

STATEMENTS OF CONSOLIDATED INCOME

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

	Three months ended December 31	
	<u>2010</u>	<u>2009</u>
SALES	\$ 1,433	\$ 1,324
COSTS AND EXPENSES		
Cost of sales	1,040	906
Selling, general and administrative expense	286	284
Research and development expense	20	20
	<u>1,346</u>	<u>1,210</u>
EQUITY AND OTHER INCOME	<u>12</u>	<u>13</u>
OPERATING INCOME	99	127
Net interest and other financing expense	(27)	(41)
Net gain on acquisitions and divestitures (a)	21	-
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	93	86
Income tax expense	31	22
INCOME FROM CONTINUING OPERATIONS	<u>62</u>	<u>64</u>
Income from discontinued operations (net of income taxes) (b)	25	22
NET INCOME	<u>\$ 87</u>	<u>\$ 86</u>
DILUTED EARNINGS PER SHARE		
Income from continuing operations	\$.78	\$.82
Income from discontinued operations	.31	.28
Net income	<u>\$ 1.09</u>	<u>\$ 1.10</u>
AVERAGE COMMON SHARES AND ASSUMED CONVERSIONS	80	78
SALES		
Functional Ingredients	\$ 216	\$ 210
Water Technologies	451	443
Performance Materials	326	271
Consumer Markets	440	400
	<u>\$ 1,433</u>	<u>\$ 1,324</u>
OPERATING INCOME (LOSS)		
Functional Ingredients	\$ 19	\$ 27
Water Technologies	24	39
Performance Materials	6	8
Consumer Markets	65	67
Unallocated and other (c)	(15)	(14)
	<u>\$ 99</u>	<u>\$ 127</u>

(a) Includes a gain of \$19 million for the three months ended December 31, 2010 related to the formation of an expanded global joint venture with Süd-Chemie AG. The gain is primarily attributable to the fair value remeasurement of the net assets contributed to the joint venture exceeding the recorded values.

(b) Includes income of \$23 million and \$12 million for the three months ended December 31, 2010 and 2009, respectively, related to direct results of the Distribution business. Due to its expected sale, the direct results of this business have been presented as discontinued operations for each period presented in accordance with U.S. GAAP.

(c) Includes \$11 million and \$13 million of costs for the three months ended December 31, 2010 and 2009, respectively, previously charged to the Distribution business. These costs include former Distribution liabilities that have been retained by Ashland such as pension, postretirement and environmental costs, as well as indirect corporate cost allocations previously charged to this business.

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

Table 2

	December 31 <u>2010</u>	September 30 <u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 374	\$ 417
Accounts receivable	1,005	1,115
Inventories	497	447
Deferred income taxes	112	112
Held for sale (a)	656	693
Other assets	<u>61</u>	<u>49</u>
	2,705	2,833
Noncurrent assets		
Auction rate securities	22	22
Goodwill	2,083	2,148
Intangibles	1,089	1,111
Asbestos insurance receivable	452	459
Deferred income taxes	336	336
Held for sale (a)	271	270
Other assets	<u>623</u>	<u>514</u>
	4,876	4,860
Property, plant and equipment		
Cost	3,003	3,096
Accumulated depreciation and amortization	<u>(1,235)</u>	<u>(1,258)</u>
	1,768	1,838
Total assets	<u>\$ 9,349</u>	<u>\$ 9,531</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt	\$ 77	\$ 71
Current portion of long-term debt	39	45
Trade and other payables	640	727
Accrued expenses and other liabilities	404	523
Held for sale (a)	<u>274</u>	<u>321</u>
	1,434	1,687
Noncurrent liabilities		
Long-term debt (noncurrent portion)	1,114	1,108
Employee benefit obligations	1,368	1,372
Asbestos litigation reserve (noncurrent portion)	826	841
Deferred income taxes	149	145
Other liabilities	<u>581</u>	<u>575</u>
	4,038	4,041
Stockholders' equity	<u>3,877</u>	<u>3,803</u>
Total liabilities and stockholders' equity	<u>\$ 9,349</u>	<u>\$ 9,531</u>

(a) Primarily relates to assets and liabilities of the Distribution business that have qualified for held for sale classification in accordance with U.S. GAAP due to its expected sale.

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions - preliminary and unaudited)

	Three months ended December 31	
	2010	2009
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	\$ 87	\$ 86
Income from discontinued operations (net of income taxes)	(25)	(22)
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	73	74
Debt issuance cost amortization	4	6
Deferred income taxes	4	26
Equity income from affiliates	(3)	(6)
Distributions from equity affiliates	2	6
Gain from sale of property and equipment	(3)	(2)
Stock based compensation expense	4	3
Stock contributions to qualified savings plans	12	9
Net gain on acquisitions and divestitures	(21)	-
Change in operating assets and liabilities (a)	(172)	(125)
	<u>(38)</u>	<u>55</u>
CASH FLOWS (USED) PROVIDED BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(22)	(21)
Proceeds from disposal of property, plant and equipment	4	3
Purchase of operations - net of cash acquired	(5)	-
Proceeds from sale of operations or equity investments	21	-
Proceeds from sales and maturities of available-for-sale securities	-	44
	<u>(2)</u>	<u>26</u>
CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Proceeds from issuance of long-term debt	11	-
Repayment of long-term debt	(10)	(25)
Proceeds from short-term debt	6	6
Cash dividends paid	(12)	(6)
Proceeds from exercise of stock options	1	1
Excess tax benefits related to share-based payments	1	-
	<u>(3)</u>	<u>(24)</u>
CASH (USED) PROVIDED BY CONTINUING OPERATIONS		
Cash (used) provided by discontinued operations		
Operating cash flows	-	(7)
Investing cash flows	(1)	-
Effect of currency exchange rate changes on cash and cash equivalents	1	4
	<u>(43)</u>	<u>54</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents - beginning of year	417	352
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 374</u>	<u>\$ 406</u>
DEPRECIATION AND AMORTIZATION		
Functional Ingredients	\$ 24	\$ 27
Water Technologies	21	24
Performance Materials	18	13
Consumer Markets	9	9
Unallocated and other	1	1
	<u>\$ 73</u>	<u>\$ 74</u>
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Functional Ingredients	\$ 9	\$ 10
Water Technologies	6	3
Performance Materials	3	2
Consumer Markets	3	3
Unallocated and other	1	3
	<u>\$ 22</u>	<u>\$ 21</u>

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

Ashland Inc. and Consolidated Subsidiaries
INFORMATION BY INDUSTRY SEGMENT
(In millions - preliminary and unaudited)

Table 4

	Three months ended December 31	
	2010	2009
FUNCTIONAL INGREDIENTS (a)		
Sales per shipping day	\$ 3.5	\$ 3.4
Metric tons sold (thousands)	38.5	37.4
Gross profit as a percent of sales	31.2%	33.7%
WATER TECHNOLOGIES (a)		
Sales per shipping day	\$ 7.3	\$ 7.2
Gross profit as a percent of sales	31.6%	36.6%
PERFORMANCE MATERIALS (a)		
Sales per shipping day	\$ 5.3	\$ 4.4
Pounds sold per shipping day	4.5	4.0
Gross profit as a percent of sales	14.6%	18.4%
CONSUMER MARKETS (a)		
Lubricant sales (gallons)	40.4	40.3
Premium lubricants (percent of U.S. branded volumes)	30.2%	28.3%
Gross profit as a percent of sales	30.9%	33.9%
DISTRIBUTION (a), (b)		
Sales per shipping day	\$ 13.8	\$ 11.8
Pounds sold per shipping day	14.7	14.3
Gross profit as a percent of sales	8.8%	9.2%

(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) For the three months ended December 31, 2010 and 2009, results for Distribution have been reported as discontinued operations.

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

(In millions - preliminary and unaudited)

Three Months Ended December 31, 2010

	Functional Ingredients	Water Technologies	Performance Materials	Consumer Markets	Unallocated & Other	Total
OPERATING INCOME (LOSS)						
Castings Solutions transaction and start up costs	\$ -	\$ -	\$ (2)	\$ -	\$ (1)	\$ (3)
Accelerated depreciation	-	-	(7)	-	-	(7)
All other operating income	19	24	15	65	(14)	109
Operating income	19	24	6	65	(15)	99
NET INTEREST AND OTHER FINANCING EXPENSE					(27)	(27)
NET GAIN ON ACQUISITIONS AND DIVESTITURES						
Castings Solutions market valuation of contribution					19	19
MAP Transaction					2	2
					21	21
INCOME TAX (EXPENSE) BENEFIT						
Research and development income tax credits					4	4
Castings Solutions market valuation of contribution					(16)	(16)
Other key items					3	3
All other income tax expense					(22)	(22)
					(31)	(31)
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 19</u>	<u>\$ 24</u>	<u>\$ 6</u>	<u>\$ 65</u>	<u>\$ (52)</u>	<u>\$ 62</u>

Three Months Ended December 31, 2009

	Functional Ingredients	Water Technologies	Performance Materials	Consumer Markets	Unallocated & Other	Total
OPERATING INCOME (LOSS)						
All other operating income	\$ 27	\$ 39	\$ 8	\$ 67	\$ (14)	\$ 127
NET INTEREST AND OTHER FINANCING EXPENSE					(41)	(41)
INCOME TAX (EXPENSE) BENEFIT						
Discrete tax matters					6	6
All other income tax expense					(28)	(28)
					(22)	(22)
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 27</u>	<u>\$ 39</u>	<u>\$ 8</u>	<u>\$ 67</u>	<u>\$ (77)</u>	<u>\$ 64</u>

RECONCILIATION OF NON-GAAP DATA - FREE CASH FLOW

(In millions - preliminary and unaudited)

	Three months ended December 31	
	<u>2010</u>	<u>2009</u>
Free cash flow		
<hr/> Total cash flows provided by operating activities		
from continuing operations	\$ (38)	\$ 55
Less:		
Additions to property, plant and equipment	(22)	(21)
Cash dividends paid	(12)	(6)
Free cash flows	<u>\$ (72)</u>	<u>\$ 28</u>

RECONCILIATION OF NON-GAAP DATA - ADJUSTED EBITDA

(In millions - preliminary and unaudited)

	Three months ended December 31	
	2010	2009
Adjusted EBITDA - Ashland Inc.		
Operating income	\$ 99	\$ 127
Add:		
Depreciation and amortization (a)	66	74
Key items (see Table 5)	10	-
Adjusted EBITDA	<u>\$ 175</u>	<u>\$ 201</u>
Adjusted EBITDA - Ashland Aqualon Functional Ingredients		
Operating income	\$ 19	\$ 27
Add:		
Depreciation and amortization	24	27
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 43</u>	<u>\$ 54</u>
Adjusted EBITDA - Water Technologies		
Operating income	\$ 24	\$ 39
Add:		
Depreciation and amortization	21	24
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 45</u>	<u>\$ 63</u>
Adjusted EBITDA - Performance Materials		
Operating income	\$ 6	\$ 8
Add:		
Depreciation and amortization (a)	11	13
Key items (see Table 5)	9	-
Adjusted EBITDA	<u>\$ 26</u>	<u>\$ 21</u>
Adjusted EBITDA - Consumer Markets		
Operating income	\$ 65	\$ 67
Add:		
Depreciation and amortization	9	9
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 74</u>	<u>\$ 76</u>

(a) Depreciation and amortization for the three months ended December 31, 2010 excludes \$7 million of accelerated depreciation, which is displayed as a key item within this table.