

STATEMENTS OF CONSOLIDATED INCOME

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

	Three months ended June 30		Nine months ended June 30	
	2010	2009	2010	2009
SALES	\$ 2,362	\$ 2,037	\$ 6,630	\$ 5,993
COSTS AND EXPENSES				
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
	<u>2,212</u>	<u>1,897</u>	<u>6,211</u>	<u>5,765</u>
EQUITY AND OTHER INCOME	13	12	42	29
OPERATING INCOME	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)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	160	91	308	29
Income tax expense	26	40	79	49
INCOME (LOSS) FROM CONTINUING OPERATIONS	134	51	229	(20)
Income (loss) from discontinued operations (net of income taxes)	14	(1)	27	(2)
NET INCOME (LOSS)	<u>\$ 148</u>	<u>\$ 50</u>	<u>\$ 256</u>	<u>\$ (22)</u>
DILUTED EARNINGS PER SHARE				
Income (loss) from continuing operations	\$ 1.67	\$.68	\$ 2.89	\$ (.27)
Income (loss) from discontinued operations	.18	(.02)	.34	(.03)
Net income (loss)	<u>\$ 1.85</u>	<u>\$.66</u>	<u>\$ 3.23</u>	<u>\$ (.30)</u>
AVERAGE COMMON SHARES AND ASSUMED CONVERSIONS	80	75	79	72
SALES				
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)
	<u>\$ 2,362</u>	<u>\$ 2,037</u>	<u>\$ 6,630</u>	<u>\$ 5,993</u>
OPERATING INCOME (LOSS)				
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)
	<u>\$ 163</u>	<u>\$ 152</u>	<u>\$ 461</u>	<u>\$ 257</u>

(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.

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

Table 2

	June 30	
	<u>2010</u>	<u>2009</u>
ASSETS		
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	<u>2</u>	<u>89</u>
	2,818	2,419
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	<u>20</u>	<u>88</u>
	4,415	4,632
Property, plant and equipment		
Cost	3,370	3,448
Accumulated depreciation and amortization	<u>(1,458)</u>	<u>(1,334)</u>
	1,912	2,114
Total assets	<u><u>\$ 9,145</u></u>	<u><u>\$ 9,165</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
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	<u>-</u>	<u>17</u>
	1,813	1,370
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	<u>590</u>	<u>578</u>
	3,676	4,088
Stockholders' equity	<u>3,656</u>	<u>3,707</u>
Total liabilities and stockholders' equity	<u><u>\$ 9,145</u></u>	<u><u>\$ 9,165</u></u>

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions - preliminary and unaudited)

	Nine months ended June 30	
	<u>2010</u>	<u>2009</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
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)	<u>(283)</u>	<u>208</u>
	298	649
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
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	<u>118</u>	<u>55</u>
	67	(2,215)
CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
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	<u>2</u>	<u>-</u>
	(227)	953
	138	(613)
CASH PROVIDED (USED) BY CONTINUING OPERATIONS		
Cash provided (used) by discontinued operations		
Operating cash flows	-	(1)
Effect of currency exchange rate changes on cash and cash equivalents	<u>(6)</u>	<u>(16)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	132	(630)
Cash and cash equivalents - beginning of year	<u>352</u>	<u>886</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 484</u>	<u>\$ 256</u>
DEPRECIATION AND AMORTIZATION		
Functional Ingredients	\$ 75	\$ 77
Water Technologies	67	66
Performance Materials	36	48
Consumer Markets	27	26
Distribution	21	21
Unallocated and other	<u>-</u>	<u>6</u>
	<u>\$ 226</u>	<u>\$ 244</u>
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Functional Ingredients	\$ 42	\$ 42
Water Technologies	17	13
Performance Materials	13	16
Consumer Markets	16	19
Distribution	2	2
Unallocated and other	<u>10</u>	<u>15</u>
	<u>\$ 100</u>	<u>\$ 107</u>

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

	Three months ended June 30		Nine months ended June 30	
	2010	2009	2010	2009
FUNCTIONAL INGREDIENTS (a) (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%
WATER TECHNOLOGIES (a) (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%
PERFORMANCE MATERIALS (a)				
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%
CONSUMER MARKETS (a)				
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%
DISTRIBUTION (a)				
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 Ingredients	Water Technologies	Performance Materials	Consumer Markets	Distribution	Unallocated & Other	Total
OPERATING INCOME	\$ 34	\$ 26	\$ 12	\$ 73	\$ 17	\$ 1	\$ 163
NET INTEREST AND OTHER FINANCING EXPENSE						(26)	(26)
NET GAIN ON ACQUISITIONS AND DIVESTITURES							
Gain on Ara Quimica acquisition						23	23
INCOME TAX (EXPENSE) BENEFIT							
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)
INCOME (LOSS) FROM CONTINUING OPERATIONS	<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 Ingredients	Water Technologies	Performance Materials	Consumer Markets	Distribution	Unallocated & Other	Total
OPERATING INCOME (LOSS)							
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>
NET INTEREST AND OTHER FINANCING EXPENSE							
Accelerated debt amortization due to retirement						(10)	(10)
All other net interest and other financing expense						(52)	(52)
						(62)	(62)
NET GAIN ON ACQUISITIONS AND DIVESTITURES							
						1	1
INCOME TAX EXPENSE							
Unfavorable tax judgment in a foreign jurisdiction						(8)	(8)
All other income tax expense						(32)	(32)
						(40)	(40)
INCOME (LOSS) FROM CONTINUING OPERATIONS	<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 June 30		Nine months ended June 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	\$ 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>

RECONCILIATION OF NON-GAAP DATA - ADJUSTED EBITDA

(In millions - preliminary and unaudited)

	Three months ended 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.