

STATEMENTS OF CONSOLIDATED INCOME

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

	Three months ended December 31	
	<u>2012</u>	<u>2011</u>
Sales	\$ 1,869	\$ 1,930
Cost of sales	1,332	1,408
GROSS PROFIT	<u>537</u>	<u>522</u>
Selling, general and administrative expense	343	362
Research and development expense	32	30
Equity and other income	14	14
OPERATING INCOME	<u>176</u>	<u>144</u>
Net interest and other financing expense	44	57
Net loss on acquisitions and divestitures	-	4
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>132</u>	<u>83</u>
Income tax expense	30	23
INCOME FROM CONTINUING OPERATIONS	<u>102</u>	<u>60</u>
(Loss) income from discontinued operations (net of income taxes)	<u>(1)</u>	<u>1</u>
NET INCOME	<u>\$ 101</u>	<u>\$ 61</u>
DILUTED EARNINGS PER SHARE		
Income from continuing operations	\$ 1.27	\$.76
(Loss) income from discontinued operations	(.01)	.01
Net income	<u>\$ 1.26</u>	<u>\$.77</u>
AVERAGE COMMON SHARES AND ASSUMED CONVERSIONS	80	79
SALES		
Specialty Ingredients	\$ 622	\$ 628
Water Technologies	421	449
Performance Materials	345	378
Consumer Markets	481	475
	<u>\$ 1,869</u>	<u>\$ 1,930</u>
OPERATING INCOME (LOSS)		
Specialty Ingredients	\$ 72	\$ 71
Water Technologies	17	21
Performance Materials	13	33
Consumer Markets	66	47
Unallocated and other	8	(28)
	<u>\$ 176</u>	<u>\$ 144</u>

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

Table 2

	December 31 2012	September 30 2012
	<u>2012</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 488	\$ 523
Accounts receivable	1,380	1,481
Inventories	1,008	1,008
Deferred income taxes	116	116
Other assets	85	81
Total current assets	<u>3,077</u>	<u>3,209</u>
Noncurrent assets		
Property, plant and equipment		
Cost	4,541	4,478
Accumulated depreciation and amortization	<u>(1,724)</u>	<u>(1,646)</u>
Net property, plant and equipment	2,817	2,832
Goodwill	3,358	3,342
Intangibles	1,910	1,936
Asbestos insurance receivable (noncurrent portion)	444	449
Equity and other unconsolidated investments	220	217
Other assets	550	539
Total noncurrent assets	<u>9,299</u>	<u>9,315</u>
Total assets	<u>\$ 12,376</u>	<u>\$ 12,524</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt	\$ 349	\$ 344
Current portion of long-term debt	114	115
Trade and other payables	738	877
Accrued expenses and other liabilities	569	577
Total current liabilities	<u>1,770</u>	<u>1,913</u>
Noncurrent liabilities		
Long-term debt (noncurrent portion)	3,090	3,131
Employee benefit obligations	1,795	1,839
Asbestos litigation reserve (noncurrent portion)	753	771
Deferred income taxes	208	208
Other liabilities	608	633
Total noncurrent liabilities	<u>6,454</u>	<u>6,582</u>
Stockholders' equity	<u>4,152</u>	<u>4,029</u>
Total liabilities and stockholders' equity	<u>\$ 12,376</u>	<u>\$ 12,524</u>

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

Table 3

	Three months ended December 31	
	<u>2012</u>	<u>2011</u>
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	\$ 101	\$ 61
Loss (income) from discontinued operations (net of income taxes)	1	(1)
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	107	104
Debt issuance cost amortization	5	6
Deferred income taxes	(3)	2
Equity income from affiliates	(5)	(7)
Distributions from equity affiliates	5	1
Gain from sale of property and equipment	(2)	-
Stock based compensation expense	9	6
Net loss on acquisitions and divestitures	-	2
Inventory fair value adjustment related to ISP acquisition	-	25
Change in operating assets and liabilities (a)	(137)	(380)
	<u>81</u>	<u>(181)</u>
CASH FLOWS (USED) PROVIDED BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(51)	(44)
Proceeds from disposal of property, plant and equipment	2	1
	<u>(49)</u>	<u>(43)</u>
CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Repayment of long-term debt	(43)	(23)
Proceeds from/(repayment of) short-term debt	5	(7)
Cash dividends paid	(18)	(14)
Proceeds from exercise of stock options	1	1
Excess tax benefits related to share-based payments	2	-
	<u>(53)</u>	<u>(43)</u>
CASH USED BY CONTINUING OPERATIONS		
Cash used by discontinued operations		
Operating cash flows	(16)	(3)
Effect of currency exchange rate changes on cash and cash equivalents	2	(1)
	<u>(35)</u>	<u>(271)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(35)	(271)
Cash and cash equivalents - beginning of period	523	737
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 488</u>	<u>\$ 466</u>
DEPRECIATION AND AMORTIZATION		
Specialty Ingredients	\$ 66	\$ 64
Water Technologies	17	19
Performance Materials	15	12
Consumer Markets	9	9
	<u>\$ 107</u>	<u>\$ 104</u>
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Specialty Ingredients	\$ 27	\$ 24
Water Technologies	10	9
Performance Materials	5	7
Consumer Markets	5	2
Unallocated and other	4	2
	<u>\$ 51</u>	<u>\$ 44</u>

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

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

Table 4

	Three months ended December 31	
	<u>2012</u>	<u>2011</u>
SPECIALTY INGREDIENTS		
Sales per shipping day	\$ 10.0	\$ 10.3
Metric tons sold (thousands)	88.9	90.0
Gross profit as a percent of sales (a) (b)	31.0%	29.6%
WATER TECHNOLOGIES		
Sales per shipping day	\$ 6.8	\$ 7.4
Gross profit as a percent of sales (a)	33.3%	30.8%
PERFORMANCE MATERIALS		
Sales per shipping day	\$ 5.6	\$ 6.2
Metric tons sold (thousands)	124.6	137.4
Gross profit as a percent of sales (a)	15.6%	19.2%
CONSUMER MARKETS		
Lubricant sales (gallons)	37.1	36.7
Premium lubricants (percent of U.S. branded volumes)	32.6%	29.3%
Gross profit as a percent of sales (a)	30.1%	25.3%

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

(b) Gross profit for the three months ended December 31, 2012 includes a loss of \$31 million related to certain commoditized guar inventories, as well as income of \$22 million related to the settlement of a business interruption insurance claim. Excluding these two items, the gross profit percentage would have been 32.5%. Gross profit for the three months ended December 31, 2011 includes expense of \$25 million related to the fair value of inventory acquired from ISP. Excluding this expense, the gross profit percentage would have been 33.4%.

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

(In millions - preliminary and unaudited)

	Three Months Ended December 31, 2012					
	<u>Specialty Ingredients</u>	<u>Water Technologies</u>	<u>Performance Materials</u>	<u>Consumer Markets</u>	<u>Unallocated & Other</u>	<u>Total</u>
OPERATING INCOME (LOSS)						
Restructuring and other integration costs	\$ -	\$ -	\$ (2)	\$ -	\$ (7)	\$ (9)
Insurance settlement	22	-	-	-	-	22
All other operating income	50	17	15	66	15	163
Operating income	<u>72</u>	<u>17</u>	<u>13</u>	<u>66</u>	<u>8</u>	<u>176</u>
NET INTEREST AND OTHER FINANCING EXPENSE					44	44
INCOME TAX (EXPENSE) BENEFIT						
Key items					(5)	(5)
Deferred tax adjustment for foreign country rate change					4	4
All other income tax expense					(29)	(29)
					<u>(30)</u>	<u>(30)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 72</u>	<u>\$ 17</u>	<u>\$ 13</u>	<u>\$ 66</u>	<u>\$ (66)</u>	<u>\$ 102</u>

	Three Months Ended December 31, 2011					
	<u>Specialty Ingredients</u>	<u>Water Technologies</u>	<u>Performance Materials</u>	<u>Consumer Markets</u>	<u>Unallocated & Other</u>	<u>Total</u>
OPERATING INCOME (LOSS)						
Severance	\$ -	\$ -	\$ -	\$ -	\$ (28)	\$ (28)
Inventory fair value adjustment	(25)	-	-	-	-	(25)
All other operating income	96	21	33	47	-	197
Operating income	<u>71</u>	<u>21</u>	<u>33</u>	<u>47</u>	<u>(28)</u>	<u>144</u>
NET INTEREST AND OTHER FINANCING EXPENSE					57	57
NET LOSS ON ACQUISITIONS AND DIVESTITURES					4	4
INCOME TAX (EXPENSE) BENEFIT						
Key items					18	18
All other income tax expense					(41)	(41)
					<u>(23)</u>	<u>(23)</u>
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>\$ 71</u>	<u>\$ 21</u>	<u>\$ 33</u>	<u>\$ 47</u>	<u>\$ (112)</u>	<u>\$ 60</u>

RECONCILIATION OF NON-GAAP DATA - FREE CASH FLOW

(In millions - preliminary and unaudited)

	Three months ended December 31	
	<u>2012</u>	<u>2011</u>
<u>Free cash flow (a)</u>		
Total cash flows provided by operating activities from continuing operations	\$ 81	\$ (181)
Adjustments:		
Additions to property, plant and equipment	(51)	(44)
ISP acquisition - change in control payment (b)	-	92
Free cash flows	<u>\$ 30</u>	<u>\$ (133)</u>

(a) Free cash flow is defined as cash flows provided by operating activities less additions to property, plant and equipment (no longer includes an adjustment for dividends).

(b) Since payment was generated from investment activity, this amount has been included within this calculation.

RECONCILIATION OF NON-GAAP DATA - ADJUSTED EBITDA

(In millions - preliminary and unaudited)

	Three months ended December 31	
	2012	2011
Adjusted EBITDA - Ashland Inc.		
Net income	\$ 101	\$ 61
Income tax expense	30	23
Net interest and other financing expense	44	57
Depreciation and amortization (a)	105	104
EBITDA	280	245
Loss (income) from discontinued operations (net of income taxes)	1	(1)
Net loss on acquisition and divestiture key items	-	4
Operating key items (see Table 5)	(13)	53
Adjusted EBITDA	<u>\$ 268</u>	<u>\$ 301</u>
Adjusted EBITDA - Specialty Ingredients		
Operating income	\$ 72	\$ 71
Add:		
Depreciation and amortization	66	64
Key items (see Table 5)	(22)	25
Adjusted EBITDA	<u>\$ 116</u>	<u>\$ 160</u>
Adjusted EBITDA - Water Technologies		
Operating income	\$ 17	\$ 21
Add:		
Depreciation and amortization	17	19
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 34</u>	<u>\$ 40</u>
Adjusted EBITDA - Performance Materials		
Operating income	\$ 13	\$ 33
Add:		
Depreciation and amortization (a)	13	12
Key items (see Table 5)	2	-
Adjusted EBITDA	<u>\$ 28</u>	<u>\$ 45</u>
Adjusted EBITDA - Consumer Markets		
Operating income	\$ 66	\$ 47
Add:		
Depreciation and amortization	9	9
Key items (see Table 5)	-	-
Adjusted EBITDA	<u>\$ 75</u>	<u>\$ 56</u>

(a) Depreciation and amortization excludes accelerated depreciation of \$2 million for Performance Materials for the three months ended December 31, 2012, which is displayed as a key item within this table.