

STATEMENTS OF CONSOLIDATED INCOME

(In millions except per share data - preliminary and unaudited)

	Three months ended September 30		Year ended September 30	
	2010	2009	2010	2009
SALES	\$ 2,382	\$ 2,113	\$ 9,012	\$ 8,106
COSTS AND EXPENSES				
Cost of sales (a)	1,903	1,601	7,012	6,317
Selling, general and administrative expenses (a)	360	365	1,399	1,341
Research and development expenses (b)	23	23	86	96
	<u>2,286</u>	<u>1,989</u>	<u>8,497</u>	<u>7,754</u>
EQUITY AND OTHER INCOME	<u>10</u>	<u>9</u>	<u>51</u>	<u>38</u>
OPERATING INCOME	106	133	566	390
Net interest and other financing expense (c)	(27)	(60)	(197)	(205)
Net gain on acquisitions and divestitures (d)	4	57	21	59
Other income and expenses (e)	1	-	2	(86)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	84	130	392	158
Income tax expense	12	32	91	80
INCOME FROM CONTINUING OPERATIONS	<u>72</u>	<u>98</u>	<u>301</u>	<u>78</u>
Income (loss) from discontinued operations (net of income taxes)	4	(5)	31	(7)
NET INCOME	<u>\$ 76</u>	<u>\$ 93</u>	<u>\$ 332</u>	<u>\$ 71</u>
DILUTED EARNINGS PER SHARE				
Income from continuing operations	\$.91	\$ 1.30	\$ 3.79	\$ 1.07
Income (loss) from discontinued operations	.05	(.08)	.39	(.11)
Net income	<u>\$.96</u>	<u>\$ 1.22</u>	<u>\$ 4.18</u>	<u>\$.96</u>
AVERAGE COMMON SHARES AND ASSUMED CONVERSIONS	80	76	79	73
SALES				
Functional Ingredients	\$ 239	\$ 237	\$ 915	\$ 812
Water Technologies	462	465	1,785	1,652
Performance Materials	353	268	1,286	1,106
Consumer Markets	462	414	1,755	1,650
Distribution	911	771	3,419	3,020
Intersegment sales	(45)	(42)	(148)	(134)
	<u>\$ 2,382</u>	<u>\$ 2,113</u>	<u>\$ 9,012</u>	<u>\$ 8,106</u>
OPERATING INCOME (LOSS)				
Functional Ingredients	\$ 19	\$ 22	\$ 115	\$ 36
Water Technologies	19	40	114	78
Performance Materials	(2)	(5)	23	1
Consumer Markets	52	72	262	252
Distribution	17	8	55	52
Unallocated and other	1	(4)	(3)	(29)
	<u>\$ 106</u>	<u>\$ 133</u>	<u>\$ 566</u>	<u>\$ 390</u>

(a) The three months and year ended September 30, 2010 include \$17 million within the cost of sales caption for a restructuring charge related to a reorganization within the Performance Materials segment. The three months and year ended September 30, 2009 include \$4 million and \$17 million, respectively, within the cost of sales caption and \$19 million and \$58 million, respectively, within the selling, general and administrative expenses caption for restructuring charges related to the integration and reorganization from the Hercules Incorporated (Hercules) acquisition and other cost reduction programs. In addition, a charge of \$37 million for the year ended September 30, 2009 was recorded for a one-time fair value assessment of Hercules inventory as of the date of the transaction.

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

(c) The year ended September 30, 2010 includes a \$66 million charge related to the refinancing of the Senior Credit Facility and related extinguishment of debt.

(d) The year ended September 30, 2010 includes a \$23 million gain related to Ashland's acquisition of the additional 50% interest in Ara Quimica S.A. (Ara Quimica). The three months and year ended September 30, 2009 include a \$56 million gain related to the sale of Ashland's interest in Drew Marine, a division within Ashland Hercules Water Technologies.

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

Ashland Inc. and Consolidated Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions - preliminary and unaudited)

Table 2

	September 30	
	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 417	\$ 352
Accounts receivable	1,608	1,392
Inventories	644	527
Deferred income taxes	112	118
Other assets	52	48
Current assets held for sale	-	41
	<u>2,833</u>	<u>2,478</u>
Noncurrent assets		
Auction rate securities	22	170
Goodwill	2,228	2,220
Intangibles	1,113	1,181
Asbestos insurance receivable	459	510
Deferred income taxes	336	310
Other assets	513	619
Noncurrent assets held for sale	9	52
	<u>4,680</u>	<u>5,062</u>
Property, plant and equipment		
Cost	3,537	3,459
Accumulated depreciation and amortization	(1,519)	(1,392)
	<u>2,018</u>	<u>2,067</u>
Total assets	<u>\$ 9,531</u>	<u>\$ 9,607</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt	\$ 71	\$ 23
Current portion of long-term debt	45	53
Trade and other payables	1,043	973
Accrued expenses and other liabilities	528	523
Current liabilities held for sale	-	5
	<u>1,687</u>	<u>1,577</u>
Noncurrent liabilities		
Long-term debt	1,108	1,537
Employee benefit obligations	1,372	1,214
Asbestos litigation reserve	841	956
Deferred income taxes	145	149
Other liabilities	575	590
	<u>4,041</u>	<u>4,446</u>
Stockholders' equity	<u>3,803</u>	<u>3,584</u>
Total liabilities and stockholders' equity	<u>\$ 9,531</u>	<u>\$ 9,607</u>

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions - preliminary and unaudited)

	Year ended September 30	
	2010	2009
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	\$ 332	\$ 71
(Income) loss from discontinued operations (net of income taxes)	(31)	7
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	304	329
Debt issuance cost amortization	81	52
Purchased in-process research and development amortization	-	10
Deferred income taxes	9	12
Equity income from affiliates	(19)	(14)
Distributions from equity affiliates	17	15
Gain from sale of property and equipment	(6)	(2)
Stock based compensation expense	14	9
Stock contributions to qualified savings plans	22	13
Net gain on acquisitions and divestitures	(21)	(59)
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	(2)	32
Change in operating assets and liabilities (a)	(188)	461
	<u>517</u>	<u>1,027</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(206)	(174)
Proceeds from disposal of property, plant and equipment	18	47
Purchase of operations - net of cash acquired	(23)	(2,080)
Proceeds from sale of operations	64	114
Settlement of currency swaps related to Hercules acquisition	-	(95)
Proceeds from sales and maturities of available-for-sale securities	150	73
	<u>3</u>	<u>(2,115)</u>
CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Proceeds from issuance of long-term debt	334	2,628
Repayment of long-term debt	(780)	(1,862)
Proceeds from/repayments of issuance of short-term debt	48	(19)
Debt issuance costs	(13)	(162)
Cash dividends paid	(35)	(22)
Proceeds from exercise of stock options	6	9
Excess tax benefits related to share-based payments	5	1
	<u>(435)</u>	<u>573</u>
CASH PROVIDED (USED) BY CONTINUING OPERATIONS		
Cash used by discontinued operations		
Operating cash flows	(10)	(2)
Effect of currency exchange rate changes on cash and cash equivalents	(10)	(17)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>65</u>	<u>(534)</u>
Cash and cash equivalents - beginning of year	352	886
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 417</u>	<u>\$ 352</u>
DEPRECIATION AND AMORTIZATION		
Functional Ingredients	\$ 99	\$ 101
Water Technologies	88	94
Performance Materials	53	63
Consumer Markets	36	36
Distribution	28	28
Unallocated and other	-	7
	<u>\$ 304</u>	<u>\$ 329</u>
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Functional Ingredients	\$ 75	\$ 58
Water Technologies	32	26
Performance Materials	29	27
Consumer Markets	39	33
Distribution	14	8
Unallocated and other	17	22
	<u>\$ 206</u>	<u>\$ 174</u>

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

	Three months ended September 30		Year ended September 30	
	2010	2009	2010	2009
FUNCTIONAL INGREDIENTS (a) (b)				
Sales per shipping day	\$ 3.7	\$ 3.7	\$ 3.6	\$ 3.7
Metric tons sold (thousands)	42.8	42.0	163.6	154.1
Gross profit as a percent of sales (c)	28.7%	35.6%	33.7%	26.7%
WATER TECHNOLOGIES (a) (b)				
Sales per shipping day	\$ 7.2	\$ 7.3	\$ 7.1	\$ 6.6
Gross profit as a percent of sales (c)	31.7%	36.7%	34.1%	33.9%
PERFORMANCE MATERIALS (a)				
Sales per shipping day	\$ 5.5	\$ 4.2	\$ 5.1	\$ 4.4
Pounds sold per shipping day	4.8	3.9	4.5	3.9
Gross profit as a percent of sales	12.8%	16.0%	16.0%	17.0%
CONSUMER MARKETS (a)				
Lubricant sales (gallons)	44.2	42.4	174.3	158.8
Premium lubricants (percent of U.S. branded volumes)	30.2%	27.2%	29.6%	28.2%
Gross profit as a percent of sales	28.9%	35.5%	32.0%	32.0%
DISTRIBUTION (a)				
Sales per shipping day	\$ 14.2	\$ 12.1	\$ 13.6	\$ 12.0
Pounds sold per shipping day	15.3	14.9	15.1	14.7
Gross profit as a percent of sales (d)	9.4%	8.8%	9.3%	10.0%

(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) During 2009, year-to-date results were affected in Functional Ingredients and Water Technologies by \$30 million and \$7 million, respectively, due to a one-time fair value assessment of Hercules inventory.

(d) Distribution's gross profit as a percentage of sales for the three months ended September 30, 2010 and 2009 include a LIFO quantity charge of \$2 million and credit of \$1 million, respectively, and charge of \$2 million and credit of \$15 million for the twelve months ended September 30, 2010 and 2009, respectively.

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

(In millions - preliminary and unaudited)

	Three Months Ended September 30, 2010						
	Functional Ingredients	Water Technologies	Performance Materials	Consumer Markets	Distribution	Unallocated & Other	Total
OPERATING INCOME (LOSS)							
Severance	\$ -	\$ -	\$ (11)	\$ -	\$ -	\$ -	\$ (11)
Accelerated depreciation/impairment	-	-	(6)	-	-	-	(6)
Environmental reserve adjustment	-	-	-	-	(6)	-	(6)
All other operating income	19	19	15	52	23	1	129
Operating income	<u>19</u>	<u>19</u>	<u>(2)</u>	<u>52</u>	<u>17</u>	<u>1</u>	<u>106</u>
NET INTEREST AND OTHER FINANCING EXPENSE						(27)	(27)
NET GAIN ON ACQUISITIONS AND DIVESTITURES						4	4
OTHER INCOME						1	1
INCOME TAX (EXPENSE) BENEFIT						8	8
Previous acquisition and divestiture adjustments						(20)	(20)
All other income tax expense						<u>(12)</u>	<u>(12)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 19</u>	<u>\$ 19</u>	<u>\$ (2)</u>	<u>\$ 52</u>	<u>\$ 17</u>	<u>\$ (33)</u>	<u>\$ 72</u>

	Three Months Ended September 30, 2009						
	Functional Ingredients	Water Technologies	Performance Materials	Consumer Markets	Distribution	Unallocated & Other	Total
OPERATING INCOME (LOSS)							
Severance	\$ (9)	\$ (2)	\$ (5)	\$ -	\$ (1)	\$ (3)	\$ (20)
Self-insurance reserve adjustment	-	3	4	3	4	-	14
Accelerated depreciation	-	-	(3)	-	-	-	(3)
All other operating income	31	39	(1)	69	5	(1)	142
Operating income	<u>22</u>	<u>40</u>	<u>(5)</u>	<u>72</u>	<u>8</u>	<u>(4)</u>	<u>133</u>
NET GAIN ON DIVESTITURES						56	56
Drew Marine divestiture						1	1
All other divestitures						<u>57</u>	<u>57</u>
NET INTEREST AND OTHER FINANCING EXPENSE						(9)	(9)
Fees and amortization related to debt retirements						(51)	(51)
All other net interest and other financing expense						<u>(60)</u>	<u>(60)</u>
INCOME TAX EXPENSE						(12)	(12)
Income tax on key items						(20)	(20)
All other income tax expense						<u>(32)</u>	<u>(32)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 22</u>	<u>\$ 40</u>	<u>\$ (5)</u>	<u>\$ 72</u>	<u>\$ 8</u>	<u>\$ (39)</u>	<u>\$ 98</u>

RECONCILIATION OF NON-GAAP DATA - FREE CASH FLOW

(In millions - preliminary and unaudited)

	Three months ended September 30		Year ended September 30	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Free cash flow				
<u>Total cash flows provided by operating activities</u>				
from continuing operations	\$ 220	\$ 378	\$ 517	\$ 1,027
Less:				
Additions to property, plant and equipment	106	67	206	174
Cash dividends paid	12	6	35	22
Free cash flows	<u>\$ 102</u>	<u>\$ 305</u>	<u>\$ 276</u>	<u>\$ 831</u>

RECONCILIATION OF NON-GAAP DATA - ADJUSTED EBITDA

(In millions - preliminary and unaudited)

	Three months ended September 30	
	2010	2009
Adjusted EBITDA - Ashland Inc.		
Operating income	\$ 106	\$ 133
Add:		
Depreciation and amortization (a)	72	82
Key items (see Table 5)	23	9
Adjusted EBITDA	<u>\$ 201</u>	<u>\$ 224</u>
Adjusted EBITDA - Ashland Aqualon Functional Ingredients		
Operating income	\$ 19	\$ 22
Add:		
Depreciation and amortization	24	25
Key items (see Table 5)	-	9
Adjusted EBITDA	<u>\$ 43</u>	<u>\$ 56</u>
Adjusted EBITDA - Water Technologies		
Operating income	\$ 19	\$ 40
Add:		
Depreciation and amortization	21	27
Key items (see Table 5)	-	(1)
Adjusted EBITDA	<u>\$ 40</u>	<u>\$ 66</u>
Adjusted EBITDA - Performance Materials		
Operating income	\$ (2)	\$ (5)
Add:		
Depreciation and amortization (a)	11	13
Key items (see Table 5)	17	4
Adjusted EBITDA	<u>\$ 26</u>	<u>\$ 12</u>
Adjusted EBITDA - Consumer Markets		
Operating income	\$ 52	\$ 72
Add:		
Depreciation and amortization	9	10
Key items (see Table 5)	-	(3)
Adjusted EBITDA	<u>\$ 61</u>	<u>\$ 79</u>
Adjusted EBITDA - Distribution		
Operating income	\$ 17	\$ 8
Add:		
Depreciation and amortization	7	7
Key items (see Table 5)	6	(3)
Adjusted EBITDA	<u>\$ 30</u>	<u>\$ 12</u>

(a) Depreciation and amortization for the three months ended September 30, 2010 and 2009 excludes \$6 million and \$3 million of accelerated depreciation, respectively, which is displayed as a key item within this table.