

STATEMENTS OF CONSOLIDATED INCOME

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

	Three months ended March 31		Six months ended March 31	
	2011	2010	2011	2010
SALES	\$ 1,557	\$ 1,423	\$ 2,989	\$ 2,748
COSTS AND EXPENSES				
Cost of sales	1,135	992	2,174	1,899
Selling, general and administrative expense	292	293	577	577
Research and development expense	22	20	43	40
	<u>1,449</u>	<u>1,305</u>	<u>2,794</u>	<u>2,516</u>
EQUITY AND OTHER INCOME	14	14	26	27
OPERATING INCOME	122	132	221	259
Net interest and other financing expense (a)	(39)	(103)	(66)	(145)
Net gain (loss) on acquisitions and divestitures	-	(5)	21	(5)
Other income	-	-	-	1
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	83	24	176	110
Income tax benefit (expense)	13	(18)	(18)	(40)
INCOME FROM CONTINUING OPERATIONS	96	6	158	70
Income from discontinued operations (net of income taxes) (b)	257	16	282	38
NET INCOME	<u>\$ 353</u>	<u>\$ 22</u>	<u>\$ 440</u>	<u>\$ 108</u>
DILUTED EARNINGS PER SHARE				
Income from continuing operations	\$ 1.20	\$.07	\$ 1.97	\$.88
Income from discontinued operations	3.19	.20	3.50	.49
Net income	<u>\$ 4.39</u>	<u>\$.27</u>	<u>\$ 5.47</u>	<u>\$ 1.37</u>
AVERAGE COMMON SHARES AND ASSUMED CONVERSIONS	80	80	80	79
SALES				
Functional Ingredients	\$ 270	\$ 240	\$ 486	\$ 450
Water Technologies	471	449	921	892
Performance Materials	325	304	650	576
Consumer Markets	491	430	932	830
	<u>\$ 1,557</u>	<u>\$ 1,423</u>	<u>\$ 2,989</u>	<u>\$ 2,748</u>
OPERATING INCOME (LOSS)				
Functional Ingredients	\$ 41	\$ 34	\$ 59	\$ 61
Water Technologies	27	31	50	70
Performance Materials	3	6	9	14
Consumer Markets	62	69	127	136
Unallocated and other	(11)	(8)	(24)	(22)
	<u>\$ 122</u>	<u>\$ 132</u>	<u>\$ 221</u>	<u>\$ 259</u>

(a) The three and six months ended March 31, 2011 and 2010 include a \$12 million and \$66 million charge, respectively, related to the refinancing and significant extinguishment of debt completed during these periods.

(b) Includes income of \$23 million and \$46 million for the three and six months ended March 31, 2011, respectively, and \$14 million and \$25 million for the three and six months ended March 31, 2010, respectively, related to direct results of the Distribution business. Due to its sale, the direct results of this business have been presented as discontinued operations for each period presented in accordance with U.S. GAAP. In addition, the three and six months ended March 31, 2011 include a gain of \$231 million related to Ashland's sale of its Distribution business.

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

Table 2

	March 31 2011	September 30 2010
	<u> </u>	<u> </u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,129	\$ 417
Accounts receivable	1,142	1,115
Inventories	534	447
Deferred income taxes	112	112
Other assets	57	49
Held for sale (a)	-	693
	<u>2,974</u>	<u>2,833</u>
Noncurrent assets		
Auction rate securities	22	22
Goodwill	2,142	2,148
Intangibles	1,088	1,111
Asbestos insurance receivable	440	459
Deferred income taxes	336	336
Other assets	640	514
Held for sale (a)	2	270
	<u>4,670</u>	<u>4,860</u>
Property, plant and equipment		
Cost	3,079	3,096
Accumulated depreciation and amortization	<u>(1,311)</u>	<u>(1,258)</u>
	<u>1,768</u>	<u>1,838</u>
Total assets	<u>\$ 9,412</u>	<u>\$ 9,531</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt	\$ 42	\$ 71
Current portion of long-term debt	19	45
Trade and other payables	708	727
Accrued expenses and other liabilities	541	523
Held for sale (a)	-	321
	<u>1,310</u>	<u>1,687</u>
Noncurrent liabilities		
Long-term debt (noncurrent portion)	846	1,108
Employee benefit obligations	1,191	1,372
Asbestos litigation reserve (noncurrent portion)	813	841
Deferred income taxes	173	145
Other liabilities	582	575
	<u>3,605</u>	<u>4,041</u>
Stockholders' equity	<u>4,497</u>	<u>3,803</u>
Total liabilities and stockholders' equity	<u>\$ 9,412</u>	<u>\$ 9,531</u>

(a) September 30, 2010 primarily relates to assets and liabilities of the Distribution business that qualified for held for sale classification in accordance with U.S. GAAP.

Ashland Inc. and Consolidated Subsidiaries
STATEMENTS OF CONSOLIDATED CASH FLOWS
(In millions - preliminary and unaudited)

Table 3

	Six months ended March 31	
	<u>2011</u>	<u>2010</u>
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	\$ 440	\$ 108
Income from discontinued operations (net of income taxes)	(282)	(38)
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	143	141
Debt issuance cost amortization	19	74
Deferred income taxes	(34)	54
Equity income from affiliates	(7)	(12)
Distributions from equity affiliates	3	6
Gain from sale of property and equipment	(2)	(3)
Stock based compensation expense	9	7
Stock contributions to qualified savings plans	13	13
Net (gain) loss on acquisitions and divestitures	(21)	5
Loss on early retirement of debt	-	4
Gain on auction rate securities	-	(1)
Change in operating assets and liabilities (a)	(204)	(110)
	<u>77</u>	<u>248</u>
CASH FLOWS (USED) PROVIDED BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(52)	(59)
Proceeds from disposal of property, plant and equipment	4	11
Purchase of operations - net of cash acquired	(5)	-
Proceeds from sale of operations or equity investments	40	60
Proceeds from sales and maturities of available-for-sale securities	-	85
	<u>(13)</u>	<u>97</u>
CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Proceeds from issuance of long-term debt	11	300
Repayment of long-term debt	(299)	(773)
(Repayment of)/proceeds from short-term debt	(29)	317
Debt issuance costs	-	(12)
Cash dividends paid	(24)	(12)
Proceeds from exercise of stock options	2	4
Excess tax benefits related to share-based payments	1	1
	<u>(338)</u>	<u>(175)</u>
CASH (USED) PROVIDED BY CONTINUING OPERATIONS		
Cash (used) provided by discontinued operations		
Operating cash flows	5	(17)
Investing cash flows	979	(4)
Effect of currency exchange rate changes on cash and cash equivalents	2	(2)
	<u>712</u>	<u>147</u>
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents - beginning of year	417	352
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 1,129</u>	<u>\$ 499</u>
DEPRECIATION AND AMORTIZATION		
Functional Ingredients	\$ 47	\$ 51
Water Technologies	41	46
Performance Materials	35	24
Consumer Markets	18	18
Unallocated and other	2	2
	<u>\$ 143</u>	<u>\$ 141</u>
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Functional Ingredients	\$ 19	\$ 25
Water Technologies	14	11
Performance Materials	6	7
Consumer Markets	8	9
Unallocated and other	5	7
	<u>\$ 52</u>	<u>\$ 59</u>

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

INFORMATION BY INDUSTRY SEGMENT

(In millions - preliminary and unaudited)

	Three months ended March 31		Six months ended March 31	
	2011	2010	2011	2010
FUNCTIONAL INGREDIENTS (a)				
Sales per shipping day	\$ 4.3	\$ 3.8	\$ 3.9	\$ 3.6
Metric tons sold (thousands)	42.8	41.9	81.3	79.3
Gross profit as a percent of sales	33.7%	34.9%	32.6%	34.3%
WATER TECHNOLOGIES (a)				
Sales per shipping day	\$ 7.5	\$ 7.1	\$ 7.4	\$ 7.1
Gross profit as a percent of sales	31.3%	34.5%	31.5%	35.5%
PERFORMANCE MATERIALS (a)				
Sales per shipping day	\$ 5.2	\$ 4.8	\$ 5.2	\$ 4.6
Pounds sold per shipping day	4.4	4.4	4.4	4.2
Gross profit as a percent of sales	12.0%	16.5%	13.3%	17.4%
CONSUMER MARKETS (a)				
Lubricant sales (gallons)	44.8	43.7	85.3	83.9
Premium lubricants (percent of U.S. branded volumes)	32.5%	29.6%	31.4%	29.0%
Gross profit as a percent of sales	29.3%	33.0%	30.0%	33.4%

(a) Gross profit as a percent of sales is defined as sales, less cost of sales divided by sales.

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

(In millions - preliminary and unaudited)

	Three Months Ended March 31, 2011					
	Functional Ingredients	Water Technologies	Performance Materials	Consumer Markets	Unallocated & Other	Total
OPERATING INCOME (LOSS)						
Accelerated depreciation	\$ -	\$ -	\$ (6)	\$ -	\$ -	\$ (6)
All other operating income	41	27	9	62	(11)	128
Operating income	<u>41</u>	<u>27</u>	<u>3</u>	<u>62</u>	<u>(11)</u>	<u>122</u>
NET INTEREST AND OTHER FINANCING EXPENSE						
Accelerated amortization of debt issuance costs					(12)	(12)
All other net interest and other financing expense					(27)	(27)
					<u>(39)</u>	<u>(39)</u>
INCOME TAX (EXPENSE) BENEFIT						
Release of valuation allowances					45	45
Repatriation of proceeds from AD sale					(6)	(6)
Other key items					6	6
All other income tax expense					(32)	(32)
					<u>13</u>	<u>13</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 41</u>	<u>\$ 27</u>	<u>\$ 3</u>	<u>\$ 62</u>	<u>\$ (37)</u>	<u>\$ 96</u>
	Three Months Ended March 31, 2010					
	Functional Ingredients	Water Technologies	Performance Materials	Consumer Markets	Unallocated & Other	Total
OPERATING INCOME (LOSS)						
	\$ 34	\$ 31	\$ 6	\$ 69	\$ (8)	\$ 132
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)
					<u>(103)</u>	<u>(103)</u>
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					(4)	(4)
					<u>(18)</u>	<u>(18)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 34</u>	<u>\$ 31</u>	<u>\$ 6</u>	<u>\$ 69</u>	<u>\$ (134)</u>	<u>\$ 6</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Free cash flow				
Total cash flows provided by operating activities from continuing operations	\$ 114	\$ 193	\$ 77	\$ 248
Less:				
Additions to property, plant and equipment	(30)	(38)	(52)	(59)
Cash dividends paid	(12)	(6)	(24)	(12)
Free cash flows	<u>\$ 72</u>	<u>\$ 149</u>	<u>\$ 1</u>	<u>\$ 177</u>

RECONCILIATION OF NON-GAAP DATA - ADJUSTED EBITDA

(In millions - preliminary and unaudited)

	Three months ended March 31	
	2011	2010
Adjusted EBITDA - Ashland Inc.		
Operating income	\$ 122	\$ 132
Add:		
Depreciation and amortization (a)	64	67
Key items (see Table 5)	6	-
Adjusted EBITDA	<u>\$ 192</u>	<u>\$ 199</u>
Adjusted EBITDA - Ashland Aqualon Functional Ingredients		
Operating income	\$ 41	\$ 34
Add:		
Depreciation and amortization	23	24
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 64</u>	<u>\$ 58</u>
Adjusted EBITDA - Water Technologies		
Operating income	\$ 27	\$ 31
Add:		
Depreciation and amortization	20	21
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 47</u>	<u>\$ 52</u>
Adjusted EBITDA - Performance Materials		
Operating income	\$ 3	\$ 6
Add:		
Depreciation and amortization (a)	11	12
Key items (see Table 5)	6	-
Adjusted EBITDA	<u>\$ 20</u>	<u>\$ 18</u>
Adjusted EBITDA - Consumer Markets		
Operating income	\$ 62	\$ 69
Add:		
Depreciation and amortization	9	9
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 71</u>	<u>\$ 78</u>

(a) Depreciation and amortization for the three months ended March 31, 2011 excludes \$6 million of accelerated depreciation, which is displayed as a key item within this table.