          |                           |                       |                          |                     |              | (3)                    | (3)           |
| All other income tax expense                     |                           |                       |                          |                     |              | (39)                   | (39)          |
|  |                           |                       |                          |                     |              | (26)                   | (26)          |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>  | <u>\$ 34</u>              | <u>\$ 26</u>          | <u>\$ 12</u>             | <u>\$ 73</u>        | <u>\$ 17</u> | <u>\$ (28)</u>         | <u>\$ 134</u> |

**Three Months Ended June 30, 2009**

|  | Functional<br>Ingredients | Water<br>Technologies | Performance<br>Materials | Consumer<br>Markets | Distribution | Unallocated<br>& Other | Total        |
|--|---------------------------|-----------------------|--------------------------|---------------------|--------------|------------------------|--------------|
| <b>OPERATING INCOME (LOSS)</b>                     |                           |                       |                          |                     |              |                        |              |
| Severance  | \$ -                      | \$ -                  | \$ (1)                   | \$ -                | \$ (3)       | \$ -                   | \$ (4)       |
| Accelerated depreciation                           | -                         | -                     | (9)                      | -                   | -            | -                      | (9)          |
| Joint venture plant closing costs                  | -                         | -                     | (3)                      | -                   | -            | -                      | (3)          |
| All other operating income                         | 24                        | 31                    | 8                        | 95                  | 6            | 4                      | 168          |
|  | <u>24</u>                 | <u>31</u>             | <u>(5)</u>               | <u>95</u>           | <u>3</u>     | <u>4</u>               | <u>152</u>   |
| <b>NET INTEREST AND OTHER FINANCING EXPENSE</b>    |                           |                       |                          |                     |              |                        |              |
| Accelerated debt amortization due to retirement    |                           |                       |                          |                     |              | (10)                   | (10)         |
| All other net interest and other financing expense |                           |                       |                          |                     |              | (52)                   | (52)         |
|  |                           |                       |                          |                     |              | (62)                   | (62)         |
| <b>NET GAIN ON ACQUISITIONS AND DIVESTITURES</b>   |                           |                       |                          |                     |              | 1                      | 1            |
| <b>INCOME TAX EXPENSE</b>                          |                           |                       |                          |                     |              |                        |              |
| Unfavorable tax judgment in a foreign jurisdiction |                           |                       |                          |                     |              | (8)                    | (8)          |
| All other income tax expense                       |                           |                       |                          |                     |              | (32)                   | (32)         |
|  |                           |                       |                          |                     |              | (40)                   | (40)         |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>    | <u>\$ 24</u>              | <u>\$ 31</u>          | <u>\$ (5)</u>            | <u>\$ 95</u>        | <u>\$ 3</u>  | <u>\$ (97)</u>         | <u>\$ 51</u> |

**RECONCILIATION OF NON-GAAP DATA - FREE CASH FLOW**

(In millions - preliminary and unaudited)

|   | Three months ended<br>June 30 |               | Nine months ended<br>June 30 |               |
|---|-------------------------------|---------------|------------------------------|---------------|
|   | <b>2010</b>                   | <b>2009</b>   | <b>2010</b>                  | <b>2009</b>   |
| Free cash flow                                    |                               |               |                              |               |
| Total cash flows provided by operating activities |                               |               |                              |               |
| from continuing operations                        | \$ 80                         | \$ 355        | \$ 298                       | \$ 649        |
| Less:   |                               |               |                              |               |
| Additions to property, plant and equipment        | (40)                          | (27)          | (100)                        | (107)         |
| Cash dividends paid                               | (12)                          | (6)           | (23)                         | (17)          |
| Free cash flows                                   | <u>\$ 28</u>                  | <u>\$ 322</u> | <u>\$ 175</u>                | <u>\$ 525</u> |

Ashland Inc. and Consolidated Subsidiaries  
**RECONCILIATION OF NON-GAAP DATA - ADJUSTED EBITDA**  
(In millions - preliminary and unaudited)

Table 7

|  | Three months ended<br>June 30 |               |
|--|-------------------------------|---------------|
|  | 2010                          | 2009          |
| Adjusted EBITDA - Ashland Inc.                           |                               |               |
| Operating income   | \$ 163                        | \$ 152        |
| Add:   |                               |               |
| Depreciation and amortization (a)                        | 74                            | 80            |
| Key items (see Table 5)                                  | -                             | 16            |
| Adjusted EBITDA  | <u>\$ 237</u>                 | <u>\$ 248</u> |
| Adjusted EBITDA - Ashland Aqualon Functional Ingredients |                               |               |
| Operating income   | \$ 34                         | \$ 24         |
| Add:   |                               |               |
| Depreciation and amortization                            | 24                            | 26            |
| Key items (see Table 5)                                  | -                             | -             |
| Adjusted EBITDA  | <u>\$ 58</u>                  | <u>\$ 50</u>  |
| Adjusted EBITDA - Water Technologies                     |                               |               |
| Operating income   | \$ 26                         | \$ 31         |
| Add:   |                               |               |
| Depreciation and amortization                            | 22                            | 25            |
| Key items (see Table 5)                                  | -                             | -             |
| Adjusted EBITDA  | <u>\$ 48</u>                  | <u>\$ 56</u>  |
| Adjusted EBITDA - Performance Materials                  |                               |               |
| Operating income   | \$ 12                         | \$ (5)        |
| Add:   |                               |               |
| Depreciation and amortization (a)                        | 12                            | 12            |
| Key items (see Table 5)                                  | -                             | 13            |
| Adjusted EBITDA  | <u>\$ 24</u>                  | <u>\$ 20</u>  |
| Adjusted EBITDA - Consumer Markets                       |                               |               |
| Operating income   | \$ 73                         | \$ 95         |
| Add:   |                               |               |
| Depreciation and amortization                            | 9                             | 8             |
| Key items (see Table 5)                                  | -                             | -             |
| Adjusted EBITDA  | <u>\$ 82</u>                  | <u>\$ 103</u> |
| Adjusted EBITDA - Distribution                           |                               |               |
| Operating income   | \$ 17                         | \$ 3          |
| Add:   |                               |               |
| Depreciation and amortization                            | 7                             | 7             |
| Key items (see Table 5)                                  | -                             | 3             |
| Adjusted EBITDA  | <u>\$ 24</u>                  | <u>\$ 13</u>  |

(a) Depreciation and amortization for the three months ended June 30, 2009 excludes \$8 million of accelerated depreciation, which is displayed as a key item within this table.