



## Ashland Inc. Reports Preliminary Net Income of \$1.29 per Share for Fiscal Third Quarter

COVINGTON, Ky., July 26 /PRNewswire-FirstCall/ -- Ashland Inc. (NYSE: ASH) today announced the following preliminary\* results for its fiscal third quarter ended June 30, 2006:

- Net income was \$93 million, or \$1.29 per share, as compared with \$1,767 million, or \$23.65 per share, in the June 2005 quarter. The prior year included \$22.87 per share of earnings related to the MAP Transaction(a) and associated debt repayments.
- Chemical Sector operating income totaled \$70 million, down 18 percent versus the prior-year quarter, despite strong results from Ashland Performance Materials.
- Performance Materials and Ashland Water Technologies, formerly reported together as Ashland Specialty Chemical, are now being disclosed as separate reporting segments in order to provide stakeholders with a clearer understanding of Ashland's businesses as the company evolves into a diversified chemical company.
- Performance Materials achieved record operating income of \$41 million versus \$33 million for the June 2005 quarter.
- Water Technologies' operating income of \$9 million included an \$8 million pre-tax (\$5 million after-tax or \$.07 per share) foreign currency hedging gain on the Degussa acquisition and compares with operating income of \$2 million in the June 2005 quarter.
- Ashland Distribution earned operating income of \$30 million, slightly less than the prior-year quarter.
- Valvoline recorded an operating loss of \$10 million as compared with \$19 million of operating income a year ago, as margin pressure continued.
- Transportation Construction Sector operating income grew to a record \$68 million versus operating income of \$41 million in the 2005 third quarter.

"During the third quarter, two of our businesses -- Performance Materials and APAC -- performed exceptionally well, while Distribution delivered another solid quarter," said James J. O'Brien, Ashland chairman and chief executive officer. "Valvoline's performance, however, continued to suffer as rising lube stock costs and the resultant margin compression led to a loss for the third quarter. In addition, we acquired the Degussa AG water treatment business, part of our ongoing investment in the Water Technologies business. We also entered into an exclusive negotiating period with Oldcastle Materials Inc., regarding the possible sale of our APAC subsidiary."

Performance Materials earned record operating income for the June 2006 quarter of \$41 million, 24 percent above the \$33 million of operating income earned in the June 2005 quarter. Sales and operating revenues were \$370 million for the June 2006 quarter, a 3-percent decline from the June 2005 quarter. Volume declined 6 percent versus the 2005 quarter, excluding businesses sold as part of the MAP transaction a year ago. However, gross profit margins improved from 22.6 percent to 25.0 percent, driven by optimization of our product mix, combined with aggressive price increases.

Distribution earned \$30 million of operating income in the June 2006 quarter, slightly less than the prior year's record third quarter of \$31 million. Performance for the quarter was primarily driven by volume growth of 3 percent and lower selling, general and administrative costs, while gross profit margins contracted to 9.3 percent from 10.0 percent a year ago. Higher costs, primarily in chemicals, outpaced pricing to customers, resulting in a near-term margin compression. Sales and operating revenues increased 6 percent versus the June 2005 quarter to \$1,050 million, a record for the third quarter.

Valvoline recorded an operating loss of \$10 million for the June 2006 quarter as compared with operating income of \$19 million in the June 2005 quarter. Valvoline's sales and operating revenues were \$366 million for the quarter, a 3-percent increase over the June 2005 quarter. However, Valvoline's performance primarily reflects lower margins, as ongoing rapid increases in lube stock costs have not been fully offset by price increases in the marketplace. Total volume declined 6 percent, which we believe is consistent with the weak demand in its primary markets.

Water Technologies recorded operating income of \$9 million for the June 2006 quarter as compared with \$2 million for the prior-year quarter. Operating income for the 2006 quarter included a foreign currency hedging gain of \$8 million pre-tax on the Degussa acquisition price. Sales and operating revenues grew 12 percent to \$113 million. Results for the quarter continued to be impacted by margin pressure, due to rising raw material costs and the lag in passing through price increases.

The Transportation Construction Sector, known as Ashland Paving And Construction, Inc. (APAC), earned \$68 million of operating income for the June 2006 quarter, beating the record \$41 million it set in the June 2005 quarter. Revenues increased 18 percent to \$838 million. APAC's excellent performance primarily reflects strong pricing and favorable weather. Hot-mix asphalt production was down 8 percent for the quarter, despite lower-than-normal precipitation. At June 30, 2006, APAC's construction backlog, which consists of work awarded and funded but not yet performed, was \$2.0 billion, 7 percent below the prior year. Asphalt tonnage in the backlog declined 21 percent in the quarter versus a year ago. Governments, whose road

building, repair and maintenance budgets are generally dollar-denominated, represent the primary customers of APAC. As asphalt and aggregate prices rise, governments appear to be reducing their tonnage demand.

Ashland's tax rate for the 2006 third quarter was 32 percent and for the full year is currently expected to be 31 percent.

Commenting on the outlook for the remainder of the year, O'Brien concluded, "We're pleased with Performance Materials' and Distribution's results for the June quarter, which is typically their strongest of the year. While this seasonal pattern is likely to continue, both businesses should outperform the September 2005 quarter, barring unforeseen circumstances. Valvoline and Water Technologies continue to be vulnerable to rising raw material costs. We are disappointed in their performance and are addressing expenses and reevaluating their business models in order to counter their market challenges. The results of these efforts are not likely to be seen for several months. In the meantime, Valvoline continues to pass through raw materials cost increases, although on a delayed basis. If raw materials cost increases subside, some improvement in margin should occur in the September 2006 quarter, but we would expect results to be below the September 2005 performance. Water Technologies should outperform the September 2005 quarter, largely due to the Degussa acquisition. APAC continues to benefit from improvements in its bidding and estimating processes and should continue its strong performance relative to the prior year in the September 2006 quarter, despite expected declines in volumes."

Today at 11 a.m. (EDT), Ashland will provide a live webcast of its quarterly conference call with securities analysts. The webcast will be accessible through Ashland's website, [www.ashland.com](http://www.ashland.com). Following the live event, an archived version of the webcast will be available for 12 months at [www.ashland.com/investors](http://www.ashland.com/investors).

Ashland Inc. (NYSE: ASH) is a FORTUNE 500 chemical and transportation construction company providing products, services and customer solutions throughout the world. To learn more about Ashland, visit [www.ashland.com](http://www.ashland.com).

FORTUNE 500 is a registered trademark of Time Inc.

#### Footnotes

(a) The "MAP Transaction" refers to the June 30, 2005, transfer of Ashland's 38-percent interest in Marathon Ashland Petroleum LLC (MAP), Ashland's maleic anhydride business and 60 Valvoline Instant Oil Change centers in Michigan and northwest Ohio to Marathon Oil Corp.

\* Preliminary Results

Financial results are preliminary until the Company's Quarterly Report on Form 10-Q is filed with the U.S. Securities and Exchange Commission. This filing is expected to be made on or before August 9, 2006.

#### Forward-Looking Statements

This news release contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, with respect to Ashland's operating performance. These estimates are based upon a number of assumptions, including those mentioned within this news release. Such estimates are also based upon internal forecasts and analyses of current and future market conditions and trends, management plans and strategies, weather, operating efficiencies and economic conditions, such as prices, supply and demand, cost of raw materials, and legal proceedings and claims (including environmental and asbestos matters). Although Ashland believes its expectations are based on reasonable assumptions, it cannot assure the expectations reflected herein will be achieved. This forward-looking information may prove to be inaccurate and actual results may differ significantly from those anticipated if one or more of the underlying assumptions or expectations proves to be inaccurate or is unrealized or if other unexpected conditions or events occur. Other factors and risks affecting Ashland are contained in Ashland's Form 10-K, as amended, for the fiscal year ended Sept. 30, 2005. Ashland undertakes no obligation to subsequently update or revise the forward-looking statements made in this news release to reflect events or circumstances after the date of this release.

#### Ashland Inc. and Consolidated Subsidiaries

##### STATEMENTS OF CONSOLIDATED INCOME

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

	Three months ended June 30		Nine months ended June 30	
	2006	2005	2006	2005
REVENUES				
Sales and operating revenues	\$2,691	\$2,492	\$7,378	\$6,731
Equity income	4	315	9	530
Other income	13	14	49	49
	2,708	2,821	7,436	7,310
COSTS AND EXPENSES				

Cost of sales and operating expenses	2,252	2,074	6,217	5,678
Selling, general and administrative expenses	329	337	948	957
	2,581	2,411	7,165	6,635
OPERATING INCOME	127	410	271	675
Gain (loss) on the MAP Transaction (a)	-	1,295	(2)	1,295
Loss on early retirement of debt	-	(143)	-	(145)
Net interest and other financing income (costs)	9	(31)	29	(89)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	136	1,531	298	1,736
Income tax (expense) benefit	(43)	236	(90)	157
INCOME FROM CONTINUING OPERATIONS	93	1,767	208	1,893
Results from discontinued operations (net of income taxes)	-	-	(1)	-
NET INCOME	\$93	\$1,767	\$207	\$1,893
DILUTED EARNINGS PER SHARE				
Income from continuing operations	\$1.29	\$23.65	\$2.87	\$25.48
Results from discontinued operations	-	-	(.01)	-
Net income	\$1.29	\$23.65	\$2.86	\$25.48
AVERAGE COMMON SHARES AND ASSUMED CONVERSIONS	72	75	72	74
SALES AND OPERATING REVENUES				
APAC	\$838	\$713	\$2,053	\$1,713
Performance Materials (b)	370	383	1,068	1,028
Distribution	1,050	987	3,046	2,837
Valvoline	366	354	1,030	987
Water Technologies (b)	113	101	310	290
Intersegment sales	(46)	(46)	(129)	(124)
	\$2,691	\$2,492	\$7,378	\$6,731
OPERATING INCOME (c)				
APAC	\$68	\$41	\$95	\$(6)
Performance Materials (b)	41	33	94	73
Distribution	30	31	95	80
Valvoline	(10)	19	(6)	49
Water Technologies (b)	9	2	9	9
Refining and Marketing (d)	-	290	-	486
Unallocated and other	(11)	(6)	(16)	(16)
	\$127	\$410	\$271	\$675

(a) "MAP Transaction" refers to the June 30, 2005 transfer of Ashland's 38% interest in Marathon Ashland Petroleum LLC (MAP), Ashland's maleic anhydride business and 60 Valvoline Instant Oil Change centers in Michigan and northwest Ohio to Marathon Oil Corporation in a transaction valued at approximately \$3.7 billion.

(b) In June 2006, Ashland redefined its reporting segments in order to provide stakeholders with a clearer understanding of its businesses as the company evolves into a diversified chemical company. Performance Materials and Water Technologies were formerly combined under Ashland Specialty Chemical. Prior periods have been conformed to the current period presentation.

(c) In October 2005, Ashland refined its segment reporting to allocate substantially all corporate expenses to Ashland's five operating divisions, with the exception of certain legacy costs or items clearly not associated with the operating divisions. Prior periods have been conformed to the current period presentation.

(d) Includes Ashland's equity income from MAP, amortization related to Ashland's excess investment in MAP and other activities associated with refining and marketing through June 30, 2005.

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

	June 30	
	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$363	\$692
Available-for-sale securities	621	-
Accounts receivable proceeds from the MAP Transaction	-	913
Accounts receivable	1,759	1,520
Inventories	625	567
Deferred income taxes	96	113
Other current assets	153	125
	3,617	3,930
Investments and other assets		
Goodwill and other intangibles	710	649
Asbestos insurance receivable (noncurrent portion)	446	374
Deferred income taxes	182	160
Other noncurrent assets	464	428
	1,802	1,611
Property, plant and equipment		
Cost	3,463	3,219
Accumulated depreciation, depletion and amortization	(1,949)	(1,839)
	1,514	1,380
	\$6,933	\$6,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Debt due within one year	\$18	\$78
Trade and other payables	1,420	1,358
Income taxes	48	71
	1,486	1,507
Noncurrent liabilities		
Long-term debt (less current portion)	70	90
Employee benefit obligations	417	444
Reserves of captive insurance companies	182	190
Asbestos litigation reserve (noncurrent portion)	592	534
Other long-term liabilities and deferred credits	385	409
	1,646	1,667
Stockholders' equity	3,801	3,747
	\$6,933	\$6,921

Ashland Inc. and Consolidated Subsidiaries

# STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions - preliminary and unaudited)

	Nine months ended June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
FROM CONTINUING OPERATIONS		
Net Income	\$207	\$1,893
Results from discontinued operations (net of income taxes)	1	-
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation, depletion and amortization	159	141
Deferred income taxes	7	(515)

Equity income from affiliates	(9)	(530)
Distributions from equity affiliates	9	277
Loss (gain) on the MAP Transaction	2	(1,295)
Loss on early retirement of debt	-	145
Change in operating assets and liabilities (a)	(259)	5
Other items	(2)	(5)
	115	116
CASH FLOWS FROM FINANCING ACTIVITIES		
FROM CONTINUING OPERATIONS		
Proceeds from issuance of common stock	17	100
Excess tax benefits related to share-based payments	6	17
Repayment of long-term debt	(7)	(1,477)
Repurchase of common stock	(138)	-
Decrease in short-term debt	-	(40)
Cash dividends paid	(59)	(60)
	(181)	(1,460)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(189)	(285)
Purchase of operations - net of cash acquired	(177)	(152)
Proceeds from sale of operations	12	2,397
Purchases of available-for-sale securities	(645)	-
Proceeds from sales and maturities of available-for-sale securities	437	-
Purchase of accounts receivable	-	(150)
Other - net	11	9
	(551)	1,819
CASH (USED) PROVIDED BY CONTINUING OPERATIONS	(617)	475
Cash used by discontinued operations		
Operating cash flows	(5)	(26)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$(622)	\$449
DEPRECIATION, DEPLETION AND AMORTIZATION		
APAC	\$79	\$67
Performance Materials (b)	22	24
Distribution	16	13
Valvoline	21	20
Water Technologies (b)	10	9
Unallocated and other	11	8
	\$159	\$141
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
APAC	\$75	\$155
Performance Materials (b)	31	23
Distribution	26	16
Valvoline	27	52
Water Technologies (b)	16	18
Unallocated and other	14	21
	\$189	\$285

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

(b) In June 2006, Ashland redefined its reporting segments in order to provide stakeholders with a clearer understanding of its businesses as the company evolves into a diversified chemical company.

Performance Materials and Water Technologies were formerly combined

under Ashland Specialty Chemical. Prior periods have been conformed to the current period presentation.  
Ashland Inc. and Consolidated Subsidiaries  
OPERATING INFORMATION BY INDUSTRY SEGMENT  
(In millions - preliminary and unaudited)

	Three months ended June 30		Nine months ended June 30	
	2006	2005	2006	2005
APAC				
Construction backlog at June 30 (a)			\$1,951	\$2,100
Net construction job revenues (b)	\$509	\$424	\$1,189	\$966
Hot-mix asphalt production (tons)	8.7	9.5	20.7	21.0
Aggregate production (tons)	8.7	8.3	23.7	22.6
PERFORMANCE MATERIALS (c) (d)				
Sales per shipping day	\$5.9	\$6.0	\$5.7	\$5.5
Pounds sold per shipping day	5.1	5.9	5.0	5.6
Gross profit as a percent of sales	25.0%	22.6%	23.2%	20.2%
DISTRIBUTION (c)				
Sales per shipping day	\$16.7	\$15.4	\$16.2	\$15.1
Pounds sold per shipping day	19.6	19.1	19.0	19.2
Gross profit as a percent of sales	9.3%	10.0%	9.7%	9.8%
VALVOLINE (c)				
Lubricant sales (gallons)	45.1	48.1	127.8	131.4
Premium lubricants (percent of U.S. branded volumes)	22.4%	24.3%	23.2%	23.5%
Gross profit as a percent of sales	20.2%	25.9%	21.4%	27.0%
WATER TECHNOLOGIES (c) (d)				
Sales per shipping day	\$1.8	\$1.6	\$1.6	\$1.5
Gross profit as a percent of sales	45.5%	46.9%	47.0%	48.1%
(a) Includes APAC's proportionate share of the backlog of unconsolidated joint ventures.				
(b) Total construction job revenues, less subcontract costs.				
(c) Sales are defined as sales and operating revenues. Gross profit is defined as sales and operating revenues, less cost of sales and operating expenses.				
(d) In June 2006, Ashland redefined its reporting segments in order to provide stakeholders with a clearer understanding of its businesses as the company evolves into a diversified chemical company. Performance Materials and Water Technologies were formerly combined under Ashland Specialty Chemical. Prior periods have been conformed to the current period presentation.				

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