

STATEMENTS OF CONSOLIDATED INCOME

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

	Three months ended March 31		Six months ended March 31	
	2010	2009	2010	2009 (e)
SALES	\$ 2,248	\$ 1,990	\$ 4,268	\$ 3,956
COSTS AND EXPENSES				
Cost of sales (a)	1,738	1,531	3,272	3,172
Selling, general and administrative expenses (a)	354	329	688	646
Research and development expenses (b)	20	23	40	50
	<u>2,112</u>	<u>1,883</u>	<u>4,000</u>	<u>3,868</u>
EQUITY AND OTHER INCOME	<u>15</u>	<u>5</u>	<u>29</u>	<u>17</u>
OPERATING INCOME	151	112	297	105
Net interest and other financing expense (c)	(103)	(54)	(145)	(82)
Net loss on divestitures	(5)	(1)	(5)	-
Other income and expenses (d)	-	-	1	(86)
INCOME (LOSS) FROM CONTINUING OPERATIONS				
BEFORE INCOME TAXES	43	57	148	(63)
Income tax expense	23	9	53	8
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>20</u>	<u>48</u>	<u>95</u>	<u>(71)</u>
Income from discontinued operations (net of income taxes)	2	-	13	-
NET INCOME (LOSS)	<u>\$ 22</u>	<u>\$ 48</u>	<u>\$ 108</u>	<u>\$ (71)</u>
DILUTED EARNINGS PER SHARE				
Income (loss) from continuing operations	\$.25	\$.65	\$ 1.21	\$ (1.00)
Income from discontinued operations	.02	-	.16	-
Net income (loss)	<u>\$.27</u>	<u>\$.65</u>	<u>\$ 1.37</u>	<u>\$ (1.00)</u>
AVERAGE COMMON SHARES AND ASSUMED CONVERSIONS	80	74	79	71
SALES				
Functional Ingredients	\$ 240	\$ 223	\$ 450	\$ 342
Water Technologies	449	433	892	751
Performance Materials	304	259	576	583
Consumer Markets	430	407	830	795
Distribution	857	698	1,586	1,551
Intersegment sales	(32)	(30)	(66)	(66)
	<u>\$ 2,248</u>	<u>\$ 1,990</u>	<u>\$ 4,268</u>	<u>\$ 3,956</u>
OPERATING INCOME (LOSS)				
Functional Ingredients	\$ 34	\$ (3)	\$ 61	\$ (10)
Water Technologies	31	13	70	7
Performance Materials	6	5	14	11
Consumer Markets	69	66	136	85
Distribution	17	31	22	40
Unallocated and other	(6)	-	(6)	(28)
	<u>\$ 151</u>	<u>\$ 112</u>	<u>\$ 297</u>	<u>\$ 105</u>

(a) The three and six months ended March 31, 2009 includes a \$5 million and \$31 million severance charge within the selling, general and administrative expenses caption for the ongoing integration and reorganization from the Hercules acquisition and other cost reduction programs and a \$16 million and \$37 million charge 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 six months ended March 31, 2009 includes a \$10 million charge related to the valuation of the ongoing research and development projects at Hercules as of the acquisition date. In accordance with applicable GAAP and SEC accounting regulations, these purchased in-process research and development costs should be expensed upon acquisition.

(c) The three and six months ended March 31, 2010 includes a \$66 million charge related to the refinancing and significant extinguishment of debt completed during this period.

(d) The six months ended March 31, 2009 includes a \$54 million loss on currency swaps related to the Hercules acquisition and a \$32 million loss on auction rate securities.

(e) Results from November 14, 2008 forward include operations acquired from Hercules Incorporated.

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

Table 2

	March 31	
	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 499	\$ 203
Accounts receivable	1,494	1,357
Inventories	581	579
Deferred income taxes	98	93
Other current assets	61	75
Current assets held for sale	2	93
	<u>2,735</u>	<u>2,400</u>
Noncurrent assets		
Auction rate securities	86	214
Goodwill	2,167	2,074
Intangibles	1,150	1,293
Asbestos insurance receivable	478	440
Deferred income taxes	91	-
Other noncurrent assets	545	584
Noncurrent assets held for sale	23	86
	<u>4,540</u>	<u>4,691</u>
Property, plant and equipment		
Cost	3,386	3,410
Accumulated depreciation and amortization	(1,422)	(1,264)
	<u>1,964</u>	<u>2,146</u>
Total assets	<u>\$ 9,239</u>	<u>\$ 9,237</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt	\$ 339	\$ 84
Current portion of long-term debt	23	94
Trade and other payables	1,056	738
Accrued expenses and other liabilities	440	457
Current liabilities held for sale	-	16
	<u>1,858</u>	<u>1,389</u>
Noncurrent liabilities		
Long-term debt	1,101	2,084
Employee benefit obligations	1,126	667
Asbestos litigation reserve	899	796
Deferred income taxes	-	218
Other noncurrent liabilities	573	540
	<u>3,699</u>	<u>4,305</u>
Stockholders' equity	<u>3,682</u>	<u>3,543</u>
Total liabilities and stockholders' equity	<u>\$ 9,239</u>	<u>\$ 9,237</u>

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions - preliminary and unaudited)

	Six months ended March 31	
	2010	2009
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income (loss)	\$ 108	\$ (71)
Income from discontinued operations (net of income taxes)	(13)	-
Adjustments to reconcile income (loss) from continuing operations to cash flows from operating activities		
Depreciation and amortization	153	156
Debt issuance cost amortization	74	16
Purchased in-process research and development amortization	-	10
Deferred income taxes	55	2
Equity income from affiliates	(12)	(7)
Distributions from equity affiliates	6	4
Gain from sale of property and equipment	(4)	-
Stock based compensation expense	7	3
Stock contributions to qualified savings plans	13	4
Net loss on divestitures	5	-
Loss on early retirement of debt	4	-
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)	(177)	54
	<u>218</u>	<u>294</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(60)	(80)
Proceeds from disposal of property, plant and equipment	9	4
Purchase of operations - net of cash acquired	-	(2,078)
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	85	29
	<u>94</u>	<u>(2,213)</u>
CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Proceeds from issuance of long-term debt	300	2,000
Repayment of long-term debt	(773)	(645)
Proceeds from/repayments of issuance of short-term debt	317	43
Debt issuance costs	(12)	(137)
Cash dividends paid	(12)	(11)
Proceeds from exercise of stock options	4	-
Excess tax benefits related to share-based payments	1	-
	<u>(175)</u>	<u>1,250</u>
CASH PROVIDED (USED) BY CONTINUING OPERATIONS		
Cash provided by discontinued operations		
Operating cash flows	12	3
Effect of currency exchange rate changes on cash and cash equivalents	(2)	(17)
	<u>147</u>	<u>(683)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents - beginning of year	352	886
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 499</u>	<u>\$ 203</u>
DEPRECIATION AND AMORTIZATION		
Functional Ingredients	\$ 51	\$ 49
Water Technologies	46	41
Performance Materials	24	27
Consumer Markets	18	18
Distribution	14	15
Unallocated and other	-	6
	<u>\$ 153</u>	<u>\$ 156</u>
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Functional Ingredients	\$ 25	\$ 27
Water Technologies	11	9
Performance Materials	7	18
Consumer Markets	9	15
Distribution	1	1
Unallocated and other	7	10
	<u>\$ 60</u>	<u>\$ 80</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 March 31		Six months ended March 31	
	2010	2009	2010	2009
FUNCTIONAL INGREDIENTS (a) (b)				
Sales per shipping day	\$ 3.8	\$ 3.5	\$ 3.6	\$ 3.7
Metric tons sold (thousands)	41.9	46.4	79.3	70.8
Gross profit as a percent of sales	34.9%	22.4%	34.3%	20.0%
WATER TECHNOLOGIES (a) (b)				
Sales per shipping day	\$ 7.1	\$ 6.9	\$ 7.1	\$ 6.0
Gross profit as a percent of sales	34.5%	32.6%	35.5%	31.6%
PERFORMANCE MATERIALS (a)				
Sales per shipping day	\$ 4.8	\$ 4.1	\$ 4.6	\$ 4.7
Pounds sold per shipping day	4.4	3.7	4.2	4.0
Gross profit as a percent of sales	16.5%	19.5%	17.4%	17.5%
CONSUMER MARKETS (a)				
Lubricant sales (gallons)	43.7	37.7	83.9	70.7
Premium lubricants (percent of U.S. branded volumes)	29.6%	29.1%	29.0%	28.2%
Gross profit as a percent of sales	33.0%	32.2%	33.4%	27.1%
DISTRIBUTION (a)				
Sales per shipping day	\$ 13.6	\$ 11.1	\$ 12.7	\$ 12.4
Pounds sold per shipping day	15.4	14.3	14.9	14.9
Gross profit as a percent of sales (c)	9.3%	12.8%	9.3%	10.5%

(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 six months ended March 31, 2009 includes a LIFO quantity credit of \$11 million.

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

(In millions - preliminary and unaudited)

Three Months Ended March 31, 2010

	Functional Ingredients	Water Technologies	Performance Materials	Consumer Markets	Distribution	Unallocated & Other	Total
OPERATING INCOME (LOSS)							
All other operating income (loss)	\$ 34	\$ 31	\$ 6	\$ 69	\$ 17	\$ (6)	\$ 151
NET INTEREST AND OTHER FINANCING EXPENSE							
Accelerated amortization of debt issuance costs						(62)	(62)
Loss on early debt retirement						(4)	(4)
All other net interest and other financing expense						(37)	(37)
						(103)	(103)
NET LOSS ON DIVESTITURES							
Medicare Part D accrual for MAP retirees						(5)	(5)
INCOME TAX EXPENSE							
Medicare Part D deferred tax accrual						(14)	(14)
All other income tax expense						(9)	(9)
						(23)	(23)
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 34</u>	<u>\$ 31</u>	<u>\$ 6</u>	<u>\$ 69</u>	<u>\$ 17</u>	<u>\$ (137)</u>	<u>\$ 20</u>

Three Months Ended March 31, 2009

	Functional Ingredients	Water Technologies	Performance Materials	Consumer Markets	Distribution	Unallocated & Other	Total
OPERATING INCOME (LOSS)							
Severance	\$ (1)	\$ -	\$ (3)	\$ -	\$ -	\$ (1)	\$ (5)
Inventory fair value adjustment	(16)	-	-	-	-	-	(16)
Asset impairments and accelerated depreciation	-	-	(2)	-	-	(4)	(6)
Currency gain on intracompany loan	-	-	-	-	-	5	5
All other operating income	14	13	10	66	31	-	134
Operating income (loss)	<u>(3)</u>	<u>13</u>	<u>5</u>	<u>66</u>	<u>31</u>	<u>-</u>	<u>112</u>
NET INTEREST AND OTHER FINANCING EXPENSE							
						(54)	(54)
NET LOSS ON DIVESTITURES							
						(1)	(1)
INCOME TAX EXPENSE							
						(9)	(9)
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ (3)</u>	<u>\$ 13</u>	<u>\$ 5</u>	<u>\$ 66</u>	<u>\$ 31</u>	<u>\$ (64)</u>	<u>\$ 48</u>

RECONCILIATION OF NON-GAAP DATA - FREE CASH FLOW

(In millions - preliminary and unaudited)

	Three months ended March 31		Six months ended March 31	
	<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	\$ 183	\$ 220	\$ 218	\$ 294
Less:				
Additions to property, plant and equipment	(39)	(42)	(60)	(80)
Cash dividends paid	(6)	(5)	(12)	(11)
Free cash flows	<u>\$ 138</u>	<u>\$ 173</u>	<u>\$ 146</u>	<u>\$ 203</u>

RECONCILIATION OF NON-GAAP DATA - ADJUSTED EBITDA

(In millions - preliminary and unaudited)

	Three months ended March 31	
	2010	2009
<u>Adjusted EBITDA - Ashland Inc.</u>		
Operating Income	\$ 151	\$ 112
Add:		
Depreciation and amortization	73	93
Key items (see Table 5)	-	16
Adjusted EBITDA	<u>\$ 224</u>	<u>\$ 221</u>
<u>Adjusted EBITDA - Ashland Aqualon Functional Ingredients</u>		
Operating Income	\$ 34	\$ (3)
Add:		
Depreciation and amortization	24	33
Key items (see Table 5)	-	17
Adjusted EBITDA	<u>\$ 58</u>	<u>\$ 47</u>
<u>Adjusted EBITDA - Water Technologies</u>		
Operating Income	\$ 31	\$ 13
Add:		
Depreciation and amortization	21	25
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 52</u>	<u>\$ 38</u>
<u>Adjusted EBITDA - Performance Materials</u>		
Operating Income	\$ 6	\$ 5
Add:		
Depreciation and amortization	12	13
Key items (see Table 5)	-	5
Adjusted EBITDA	<u>\$ 18</u>	<u>\$ 23</u>
<u>Adjusted EBITDA - Consumer Markets</u>		
Operating Income	\$ 69	\$ 66
Add:		
Depreciation and amortization	9	9
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 78</u>	<u>\$ 75</u>
<u>Adjusted EBITDA - Distribution</u>		
Operating Income	\$ 17	\$ 31
Add:		
Depreciation and amortization	7	7
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 24</u>	<u>\$ 38</u>