

— PARTICIPANTS

Corporate Participants

Jason L. Thompson – Director, Investor Relations, Ashland, Inc.

John E. Panichella – Senior Vice President and Group Operating Officer of Ashland; and President, Ashland Specialty Ingredients, Ashland, Inc.

Luis Fernandez-Moreno – Vice President and President, Ashland Water Technologies, Ashland, Inc.

Lamar M. Chambers – Senior Vice President and Chief Financial Officer, Ashland, Inc.

James J. O'Brien – Chairman and Chief Executive Officer, Ashland, Inc.

J. Kevin Willis – Vice President, Finance, Ashland, Inc.

Other Participants

David I. Begleiter – Analyst, Deutsche Bank Securities, Inc.

John McNulty – Analyst, Credit Suisse Securities (USA) LLC (Broker)

Rob Walker – Analyst, Jefferies & Co., Inc.

Jeffrey Zekauskas – Analyst, JPMorgan Securities LLC

Michael J. Harrison – Analyst, First Analysis Securities Corp.

Michael J. Sison – Analyst, KeyBanc Capital Markets

James Sheehan – Analyst, SunTrust Robinson Humphrey

John E. Roberts – Analyst, UBS Securities LLC

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Ashland, Inc. Second Quarter Earnings Call. [Operator Instructions].

I would now like to turn the conference over to your host, Mr. Jason Thompson, Director of Investor Relations. Sir, you may begin.

Jason L. Thompson, Director, Investor Relations

Thank you, Ben. Good morning, and welcome to Ashland's second quarter fiscal 2013 conference call and webcast. We released results for the quarter ended March 31, 2013, at approximately 6:00 a.m. Eastern Time today, and this presentation should be viewed in conjunction with the earnings release. These results are preliminary until we file our 10-Q.

On the call today are: Ashland's Chairman and Chief Executive Officer, Jim O'Brien; Lamar Chambers, Senior Vice President and Chief Financial Officer; John Panichella, Senior Vice President and Group Operating Officer responsible for Ashland Specialty Ingredients and Ashland Water Technologies; and Luis Fernandez-Moreno, Vice President and President of Ashland Water Technologies.

As shown on slide two, our remarks today will include forward-looking statements as that term is defined in securities laws. We believe any such statements are based on reasonable assumptions, but cannot assure that such expectations will be achieved. Please also note that during this presentation, we will be discussing adjusted results. We believe this will enhance understanding of our performance by more accurately reflecting our ongoing business.

Please turn to slide three for our second quarter highlights. In the March 2013 quarter, we reported earnings of \$0.68 per share from continuing operations. When adjusted for key items, EPS was \$1.78, as compared to \$1.52 in the year ago quarter, a 17% increase from prior year.

Sales during the quarter were \$2 billion, a 5% decline versus prior year. We continued to see soft volumes in a few geographies, particularly Western Europe. Despite the soft macroeconomic environment, adjusted EBITDA rose 3% to \$339 million, with EBITDA margin of 17.2%.

During the quarter, we strengthened our capital structure by refinancing our debt. We locked in attractive interest rates, extended and better staggered our maturity schedule and put in place investment grade covenants. We accomplished this while keeping our expected book interest expense for the year unchanged. In addition, we generated \$144 million of free cash flow during the quarter, taking us to \$174 million through the first six months of the year.

Slide four details our key items. In total, five key items had a net unfavorable EPS impact on continuing operations of \$1.10 in the second quarter. The first key item is a \$2 million after-tax charge or a negative \$0.03 per share related to an impairment of the in process research and development acquired with ISP. As part of the initial ISP purchase accounting, values were assigned to a number of R&D projects then in the pipeline. During the quarter, we discontinued one particular project in order to increase focus on higher return opportunities.

The second key item is an \$11 million after-tax charge or a negative \$0.13 per share related to various cost restructuring efforts and integration activities. Roughly two-thirds of this charge is for severance related to the restructuring of the Water Technologies business, which will be described later in the presentation. The remainder is primarily related to the ISP integration.

Both the third and the fourth key items are related to the debt restructuring completed during the quarter. The third is a \$34 million after-tax cash charge or a negative \$0.43 per share related to the termination of interest rate swaps on the term loans under our credit facility. The fourth key item is a \$32 million after-tax non-cash charge or a negative \$0.39 per share associated with the accelerated amortization of debt expense and similar charges from the previous financing.

Lastly, we incurred a net \$9 million tax expense or a negative \$0.12 per share primarily resulting from a foreign tax assessment. In the year-ago quarter, three key items combined for a net unfavorable impact on earnings of \$0.39 per share. To aid in your analysis versus the peer group, Ashland's results included \$29 million of intangible amortization expense during the March 2013 quarter. We carry higher than average amortization due to our corporate transformation and prior acquisition. Without this amortization, earnings would be roughly \$0.25 higher or \$2.03 per share.

Please turn to slide five for Ashland's adjusted results. Ashland's March quarter sales decreased 5% from the prior year to \$2 billion. We continued to see weakness in our more commoditized products, including straight-guar, solvents, and elastomers, with sales falling a combined 20% year-over-year for these products. In total, we experienced continued – in addition we experienced continued softness in Europe and Latin America. On a sequential basis, we did see improvement, with sales growing 6%.

Gross profit as a percent of sales was 28.8%, up 90 basis points compared to a year ago, and up 120 basis points sequentially. Selling, general and administrative and research and development expenses, collectively referred to as SG&A, declined 4% year-over-year. EBITDA increased \$10 million or 3% versus prior year. EBITDA margin increased 140 basis points to 17.2% compared to the year-ago period.

Now turn to slide six to review our volume trends. This chart shows underlying volume trends on a normalized and rolling four quarters basis, by totaling the trailing four quarters for each period, we are eliminating seasonality and showing yearly growth. The data have been normalized for

acquisitions, divestitures and joint ventures. As shown here, volumes in Specialty Ingredients have declined slightly in recent quarters. This decline is primarily related to the commodity product lines of guar and Intermediates and Solvents. Performance Materials was negatively affected by a 20% decline in elastomers volumes, driven by weakness in the North American replacement tire market. Water Technologies volumes were slightly ahead of last year. Volumes in consumer markets declined as a result of continued softness in the North America DIY market.

Now let's turn to slide seven for Ashland's overall EBITDA bridge. This chart shows what led to the March quarter's performance as compared with the year-ago period. Volume was an \$11 million headwind to EBITDA, driven by volume declines in Specialty Ingredients and Performance Materials. Lower margins within Specialty Ingredients primarily related to guar offset gains elsewhere. SG&A, which is adjusted for currency translation, contributed \$19 million to EBITDA with pension income accounting for roughly one-third of this increase. Currency translations and other items represented a \$6 million tailwind to EBITDA. All together, EBITDA increased by \$10 million compared to a year ago.

Now, let's turn to slide eight. Total liquidity, which is cash plus available revolver, and AR capacity was \$1.5 billion at quarter-end. The \$75 million increase versus the December quarter is due primarily to the larger revolver established as part of the recent refinancing. During the quarter we paid down \$44 million of debt. Our gross debt now stands at \$3.5 billion, and our net debt is \$3 billion.

As part of our refinancing, we replaced our previous secured term loans A and B with \$2.3 billion worth of unsecured bonds in four tranches, with maturities ranging from 3 years to 30 years. Rates range from 3% on the three-year bonds to 6.875% on the 30-year issuance. We also replaced our revolver with a \$1.2 billion unsecured five-year facility, reducing the rate 25 basis points. In addition, we essentially doubled the weighted average maturity to almost 10-years, and added an investment-grade covenant package. We continued to have more than \$400 million of pre-payable debt and have another \$600 million due in 2016.

I'll now turn the presentation over to John Panichella who will begin with slide nine.

John E. Panichella, Senior Vice President and Group Operating Officer of Ashland; and President, Ashland Specialty Ingredients

Thank you, Jason, and good morning, everyone. Before we get started on the financial results for Specialty Ingredients, I'd like to take a few moments to provide some additional details about the guar's impact on our business over the past two years.

As you know, in the first quarter, we incurred a charge of \$31 million related to the write-down of straight-guar inventories. In the second quarter, we sold this entire inventory at no margin. Looking at the broader market for straight-guar, the pace of orders has slowed as fracking activity has declined. Given the changing dynamics in this industry, we will only selectively participate in straight-guar for the remainder of the year. Despite a typical seasonal upswing in fracking activity, we expect volumes in the second half of the year to be roughly equal to the first half.

Prices for guar split have appeared to have stabilized at around \$5.50 per kilogram, significantly lower than the highs reached in 2012. Due to these changing dynamics, we expect margins on straight-guar to come in below our historical average.

Most of our guar related issues have been centered on our straight-guar product line. However, we did experience a decline in our derivative guar volumes and sales during the quarter. This stemmed mostly from reduced energy demand and customer order patterns. We expect performance to return to more historical levels as we move through the balance of the year.

Let's turn to slide 10, and I'll provide a detailed look at our guar performance over the past two years. On this chart, we provide quarterly sales for all guar products going back to the first quarter of 2011. As you can see, guar contributed significantly during 2012. Sales increased more than 200% year-over-year, and though not shown here, gross profit increased by more than 250%. In total, guar contributed \$169 million to Specialty Ingredient's overall gross profit in 2012. These results are not indicative of our future expectations as we expect our guar related sales going forward to be closer to the third and fourth quarter 2011 levels.

It's worth noting that excluding guar, our sales in 2012 grew 4% and gross profit increased 8%, when compared to the prior year. This in spite of a challenging economic backdrop, particularly in key emerging regions, that we have targeted for growth.

Historically, the straight-guar business has been a stable business for us, and broadly speaking, we think it will continue to be. In response to last year's guar issues, market participants have changed their behavior. We are responding to these changes in several ways. As I mentioned before, we will only selectively participate in the straight-guar market going forward. This will enable us to maintain tighter control over working capital and focus on the most attractive margin opportunities.

Additionally, we are investing in technology to fill gaps that exist in the market today. These technologies are based on both guar and substitute platforms, and we are working closely with our customers to develop these for launch.

Please turn to slide 11. Our fiscal second quarter was a significant improvement sequentially. Volumes were up 13% versus the December quarter. Compared to a year ago, volumes declined 4%. Excluding Intermediates, and Solvents and guar, year-over-year volumes rose 1% with positive gains in hair, oral, non-guar, energy and pharmaceutical. Overall, Specialty Ingredient sales increased 10% from the December quarter. Versus prior year, sales were down 6%. Some of that decline is related to stronger guar pricing in the year ago period.

Additionally, many of our product lines benefited from better pricing over costs a year ago. We've held much of that pricing for an extended period, but the market is softening, and we're having to give back price to protect our positions. Price over cost is now moving into parity.

Gross profit as a percent of sales was 30.5%, 300 basis points below the prior year. Excluding guar, gross profit percent would have been roughly flat with the prior year.

For the third quarter, we expect gross profit to remain flat to slightly up, as we confront a still sluggish energy fracking market and pricing pressure in our coatings, construction, and Intermediates and Solvents businesses.

SG&A fell 3% from the prior year to \$119 million. Overall EBITDA fell 16% to \$156 million, and EBITDA as a percent of sales declined 280 basis points to 22.9%.

Slide 12 shows Specialty Ingredients EBITDA bridge. Volume declines in intermediate and solvents and guar offset increases elsewhere. The guar decline, coupled with pricing pressure in our Intermediates and Solvents business, were the largest contributors to the year-over-year decline in EBITDA. This is captured in the margin category on the slide. Versus the prior-year quarter, EBITDA was down \$30 million. Together, the impact from the guar decline and intermediate and solvents prices created a \$39 million headwind to EBITDA. Excluding this, EBITDA would have been up \$9 million.

Please turn to slide 13. Overall, the business held up well during a tough economic environment. We saw healthy demand in North America, although it was offset by weakness in Western Europe.

In emerging markets, sales were lower than our historical growth trend with particular weakness in Latin America.

Sales in our Pharmaceutical business were up 3% compared to the prior year. This is somewhat below our historical average and is partially due to a change in customer mix within our generic channel. Non-guar energy, which represents 35% of our energy business, continues to perform well with year-over-year increases in sales and volume, with particular strength coming from international markets. Sales and volume in our Personal Care business were flat year-over-year with growth in hair and oral offset by declines in Home and Skin Care. Excluding Western Europe, Personal Care sales grew 6% from the prior-year. As a result of the weak economy in Western Europe, we're seeing some trading down from higher end Personal Care products where we participate.

In our coatings business, we've seen some demand erosion in the past few months and we've had to adjust pricing to maintain our market position. In addition to the soft demand environment, new capacity has been added to the market. These additions are consistent with historical trends. Despite these factors, our volumes for the quarter were flat with the prior year. We do believe that the broader decline in demand is temporary. Maintaining and expanding our customer base in a soft market will position us well for the future. With continued strength in the rebounding North America housing market, and a more positive outlook in Asia, we are optimistic about coatings volumes for the second half of fiscal 2013.

Our construction business has also experienced reduced demand. We operate primarily in the construction dry mortar industry and our business is highly concentrated in Europe. The weak economy there has negatively affected our business. Like coatings, we've done a good job of maintaining share in this tough market. We've seen a recent pick up in emerging regions and are optimistic about continued improvement. Going forward, we expect to see seasonal improvements in demand and anticipate that emerging markets will strengthen in the second half of the year. However, we remain concerned about Europe and are cautious about supply and demand imbalances putting pressure on prices. We remain focused on growth by building strong relationships with key global and regional customers, investing in new products and technology, and investing in the emerging regions. As a result, we are well positioned to benefit once demand improves.

I'll now turn the presentation over to Luis, and ask that you turn to slide 14.

Luis Fernandez-Moreno, Vice President and President, Ashland Water Technologies

Thank you, John. Before we move into the financials, I'd like to say, I am excited to lead a global specialty solutions provider to the Pulp and Paper and Industrial markets. I have no doubt that we have the capabilities within the business to position Water Technologies for systematic growth, value generation, and improved competitiveness. Overall, Water Technologies' performance has stabilized. Volumes were slightly ahead of prior-year, while sales declined 1% to \$424 million. Normalizing for currency effects and divestitures, sales were up 1% over the prior year. Gross profit margin increased 120 basis points year-over-year to 33.3%.

SG&A declined \$3 million from the December quarter. Beginning July 1, we expect to fully achieve our target of \$20 million in annualized run rate savings from the previously announced global restructuring of the Water Technologies business. I'll describe these realignments as well as our other strategic initiatives in more detail later.

On a sequential basis, EBITDA increased 15% to \$39 million, flat with the prior year. EBITDA as a percent of sales increased 110 basis points from the December quarter to 9.2%.

The performance of our Paper business has improved with the year-over-year growth in both sales and profitability. Although our Industrial Water business continues to struggle, we're hopeful for improvement over the course of the year. Much of our reorganization has been focused on this part of the business, as we work to restore growth. Geographically, Latin America remains a strong region for Water Technologies broadly and our paper business is performing very well in Asia.

Now, let's turn to the bridge on slide 15. Margin improvement, driven by lower input costs, was the largest contributor to the year-over-year increases in EBITDA. When normalized for currency, higher SG&A expenses roughly offset this benefit. The other column consists of our divested North American Lubes and Commercial businesses, as well as a favorable settlement on an intellectual property lawsuit in China that we received in the year ago quarter. In total EBITDA was flat with the prior year.

Please turn to slide 16, where I will discuss our plans to improve the Water Technologies business. On March 25, we announced our reorganization of Water Technologies into two business units, Pulp and Paper and Industrial Water. This reorganization is critical to improving the performance of the business and was focused on two objectives: simplifying the organization and improving execution. As part of this effort, I have brought in external talent to bolster our capabilities, particularly in the Industrial Water space. These leaders bring a wealth of industry experience in customer insights and a track record of performance. Together, we're focused on improving our marketing efforts, expanding geographic growth capabilities and driving execution through solid processes, all while we continue our commitment to innovation.

The first step to accomplishing these goals is to reduce complexity and SG&A costs. We have reorganized across too many business units, sharing elements of both the Pulp and Paper and the Industrial Water businesses. This led to a large middle-management structure, which limited our ability to develop focused strategies and prevented us from effectively executing at the customer level. Establishing separate commercial organizations, each with a streamline reporting structure will improve our focus on responsiveness to changes in the marketplace.

We are a global leader in the paper business where two-thirds of our sales come from the growing Tissue and Towel and Packaging markets. We intend to build on this leadership position by offering improved technologies needed by the industry and by gaining share in emerging regions. As I discussed before, the paper business has stabilized as we reported profitable growth in the second quarter. We expect this growth to continue as we gain new business from innovative products and geographic growth.

The Industrial Water business includes both our water utility and municipal waste-water treatment segments. The business has been tough for us and we're still in the process of stabilizing it. A renewed focus will lead to better customer retention and enable us to grow through our product portfolio, new equipment technologies and improved execution in target subsegments where we offer unique customer value. Much of our new talent was brought in to lead and manage key areas of our Industrial Water business. They'll come with subject matter expertise and successful track records in the space.

With these measures, we expect to get this business back to top line growth during the next few months. In addition, we have realigned our sales and support structures to the most attractive segments and market opportunities. This includes staffing specific positions within the marketing organization and in key emerging markets, while reducing the overall size of our middle management team. In total, we have taken out \$20 million of annual SG&A expenses when compared to our first quarter run rate. We began to see the benefits in the second quarter but we expect to achieve the full annualized run rate in savings beginning July 1, 2013.

Let's go to the next slide. The second step to accomplishing our goals is to improve our overall execution. We're doing this by enhancing our commercial processes to increase our

responsiveness and agility. This includes forming a multi-regional marketing team to drive better market understanding and in particular, a more sustainable and valuable offering to our customers. We're implementing more consistent processes for selling, pricing and channel and contract management. This will increase our corporate account presence and focus, enabling us to gain and retain business.

We're also revamping sales and operations planning to improve supply chain execution, ultimately reducing delivery time to customers and improving our cost position. Lastly, we will continue to innovate in the marketplace. Technology is critically important and we have a solid position. When I came to Ashland, I found a business with a rich pipeline of innovative platforms that addressed and met needs in the marketplace. Some of these platforms are in the process of being launched while others are still in development. As we continue to focus on innovation as a way to differentiate and add value to our customers, the improved execution that will come from streamlining the organization will foster more efficient introduction of new technologies and industry solutions.

After a few months in the business, I really can see that we have a strong position in the paper market. We lead with innovative chemistries and excellent service. We have strong pipeline in the growing Tissue and Towel and Packaging markets, while we are developing some traction in the emerging economies. We expect to deliver continued profitable growth in this segment.

Within Industrial Water it will require more time for us to get to the right growth and profitability levels. However, we have the tools to do it. With our renewed strategic focus and the right talent in place, along with a complete product portfolio that offers innovative monitoring, diagnosis and feeding equipment, we will improve execution at the customer level. We expect these combined efforts to lead us back to top-line growth and improved performance on a quarterly basis.

I will now turn the presentation over to Lamar, who will discuss Performance Materials, financial results.

Lamar M. Chambers, Senior Vice President and Chief Financial Officer

Thank you, Luis. And good morning, everyone. Performance Materials reported volumes declined 6% and sales fell 8% from the year ago quarter, driven by weakness in our elastomers business. Our elastomers were sold primarily into the North American replacement tire market, which has been weak for the past several quarters. Coupled with above normal elastomer volumes in the year ago quarter, this contributed to the year-over-year decline. Sequentially, volumes rose 6%, roughly in line with normal seasonality.

Adhesives and composites volumes increased 9% from the December quarter with particular strength coming from North America. Gross profit percent was 14.6%. The decline was due to lower margins in elastomers. Adhesives and Composites gross profit increased 13% sequentially. SG&A was \$41 million, 7% below the prior quarter.

While not explicitly shown on this slide, equity income from our Casting Solutions joint venture was flat with the prior year. This includes a favorable \$3 million one-time tax adjustment that shows up within Performance Materials operating income, which was fully offset in the income tax expense caption of Ashland's income statement. EBITDA declined 6% year-over-year, while EBITDA margin improved 20 basis points.

Now let's turn to slide 19. Margin improvement contributed \$4 million to the EBITDA, but was more than offset by declines in elastomer volumes. SG&A adjusted for currency was down \$2 million. On this bridge, the effects of the ASK Chemicals joint venture and the divested PVAc business are captured in the other category and are up \$1 million as a tailwind to EBITDA. In total, EBITDA was down \$2 million during the quarter.

Now, let's go to Consumer Markets on slide 20. Consumer Markets had another strong quarter with significant expansion and earnings driven by lower raw material costs. Lubricant volumes were down 4% versus the prior year, but rose 6% sequentially. Roughly three-fourths of the volume decline versus the prior year is attributable to the previously disclosed loss of a low margin tolling account. Such accounts are not a core part of our business strategy and typically have a minimal effect on earnings. This is the last quarter for this comparative impact.

Volumes on our higher margin DIY branded business were essentially flat with the prior year. All other channels, excluding DIY reported a 2% increase in volumes over the year ago quarter. Overall, we expect volumes for the second half of the year to be roughly flat with the prior year period.

Sales of \$494 million were down 5% compared with the prior year. The decline is primarily due to lower overall selling prices as a result of the lower raw material costs. Gross profit as a percent of sales increased 550 basis points year-over-year to 31.9%. This improvement is due to a number of raw material decreases announced over the last year with the most recent being in early January. We do not expect this elevated level of profitability to continue, as raw material costs have recently risen.

Including the effect of 4% price increase that we announced last week, gross profit in the third quarter is expected to be approximately 30%, assuming no further movement in raw material costs. SG&A was flat with the prior year. We do expect to increase our advertising spend in the third quarter for the summer driving season. Overall, Consumer Markets generated EBITDA of \$88 million, a 33% increase year-over-year. We achieved EBITDA margins of 17.8%.

Now, please turn to slide 21 for Consumer Markets EBITDA bridge. Higher margins were the primary driver of the year-over-year increase in EBITDA, accounting for \$19 million of EBITDA growth. This was driven by falling input costs as previously discussed. In total, it was another strong quarter for Consumer Markets with EBITDA increasing by \$22 million from the prior year.

Please turn to side 22 for a look at some corporate items. Capital expenditures were \$66 million for the March 2013 quarter, bringing our year-to-date total to approximately \$117 million. Our full year 2013 forecast for capital expenditures has been reduced to \$340 million, versus our prior estimate of \$385 million. This reflects a deferral of certain capital spending consistent with the current demand environment. After adjusting for key items related to the debt refinancing, net interest expense in the quarter was \$46 million. This is in line with our previous guidance of \$180 million for the full year. Excluding key items, our effective tax rate for the quarter was 24%. We now anticipate our effective tax rate for the full fiscal year to be in the range of 25% to 27%. We generated \$144 million of free cash flow during the quarter.

Now, I'll turn the presentation over to Jim O'Brien for his closing comments starting on slide 23.

James J. O'Brien, Chairman and Chief Executive Officer

Thanks, Lamar, and good morning, everyone. As you've heard today, Ashland had mixed results in the second quarter. On a year-over-year basis, our performance was disappointing as we were below our long term targets. However, we achieved EBITDA of \$339 million during the quarter and adjusted EPS of \$1.78, a 17% increase over prior year.

In Specialty Ingredients, sales and volumes were down year-over-year, due mostly to guar and Intermediates and Solvents. In addition, we saw continued weak demand for our coatings and construction businesses in Western Europe and Latin America. However, we continue to see solid

performance from pharmaceutical, hair and oral care, with a combined 3% increase in sales and 5% in gross profit from prior year.

On a sequential basis, Specialty Ingredients reported a significant improvement, with sales growing 10%. Within Water Technologies, the paper business had a solid quarter, with particular strength coming from our packaging and tissue and towel businesses. Combined, they reported a 4% increase in sales over prior year. Our Industrial Water business had another challenging quarter. Luis continues to focus on improving this business, and I have confidence in his team.

Performance Materials reported a year-over-year sales decline of 8%. This is primarily due to the elastomers business, which was negatively affected by reduced demand for replacement tires.

Adhesives and Composite volumes and sales were essentially flat versus the prior year. Consumer Markets continued its strong performance with a record second quarter for EBITDA, driven by lower raw material costs. EBITDA was up 33% versus the prior year. During the second quarter, we also strengthened our capital structure by restructuring our debt. In doing so, we locked-in attractive interest rates, extended our maturities and put in place investment-grade covenants.

It was also a strong quarter for cash flow. We generated \$144 million of free cash, taking our total to \$174 million for the first half of the year. We currently expect to exceed \$400 million in free cash for the full fiscal year.

Lastly, we announced a CFO transition during the quarter. Therefore, I'd like to express my thanks to Lamar Chambers for his service as Ashland's Chief Financial Officer. Lamar will be retiring after 37 years with Ashland. He has played a pivotal role in Ashland's growth and transformation over the past decade. Under his leadership, the finance organization established a reputation for performance and transparency during a period of dynamic change. I am grateful for his contributions and wish him and his family health and happiness in the years ahead.

Kevin Willis, a 25-year veteran with Ashland, will officially step into the role of CFO beginning May 3. He has served in various financial management positions throughout his career and is a very capable leader. I am confident he will continue to add considerable value to Ashland in his new role.

Now, let's turn to slide 24. As we approach our seasonally strongest quarters of the year, I am optimistic about several things. Specialty Ingredients should see improved business performance from a seasonal pickup in demand, particularly affecting our coatings and industrial businesses. The new leadership team of Water Technologies is focused on improving performance and I'm confident the steps they have taken will position the business for growth. Consumer Markets and Performance Materials should also improve with seasonal demand. At the corporate level, we continue to focus on generating free cash flow and we are making progress toward our optimal leverage targets.

Looking out beyond this year, there are significant hurdles to overcome in reaching the three-year goals that we laid out at our 2011 Analyst Day. We established these for essentially two reasons. First, we wanted to highlight from a financial perspective what the transformed Ashland should look like under certain economic and operational assumptions. We also wanted to provide a glimpse into our three-year operating plan and the targets against which we are held accountable. These goals were based on various assumptions about the global economy, market demand and other factors that affect Ashland's businesses.

We are now halfway through the three-year plan. For reasons both within and out of our control, our recent performance has been below those initial expectations. The assumptions we have today for the remainder of 2013 and 2014 around the economy and our business operations have changed. Today, we are facing broader economic challenges and market softness in several key regions. As

a result, it is now unlikely that we will be able to achieve the low end of our 2014 EPS goal of \$9.50 or our EBITDA goal of \$1.7 billion. Nevertheless, we will continue to look for ways to drive improvements that will lead to sustained sales and earnings growth.

Before we open up for questions, I'd like to share some perspective on Ashland's past, present and future. Ashland today is a fundamentally different company than when we first began our transformation. We have executed our strategy of acquiring higher margin businesses with strong growth potential while divesting cyclical or underperforming businesses. We have been disciplined with our cash and have used it to make strategic acquisitions to invest in organic growth and to return capital to our shareholders through dividends and share repurchases. As a result, we have dramatically reshaped the company, generated strong returns for shareholders and positioned Ashland for long-term success.

At the same time, we recognize there's a lot more work to be done. For a variety of reasons, 2013 is shaping up to be more challenging than we first expected. But that doesn't change how we think about our business. As we look ahead, we will continue our disciplined approach to managing our business portfolio and balance sheet, while driving improvements in our businesses. As always, we remain fully committed to creating value for all of our shareholders.

With that, we will now take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question today comes from the line of David Begleiter from Deutsche Bank. Your line is open. Please go ahead.

<Q – David Begleiter – Deutsche Bank Securities, Inc.>: Thank you. Jim, on Water Technologies you mentioned in the past this business is on a short leash to improve by year-end or else. Is that still the case? And is the new organization now focused more just on water, versus paper and pulp?

<A – Jim O'Brien – Ashland, Inc.>: When you look at the water business, improvements can be made in all aspects of it. I think Luis and his team have a much broader appreciation for the challenges in front of them. And they have plans in place to improve it. Pulp and Paper is a very strong business for us. We're a leader. But there are still improvements that can be made as far as our growth there and the capture of new pulp business, as well as new paper mills in Asia take shape. So, a lot of focus there, but the biggest issue is our Water Technologies business.

And I think the team that Luis has brought in I think has much better appreciation for how to run that business, has much broader experience of success. And I have confidence that this business will improve also. Regardless of all that, the business needs to improve and grow. And we evaluate all our businesses on a quarterly basis as far as how we believe they're performing. And in particular, my statement around we're looking at Water Technologies particularly in our meetings in this summer with the board has not changed, because we want to assess the progress being made, and more importantly, the future that the team brings forward and our confidence as myself as a CEO, and as our board and our broader commitment to the business. So that has not changed, but I have 100% confidence in Luis and his team, and I am more encouraged today than I was three months ago.

<Q – David Begleiter – Deutsche Bank Securities, Inc.>: And perhaps just in terms of the improvement you saw in March in Specialty Ingredients, is that continuing into April as well?

<A – Jim O'Brien – Ashland, Inc.>: When you look at April, May and June, this is the strength of our seasonality and where we make most of our money, as far as on a quarterly basis. So, as we look at going into the quarter, I think as we outlined in the presentation, we are encouraging with some of the numbers that we're seeing. We expect this to be a better quarter. And particularly because of just the seasonality effect of it. Where we see weakness is Europe, concerns us. If you look at Specialty Ingredients, their construction business is heavily skewed toward Europe and Asia. Europe is not necessarily critical to the success and that's been that way for the last 18 months. But Asia has to pick up. We have to see improvement in Asia for the construction business to do better, and we also have to see improvement in South America. It has been soft. But they're moving into their more broader construction business being their winter. They actually construct more in winter than they do in the summer because of the rain. So we're hopeful that this business will pick up with some strength in the economy, but our HEC business is doing much better. We've had some weakness in the first quarter. They've gone in and worked very hard with their customers. They have some very strong sales plans, and the issue there is more around price than it is volumes. We're holding our own in the market, we're getting good volumes, but we're having to give a little on price to achieve that.

<Q – David Begleiter – Deutsche Bank Securities, Inc.>: Thank you.

Operator: Thank you. Our next question comes from the line of John McNulty from Credit Suisse. Your line is open. Please go ahead.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Yeah. Good morning, and thanks for taking our questions. So a clarification on the guar issue, and I appreciate all the details

that you gave us because it certainly helps. But so, if you pull out the impact of selling some of the straight-guar at a 0% margin, how would the margin have looked in 2Q. Or more, maybe put another way, looking at 3Q and 4Q, should we see kind of the EBITDA margins moving back into kind of the 24% to 25% range? Is that the right way to think about it?

<A – Lamar Chambers – Ashland, Inc.>: Yeah. The net effect will be roughly \$25 million. And margins going forward, like we said there in the scripted remarks, still expected to be a little soft for the next quarter.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Okay. And then just as the follow-up, on the paint and construction side where you've highlighted some weakness where you're having to maybe compete a little bit more on price, is that lapses in discipline from some of the competitors? Is it other products that may be, if you don't nick the price a bit, it starts to creep in? I guess, how should we think about that and what are your thoughts on it longer term and how long this may last?

<A – John Panichella – Ashland, Inc.>: Yeah. This is John. I'll try to answer that for you. So, what we've seen is for probably three quarters now, we've seen soft demand from coatings global customers. It's not unusual in the long-term trend to have a couple of quarters where that happens, where the long-term trend of growth will come back. But we're seeing softness in Asia and Latin America in the first two quarters and the last quarter of prior year. We're seeing that start to change a bit, and that's why we commented in the scripted remarks that we're seeing our volumes pick back up as customers business gets better in India and in China. And there is some increased competition, but the majority of the issue is kind of supply and demand right now on the marketplace with the market being soft for about three quarters and there's – the three or four major producers have capacity to supply that market or they're over capacity, that it puts pressure on the pricing.

<Q – John McNulty – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Great. Thanks for the clarification.

Operator: Thank you. Our next question comes from the line of Laurence Alexander of Jefferies. Your line is open. Please go ahead.

<Q – Rob Walker – Jefferies & Co., Inc.>: Good morning. This is Rob Walker on for Laurence. I guess on personal care, results were up 6% ex-Europe. But what was it with Europe? And how weak was Europe? And I guess, were you surprised at the volatility in what should be a fairly non-cyclical business?

<A – John Panichella – Ashland, Inc.>: Yeah. So, what we're seeing is we participate in a lot of the higher-end products. That's the formulations that our technologies go into, and we've seen some softening in that area. It's really customer-by-customer. As in that segment, we've got some of the customers that we've grown quite nicely with. So, we have some problems that we're trying to address with the product lines going into those high-end kind of materials, looking to get into the mid-range, more into the mid-range kind of products. So that's probably in our skin care business, we were relatively pleased with the growth in hair care and oral care. So it's primarily a skin care-focused situation that we need to resolve. And we've got some plans to deal with that in the second part of the year.

<Q – Rob Walker – Jefferies & Co., Inc.>: Okay. Thanks. And in terms of the volume seasonality in ASI, historically the Aqualon business is up around 10% or 20% in Q3 sequentially. I guess, roughly, what are you expecting this year overall?

<A – John Panichella – Ashland, Inc.>: Yeah, we're seeing this Q – fiscal Q3 and Q4 will be our strongest seasonal quarters. And so we don't have as much seasonality in the heritage ISP

businesses with pharm and personal care being the major driver there. But we still think that you're going to have a pretty nice improvement in seasonal volumes in Q3 and Q4.

<Q – Rob Walker – Jefferies & Co., Inc.>: Thank you.

Operator: Thank you. Our next question comes from the line of Jeff Zekauskas from JPMorgan. Your line is open. Please go ahead.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Hi. Good morning. I guess I have a question for John. Prices really fell off in March in your Specialty Ingredients business. So, March average prices looked like they're about – I don't know, \$350 a ton lower than your average prices for the quarter. And – so did something unusual go on in March? And with that degree of headwind, do you think you can grow your EBITDA in the third quarter versus the second?

<A – John Panichella – Ashland, Inc.>: So let me try to put some perspective around pricing for you.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Thank you.

<A – John Panichella – Ashland, Inc.>: If you recall last year, we had very significant increases in price, both in guar and non-guar. And that number was in excess of \$250 million the prior year.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Yeah.

<A – John Panichella – Ashland, Inc.>: When you look at the first two quarters of this year, we've given back very little of that. Okay. So it has – we have given back on price, but still have maintained a large percentage of that. What you're seeing in March is more of a product mix than you are seeing price. Okay. So we're pretty – the market's tough. We've given back some of that price, but a pretty low amount compared to what we achieved in prior year. So we are concerned a bit about pricing, but I don't think it's that significant right now compared to what we gained in prior year. And I think what you're seeing in March is more of a phenomenon around mix than it is price.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Okay. And then lastly, in Valvoline, I think Lamar said that he thought gross margins would be around 30% in the third quarter. Of the, call it, 200 basis points sequential drop, how much would come from product pricing and how much from raw materials?

<A – Lamar Chambers – Ashland, Inc.>: We think things have settled out here with the last price increase that we announced last week. We're kind of back at equilibrium on price versus cost. So, what we're describing as far as the margins we expect to see for the remainder of the year essentially are playing out exactly where we are now on pricing relative to where base oil costs are currently sitting.

<A – Jason Thompson – Ashland, Inc.>: And Jeff, this is Jason. That reflects the – both of the March base oil increase and then the recent price increase, so it's kind of the net effect of what we're seeing.

<Q – Jeff Zekauskas – JPMorgan Securities LLC>: Of both. Okay. Good. Thank you very much.

Operator: Thank you. Our next question comes from the line of Mike Harrison of First Analysis. Your line is open. Please, go ahead.

<Q – Mike Harrison – First Analysis Securities Corp.>: Hi. Good morning.

<A – Jason Thompson – Ashland, Inc.>: Good morning, Mike.

<A – Lamar Chambers – Ashland, Inc.>: Good morning, Mike.

<Q – Mike Harrison – First Analysis Securities Corp.>: And congratulations, Lamar, you'll be missed.

<A – Lamar Chambers – Ashland, Inc.>: Thank you.

<Q – Mike Harrison – First Analysis Securities Corp.>: A couple of questions for Luis. And, I guess, I'd also like to hear Jim comment on it. But I'm a little bit surprised to see acquisitions not mentioned as an aspect of the strategy. And it also seems like we're kind of abandoning some of the growth efforts around some of the higher growth verticals like food and beverage, mining, institutional. I think it's been our view for a long time that the water business outside of paper has been kind of under scale, and that's been part of the issue in terms of trying to improve that business. So, I guess, the question is kind of, are you prepared to go forward with this portfolio as it stands? Would you be pushing for some acquisitions if the opportunity arose? And kind of, how do you stand on growing either through acquisition or organically outside of the paper vertical?

<A – Luis Fernandez-Moreno – Ashland, Inc.>: Hi, Mike. How are you? This is Luis. A couple of things. Obviously, we are not abandoning the growth in some of the high growth verticals. But it is clear for me that we need to focus the organization when it comes to mining or food and beverage, which are mostly around our industrial water business, to put all those together, so we can be actually more effective. I think that your comment on being sub scale is an issue, especially the way we were focusing on the different segments. By bringing them all together, we're able to bring better scale in terms of going after those verticals and really making the right choices when it comes to which segments within the industrial water market segments we're going to go after, as opposed to go after every one of them. And those decisions we're making with an organization, with the talent that we have, and that reflect where we have a competitive advantage based on our equipment and product platforms.

So definitely there is a lot more focus that will go into which verticals we will focus on in terms of the industrial water business. And as I mentioned before, and Jim mentioned before, we do have a very strong position in paper. We're leading that market and we participate in growing segments within paper, within packaging and tissue and towel, and we expect to continue to grow there. That's a question that my focus in the short-term is improving the performance of the business. We need to get it to a place where it's more consistent with the margins that we expect from it. So my focus at this time is in leveraging what we have, which is very good. I mean, we have tremendous technologies. We have a good position in the marketplace. We need to first improve the performance capabilities of this business before I personally start thinking about acquisitions. That would be my comment, Mike.

<A – Jim O'Brien – Ashland, Inc.>: And Mike, concerning acquisitions, the company is constantly focused on a pipeline of opportunities. We have very serious pipeline reviews; it seems like weekly on various aspects of that. When it comes to water, or any of our businesses, the way the executive committee and the board looks at deploying the capital, we deploy capital, we get the highest return – return on invested capital. Today with the performance of the water business where it stands, could it possibly improve if it had more scale? Probably. Has it earned the right so we have more invested capital? No. So that's where the tension is right now, and the first step is to get the business stabilized and get it positioned so that if it makes sense to put more capital into it, that we have confidence it's going to get the returns that we demand. So that's kind of where we stand.

<Q – Mike Harrison – First Analysis Securities Corp.>: All right. Appreciate the color, gentlemen. Thanks.

Operator: Thank you. Our next question is from the line of Mike Sison from KeyBanc. Your line is open. Please go ahead.

<Q – Mike Sison – KeyBanc Capital Markets>: Hey, good morning. Congrats, Lamar, and good luck going forward.

<A – Lamar Chambers – Ashland, Inc.>: Thank you, Mike.

<Q – Mike Sison – KeyBanc Capital Markets>: John, when you take a look at Specialty Ingredients, you were close to \$500 million in op income in 2012, certainly going to be down a lot in 2013, maybe as much as \$100 million, depending how the second half goes. Can you help us maybe understand how you get back to at least 2012 levels, what needs to happen to sort of rebuild that losses last year?

<A – John Panichella – Ashland, Inc.>: Yeah. There's really two things. One is, I think we've tried to give you as much color as we can around guar and the impact that that had and that the underlying business grew EBITDA 8% in prior year. And we think that's what we should be capable of doing. And so we have the guar impact that we're trying to position to – obviously we're not going to repeat that in guar. And then it's really emerging markets that are impacting us. We're seeing slowdowns in emerging markets that we did not anticipate. India is quite a bit different than it was prior year, Brazil, et cetera. And so we're working with those teams to try to reposition our approach to get back some of that growth we're losing in emerging markets. And so that's what we're focused on.

<Q – Mike Sison – KeyBanc Capital Markets>: Okay. And then, Jim, regarding your 2014 goals, when you think about the individual segments, sort of the goals you laid out there, are they all falling short or are there some that still might have a chance of hitting it? Can you sort of just give us a feel, qualitatively, where the shortfall is coming from by segment?

<A – Jim O'Brien – Ashland, Inc.>: Well, when you look at the performance that we were hopeful for, the economy was one of the primary requirements that we thought we'd have to have. And we thought that in 2011 we were in a growing economy, an improving economy and a broad-based improvement around the world. And obviously, the world plays out the way the world plays out. And our assumption that we were in a turnaround of the world economy did not come to fruition is how we see it today. When you look at the broader businesses, Valvoline is doing well. I mean, you saw we just had a record quarter in EBITDA. I think that things have stabilized from the standpoint of crude in the world. But that can change with political activity as well, so that's never a certainty. But the way the supply and demand of crude appears today that business should perform better, so we're pleased with that.

I guess I hit a bump with this whole guar situation. I think as guar settles out this year and as they continue to position their businesses and we get the right balance of supply/demand on the HEC side that business gets better. So I'm encouraged that ASI will continue to grow and improve its earnings, so I think that we hit a little bump there. But from what I see in some of the projects they have, as far as opportunities, I'm encouraged that, that will get back to a higher growth rate than we've seen. Performance Materials is tied to the world economy around construction and auto and they're doing better this year, but that's not where our growth is going to come from. And then water, we've been talking a lot about water on this call and they have to get better and grow. So as you think about where the businesses that are doing the best, Valvoline, I think ASI improves as we get past this guar situation. I think the other businesses continue to work on and improve their performance.

<Q – Mike Sison – KeyBanc Capital Markets>: Thank you.

Operator: Thank you. Our next question comes from the line of James Sheehan from SunTrust. Your line is open. Please, go ahead.

<Q – James Sheehan – SunTrust Robinson Humphrey>: Hi, Jim. You mentioned some of the ways you've transformed the business and the strategies you've used about looking at M&A into higher-margin businesses on the acquisition side and then, divestitures of underperforming business and I was wondering if you could just address the latter here? Are there other areas where you might want to divest some things namely elastomers or are there other parts of the portfolio where you're looking at taking some accelerated action here and what's your timeframe on stuff like that?

<A – Jim O'Brien – Ashland, Inc.>: As you look at our history and how we've behaved in the past is probably the best predictor of the future is – as I mentioned, we constantly review our portfolio and try to understand where we are in various cycles and what the alternative values are for assets. That's a philosophy we've had for the last eight years. And as we study that, we have a list of assets that given the right conditions we'd be willing to divest. But importantly, we want to know where is that alternative value? How are we going to create value for our shareholders if we do that transaction? Is the best opportunity to grow organically? Do we have organic growth that needs more cash? Do we put it there? Do we make other acquisitions, which is the primary use of our cash historically that we – as I said, we always have a pipeline of alternatives. But those aren't totally within your control. They come when they come. And you have to be prepared to take action when they come.

So we try to take a balanced view of deployment of our cash into higher performing assets, and at the appropriate times that makes sense. And one of the things that I think has given us the benefit of where we stand here today, if we had rushed through the opportunity where we sold our assets to the joint venture of MAP and just sold that and rushed out and bought a bunch of stuff that was available, we would have made decisions, but would they have been optimum? Would the company look the way it does today? Who knows? It may have been better, but I think it probably would have been a lot worse. Because we would have just bought what was available versus bought what we thought was the best assets on the market. So I think that, that's where our focus is and remains to be is that we continue to evolve the company and we want to make it better and we want to make the right decisions at the right time.

<Q – James Sheehan – SunTrust Robinson Humphrey>: Thanks for that and one last one for Luis. Do you have any targets for EBITDA margins in 2013 or 2014?

<A – Luis Fernandez-Moreno – Ashland, Inc.>: Hi, Jim. Well, obviously, the first target is continuous improvement over a quarterly basis and that's the commitment I have. I think that the long term targets of the business haven't changed. And my emphasis is in getting us fast as possible to those targets, but clearly showing a quarterly improvement there more than anything else.

<Q – James Sheehan – SunTrust Robinson Humphrey>: Okay. Thank you very much.

<A – Jim O'Brien – Ashland, Inc.>: All right, Ben, we'll take one more question please.

Operator: Thank you. Our final question comes from the line of John Roberts from UBS. Your line is open. Please go ahead.

<Q – John Roberts – UBS Securities LLC>: And again, best wishes Lamar and welcome, Kevin.

<A – Kevin Willis – Ashland, Inc.>: Thank you.

<Q – John Roberts – UBS Securities LLC>: Would the two distinct organizations in Water allow you to do JVs or other strategic actions on one side without affecting the other? Just how distinct are the two sides of Water now?

<A – Luis Fernandez-Moreno – Ashland, Inc.>: Well, let me say the first comments. I mean, they clearly service distinct markets and distinct customer bases, and that's part of the reason I think it's important for us to separate the two commercial organizations.

They do share a variety of our product lines and technologies and in that regard they are not completely separate. But when it comes to the markets they serve, they are very different. They are both service intensive industries.

Again, I don't think that in this regard the structure will limit our ability to do what it's needed to improve the performance of the business. It does change the focus of the organization in improving the execution, but from the other perspectives, I think that we can continue to do the right strategic moves. That doesn't change with a reor.

<Q – John Roberts – UBS Securities LLC>: Thank you.

Jason L. Thompson, Director, Investor Relations

Okay. Thank you very much everyone for your interest in Ashland and feel free to get in touch with me at 859-815-3527. Thanks, again.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect. Have a great rest of the day.

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