MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. And welcome to the Ashland Fourth Quarter Earnings Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder this conference call is being recorded.

I would now like to turn the conference over to our host, Mr. David Neuberger. Sir, you may begin.

David A. Neuberger, Director, Investor Relations

Thank you. Shannon [ph]. Good morning, and welcome to Ashland's fourth quarter fiscal 2010 conference call and webcast. We released results for the quarter-ended September30, 2010 at 6:00 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 in November.

On the call today are Ashland's Chairman and Chief Executive Officer, Jim O'Brien, Lamar Chambers, Senior Vice President and Chief Financial Officer; and John Panichella, President of Ashland Aqualon Functional Ingredients.

Before we start, let me note that as shown on slide two, forward-looking statements as defined in securities laws may be made during this presentation. 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 these adjusted results enhance understanding of our performance by excluding certain key items.

Our fourth quarter 2010 highlights are on slide three. Ashland achieved strong results for fiscal 2010 but the September quarter was challenging. Reported earnings per share from continuing operations were $0.91. When adjusted for key items, which I will cover shortly, EPS was $1.05 as compared with $0.96 from the year ago quarter.

For the September quarter we achieved a 13% increase in sales over the prior year to $2.4 billion. Our adjusted EBITDA was $201 million. Free cash flow for the quarter was $102 million bringing our total for the fiscal year to $276 million. This represents a solid year for cash generation especially considering the $244 million trade working capital increase required to support our sales growth. Volume across our commercial units improved by 9% over the September 2009 quarter and remained flat sequentially due to typical seasonality.

Ashland Performance Materials and Ashland Distribution delivered strong results as the raw material environment largely stabilized and previous pricing actions took hold. Ashland Consumer Markets profitability was down but I'll remind you that the last major costs increase on base oil did not begin to be offset until the end of the September quarter. Both Ashland Hercules Water Technologies and Functional Ingredients also continued to experience raw material cost pressures unfavorably affecting their margins.

Slide four details our key items. Three key items had a net unfavorable EPS impact on continuing operations of $0.14 in the September 2010 quarter. First, Performance Materials incurred severance and accelerated depreciation expense of $17 million pre-tax resulting in an unfavorable impact of $0.19 per share. This was primarily related to reductions in force associated with three facilities as part of our continued effort to optimize our cost structure. Upon expected completion in the March 2011 quarter we would expect annualized savings of roughly $9 million.

Second, we completed several environmental site remediation assessments during the quarter related to Ashland Distribution. This resulted in a $6 million pre-tax charge resulting in an unfavorable impact of $0.05 per share. This charge was primarily related to a previously divested site. Last we realized the benefit of $8 million after tax or $0.10 per share from favorable tax adjustments related to previous acquisitions and divestitures. In the year ago quarter, four key items had a net favorable impact on earnings of $0.34 per share.

Please note that as you compare results to others, we had non-cash intangible amortization expense of $17 million in the September 2010 quarter and $22 million in the 2009 quarter both primarily the result of the Hercules acquisition.

Please turn to slide five for adjusted result summary. Sales increased 13% over the year ago September quarter and 1% sequentially. Gross profit as a percent of sales declined 360 basis points from the September 2009 quarter to 20.8%. This decline was primarily attributable to persistent raw material cost inflation in three of our five commercial units.

Our EBITDA margin decreased by 220 basis points as compared to the 2009 September quarter and our EBITDA was $201 million. Although not shown on the slide EBITDA for the full fiscal year was $887 million.

Please turn to slide six. This chart shows volume trends for our commercial units excluding the divested of Pinova and Drew Marine business and the acquisition of our JV partner's interest in Ara Química in April. These adjustments allow for a better comparison of underlying trends for our ongoing businesses.

As you can see, all commercial units were above the September 2009 quarter but sequential trends were mixed. Water Technologies achieved the largest percentage volume gain with growth in all regions. Function ingredients also had good growth despite continued capacity constraint in key product lines.

Distribution was roughly flat reflecting normal seasonality. Performance materials was down slightly as a result of the typical holiday season in Europe and the seasonal decline in the construction market and as one would expect consumer market was down with the end of the summer driving season.

As you can also see, the December quarter is typically our lowest volume quarter of the year. Slide seven shows Ashland's overall EBITDA bridge. This chart shows what led to the September quarter's performance as compared with the year ago quarter. Volume improvements were offset by gross margin contraction from rising raw material cost. Excluding the effect of divestitures and currency translation, SG&A was a $4 million headwind to EBITDA. This represents an increase of only 1% in SG&A as compared with 13% sales growth.

Currency translation was inconsequential due to the offsetting effects of various foreign currencies. The divestitures of Pinova and Drew Marine and other miscellaneous items accounted for $16 million of the EBITDA decline. Excluding this effect, EBITDA declined 3%.

Now let's turn to debt on slide eight. Total liquidity which is cash plus available AR securitization and revolver capacity increased to $1.2 billion by September quarter end. Our growth status at September 30th was $1.22 billion as compared with 1.42 billion at June 30th largely a result of substantially paying down our AR securitization facility using available cash. Net debt was $807 million. Our revolver remains undrawn but backs $122 million of letters of credit.

With that John Panichella will now discuss the function ingredients business beginning on slide nine. John.

John E. Panichella, Vice President and President, Ashland Aqualon Functional Ingredients

Thank you, Dave. Function ingredients had another strong quarter for volume and sales while reported volumes were up only 2% over the year ago quarter, that quarter included the Pinova business which we divested in January 2010. Excluding Pinova volume grew 15% over the prior year quarter and 3% sequentially. Year-over-year volume growth was strongest within the energy market which was up more than 50% as oil field demand recovered, particularly driven by increased horizontal drilling. Volume in regulated markets grew approximately 17% with gains in all regions.

Construction and Coatings were both up about 1%. Continue supply constraints around coatings limited our ability to meet customer demand. Reported sales were up 1% over the September 2009 quarter. However, excluding Pinova sales grew 11% over the prior year and 5% sequentially. New products introduced within the last five years represented 24% of September quarter sales. This brings our total of the fiscal year to 23% which is a new record for Functional Ingredients.

Gross profit declined to 28.7% in the quarter, largely driven by raw material inflation and higher freight cost over the prior year quarter. In addition the gross margin reflected certain adjustments largely related to our transition to the common Ashland ERP platform that accounted for roughly a fifth of the decline versus the prior September quarter. While there can be significant variation in the pricing cost balance between quarters, our historical performance has consistently demonstrated our ability to fully recover our cost.

Given the high value of the technology we provide, I expect to recover all costs through our continued pricing efforts which began in the June quarter. Our announced increases range from 5 to 8% depending on product line and selling prices increased by roughly $3 million sequentially. These price increases should lead to margin levels more consistent with historical norms. Overall functional ingredients EBITDA was down 26% sequentially to $43 million.

Please turn to slide 10 for our EBITDA bridge. As the bridge shows volume gains were not enough to offset margin declines versus the year ago quarter. Excluding Pinova which is in the divestiture and other bar, volumes were up significantly in all regions. Latin America volumes grew more than 50% while Europe up 16% and Asia-Pacific and North American each up 10%.

Margin effects were negative with the largest issue being continued raw material inflation. As you may know cellulose is our number one raw material. We produce cellulose from wood pulp and cotton lenders, a buy product of cotton processes. As you may have seen in a recent Wall Street Journal article, cotton prices have risen up to 55% in the last three months due to supply shortages caused by severe weather conditions in large cotton growing regions such as China and Pakistan.

As a result the cost of cotton lenders increased significantly over the prior year. Freight costs were also an issue as continued capacity constraints and production disruptions early in the quarter led to larger amounts of expedited shipments to meet customer demand.

Slide 11 reviews our capital expansion projects. As we've noted previously many of our key product lines are in a sold out position and nearly all our plants are running at full capacity today. We do expect this to be relieved for HEC when our managing China capital expansion comes on line and ultimately begins running at full capacity.

To remind everyone this will increase our capacity for HEC a product primarily sold into the paints and coatings market by 10,000 metric tons. This represents a 25% expansion of our HEC capacity and we have the ability to further increase capacity by another 10,000 metric tons when needed.

The Nanjing project remains on budget and we expect to begin production of trial loss in the next week or so with the first customer sales to begin by the end of December. Due to the typical start up cost as we bring this facility up to design volumes, it will not be meaningfully accretive to earnings and will be slightly dilutive to percentage margins until the plant reaches full utilization at the end of fiscal 2011.

This startup effect will be most exaggerated in the December quarter and should gradually improve as the fiscal year progresses. There are also seven other significant capital projects in functional ingredients plans for the next few years.

During 2011 and 2012, I expect increased capacity for glucel and use in pharmaceuticals and for CMC and additive use in the food and energy markets. Completing these projects should enable us to further capitalize on the strong growth dynamics within several key markets.

With that Lamar Chambers will now discuss Ashland's other businesses starting with Water Technologies on slide 12.

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

Thanks John and good morning. As you look at these numbers please remember that we divested the Drew Marine business in August 2009, reported sales declined slightly from the year ago quarter to $462 million. When we exclude Drew Marine, sales actually rose 4%. Sales were up 7% sequentially with our growth markets up 8%, base markets up 9% and our remaining markets up 3%.

Our gross profit dollars were flat sequentially. Gross profit margin declined to 31.7%. More than half of the sequential decline was driven by persistent raw material inflation, with the remainder largely attributable to higher than average freight costs in the quarter. Raw material inflation was particularly acute in our Polyisocyanate and wet stream [ph] products, which mainly affects our stream link business unit.

Freight was up largely due to raw material supply constraints within Europe. This necessitated shipping raw materials from other regions resulting in considerably increased freight costs over the June quarter. This issue has largely subsided and we expect roughly $2 million of our increased cost to be non-recurring. We have implemented aggressive pricing actions to offset these nagging inflationary costs, areas of particularly focus would be our Utility Water business in North America and our stream link business unit in Europe where it has been difficult today to implement pricing actions.

We announced our latest price increase of 5 to 15% last week covering all of Water Technologies product lines in North America. EBITDA declined by 17% sequentially to $40 million with EBITDA margins of 8.7%. We'll look at Water Technologies EBITDA Bridge on slide 13. Gains in volume were not enough to offset the margin declines versus the prior year quarter. Overall volumes were up 5%. The combination of increased raw materials and freight costs largely drove the $22 million decline in margin shown here.

As we noted we continue to implement pricing actions with the strongest gains within the North American stream link business unit. Versus the June quarter pricing has increased roughly 2 to $3 million. The bar titled divestitures other primarily represents the impact of the Drew Marine divestiture.

Please turn to slide 14 for performance materials results. Performance materials delivered a solid September quarter for this stage of the economic recovery. As you look at our results, please remember that on April 1st, performance materials bought at our partner's interest in Ara Quimica, our Brazilian composites joint venture affecting the comparisons of the September 2009 quarter.

Thus excluding Ara Quimica performance materials volume increased 20% over the prior year quarter with all business units up significantly and the largest gains in casting solutions. Sequentially, sales declined less than volume as our pricing action offset volume decline versus the prior year and excluding Ara Quimica, performance material sales grew an impressive 26%. Performance materials raw material cost largely stabilized during the quarter.

As a result our previous pricing action enabled us to achieve gross profit of 17.6%, 90 basis points above the June quarter. To date we recovered roughly 80 to 85% of our raw increased through price of significant improvement over the 40 to 50% recovery achieved to the end of the June quarter.

SG&A was down 4% versus the prior year quarter despite sizable increases in both volumes and sales as well as Ara Quimica acquisition. Overall, EBITDA margins increased 290 basis points over the prior year quarter and 70 basis points sequentially to 7.4% of sales equaling EBITDA of $26 million.

We still expect the previously announced 50/50 Sud-Chemie joint venture to close by calendar year and we expect to report our share of earnings under the equity method rather than on a consolidated basis. This joint venture is expected to have a roughly $7 million unfavorable impact on net income in fiscal 2011. This effect will diminish as we rationalized our stranded cost.

Now please turn to our EBITDA bridge on slide 15. Volume growth drove performance materials EBITDA increase over the prior year quarter with all regions showing gains. Latin America excluding Ara Química and Asia-Pacific continued to be strong engines of growth achieving volume increases of 48% and 30% respectively.

North American volume was up 24% and Europe grew 3%. We achieved double digit volume growth in each of our key end markets. Transportation was up almost 50% while the marine and packaging and converting markets were both up about 25%. Construction which consists of residential, industrial and infrastructure increased 17%.

We are particularly pleased with the operating leverage exhibited by this business. Even with the significant volume gains, SG&A excluding currency translation was flat versus the prior year. This operating leverage enabled us to generate more than 100% increase in EBITDA you see here.

Now let's go to consumer markets on slide 16. Consumer markets performed as we expected during the September quarter with good seasonal volumes but margins under pressure due to the price cost lag effect we previously described.

Lubricant volumes grew 4% over the prior year quarter but were down 4% sequentially due to normal seasonality. Sales increased 12% above the prior year quarter and were roughly flat sequentially as we continue to increase prices in response to rising raw material costs. Gross profit declined to 28.9% in the quarter as a reminder our large major base oil increase took effect in June and represented roughly a $15 million headwind in the September quarter. This increase was offset by our price increase announced towards the end of May although that did not begin to take effect until the September quarter end.

Gross profit is running at roughly 31 to 32% of sales in October demonstrating that we have already largely offset these increased costs. Due to promotional commitment it did take slightly longer than normal to implement our price increase and we do not expect the full benefit to be realized until a little later this quarter. While SG&A was up only 2% over the prior year quarter it was up 4% sequentially and we increased, as we increase our investment in advertising. The net result was a decline in our EBITDA margin of 13.12% of sales while this is below our mid-single target of 17 to 20% we expect this to be temporary as our pricing is already largely offset our cost increases.

Please turn to slide 17 for Consumer Markets EBITDA bridge. Margin was the largest driver of the decline in the EBITDA for the quarter, we achieved good volume gains over the prior year particularly in our do it yourself and international market channels which grew 16% and 14% respectively. Performance of Valvoline Instant Oil Change also continues to be strong, the same-store sales increasing 10%. Margins are down temporarily as our third successful price increase this year did not begin to take effect until the September quarter end. Overall EBITDA declined 23% versus a year ago quarter to $61 million.

Let's move to Ashland distribution on slide 18. Distribution posted a good quarter. Volume per shipping day increased only 3% over the prior year quarter due to a combination of continued supply constraints and product rationalization. Overall the market remains tight but producers are catching up. Volume was roughly flat sequentially due to typical seasonality in a number of our end markets.

Sales of $911 million increased 18% over the September 2009 quarter but were down 1% sequentially. Gross profit as a percentage of sales increased 60 basis points over the prior year quarter and 40 basis points sequentially. SG&A expenses increased only 2% year-over-year despite the 18% increase in sales.

Distribution more than doubled as EBITDA over the prior year quarter to $30 million and increased EBITDA as a percent of sale to3.3%. This margin represents good progress toward our 4% mid-cycle target and would be even higher if not for a $2 million quantity LIFO charge in the quarter.

Slide 19 shows our EBITDA bridge for distribution. Volume gain and substantial improvement in margin led to the year-over-year EBITDA increase. Our largest volume gains are in plastics, which were up 13% and composites which were up 9%. Chemicals volumes were down 2% due primarily to product availability and our ongoing effort around product rationalization. Volumes were up 4% in Europe and 3% in North America. Average selling prices across distribution increased by roughly 14% over the prior year quarter. Our continued pricing efforts combined with a stable supply cost environment enabled us to get caught up on pricing and generated the margin benefit you see here.

Now please turn to slide 20 and I will discuss a few corporate items. Capital expenditures of $106 million for the September quarter brought our total fiscal 2010 capital spending to $206 million. This is essentially in line with our previous cost of $200 million for the year.

We sold $32 million of seasonal loan auction rate securities in the September quarter, reducing our remaining book value to $22 million at quarter end. Interest expense was $27 million consistent with the interest expense last quarter. Our effective tax rate in the quarter was 22% excluding key items. As you know events in any given quarter can cause significant fluctuation in the effective tax rate. In this quarter we had a variety of small discreet items that in the aggregate drove the lower tax rate.

Slide 21 covers our expectations for 2011 corporate items. We have planned for capital expenditures of $230 million for fiscal 2011 with functional ingredients again receiving the largest share. This spending is in line with our expected depreciation for the year.

Growth project are those projects that support the expansion of our operations should account for 70 to $80 million of the overall capital spend. Our pension expense is expected to increase by roughly $5 million in fiscal 2011 this is being driven by a reduction in our discount rate to approximately 5% largely offset by favorable adjustments to our plan and asset returns during fiscal 2010 however slightly better than our long term assumptions.

Regarding cash we anticipate $50 million in pension funding requirements in fiscal 2011 primarily related to various foreign plans. Our effective tax rate for fiscal 2011 is expected to be in the low to mid 30% range excluding discrete items. We expect the cash tax rate of 15 to 20% with the difference being driven primarily by our foreign tax positions and utilization of US tax attributes. For fiscal 2011 we expect cash interest expense of roughly $100 million with an additional 15 to $20 million of book expense for amortization of previous debt issuance cost. Our focus on operating segment trade working capital optimization has yielded significant cash savings over the past three years. Our intention is now to maintain working capital at approximately 13% of sales level we have achieved.

Now Jim O'Brien will share some closing comments beginning with slide 22.

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

Thanks Lamar. As you just heard Ashland's fourth quarter reflected net results from our commercial units. We did achieve significant growth in both volumes and sales. Across Ashland underlying volumes were up 9% over the September 2009 quarter with our greatest volume improvement within Performance Materials where we achieved gains in each of our end markets.

Sequentially Ashland volumes were down slightly due to seasonal markets such as automotive and construction slowing down with the end of the summer season. Ashland sales grew considerably over the prior year, received 13% and 1% sequentially.

Functional ingredients, Water Technologies and Consumer Markets continued to experience sequential raw material cost inflation while performance materials and distribution benefited from a relatively stable cost environment. It takes Ash to non average three to four months to recover raw material cost increases.

As we have stated before, once raw material stabilize our pricing actions should recover our margins. This effect was clearly demonstrated by performance materials and distribution in the September quarter, and I expect our other commercial units to ultimately demonstrate this effect as well.

Now, I'll step back from the quarter to review our fiscal 2010 accomplishments. I am pleased with what Ashland employees have accomplished during the past year. In April we completed the last major milestone of the Hercules integration implementing our common our ERP platform across the organization.

We also resized the underlying cost structure of the company to match today's reduced demand environment generating in excess of $425 million of annualized savings since April of 2008. Our initial goals have been more than exceeded although we continue to look for ways to reduce our costs.

Our prime example is the capacity reduction is currently underway within performance materials as Dave mentioned earlier. All of our commercial units delivered strong year-over-year performances but I would like to specifically acknowledge consumer markets. Despite the challenging fourth quarter and persistent inflation throughout the year consumer markets exceeded 2009's record results and delivered nearly $300 million of EBITDA.

In July, we signed a global joint venture agreement with Sud-Chemie to combine our Foundry Chemical businesses. The new business to be known as ASK Chemicals will be a global leader in the space and will focus on delivering solutions in the metal casting industry worldwide.

We produced free cash flow of $276 million in the year despite the need to support our significant sales growth with increased working capital. This cash flow enabled us to reduce our net debt by more than $400 million and to increase our liquidity to $1.2 billion. Our intention is to use our available liquidity primarily to fund our growth in specialty chemicals.

During the June quarter the Board of Directors doubled the dividends to an annual rate of $0.60 per share. This demonstrates the Board's confidence and our ongoing ability to generate cash and deliver results as well as its desire to share Ashland's success with our shareholders.

Now let's turn to slide 24 for our outlook for 2011. I expect each of our commercial units to take steps to improve their positions both strategically and financially. Functional ingredients which has been in a largely sold out position, should begin customer shipments from the new Nanjing facility in December. This expansion should enable us to capture strong growth and customer demand in China and surrounding markets.

Functional Ingredients will continue to work closely with our customers to develop new products particularly in a regulated and coatings end markets. During fiscal 2010, new product introductions accounted for 23% of sales, or roughly 200 basis points improvement over the prior year and as John mentioned a record for his business. Raw material cost inflation continues to be a concern. However, given the recent price increases Functional Ingredients, has just implemented I am confident that we will again restore full margins in this business.

Water Technologies continues to be challenged by the current raw material environment and must continue to take aggressive price actions to recover lost margins. In addition, Water Technologies will seek to accelerate its performance in higher margin growth markets by leveraging the increased scale of the Unified Water Technologies organization. We do this by partnering with our customers to develop innovative solutions to meet their distinct requirements. Performance Materials remains highly leveraged to a returning economy and should continue to benefit disproportionately as volumes returns.

During 2010, despite the sales increase of almost 16% SG&A was essentially flat demonstrating the operating leverage we have created for this business. Performance Materials will also seek to exploit our technical advantages in higher growth and margin products such as wind energy and pollution control where for example our DERAKANE resins provides strength and corrosion resistance.

Let's move on to Consumer Markets. Consumer markets has completed two consecutive outstanding years.

During 2010 consumer markets faced persistent raw material inflation through a three separate price increases we demonstrated our ability to maintained margins as well as the value of our brand. This provides additional evidence that we have reached a new level of profitability within this business, and I expect to build upon this success.

Core tenants of our strategy include maintaining pricing discipline, expanding our international presence, driving premium mix through technical innovation and effective brand advertising and continuing the growth of our Valvoline Instant Oil Change business.

By executing this strategy, consumer markets should continue to drive this new level of performance. Ashland distribution has made great strive toward achieving its mid-cycle target of 4% EBITDA margins. Margins generally increased throughout the year and distributions fourth quarter EBITDA margin of 3.3% represented doubling over the prior September quarter.

Distribution overall strategies remained focus on quality volume improvement. This will be achieved by emphasizing the specialty end of the chemicals and plastics markets and leveraging our industry unique technical support capabilities. We will continue to build a best in class product offering by leveraging our existing supplier relationships and aligning within the leading global partners.

We have reconstructed Ashland on a cost effective and strong cash generating base that is highly leveragable to an economic recovery. With strong year-over-year sales growth of 11%, SG&A increased 23% providing clear evidence of an operating leverage in place.

As we go into 2011 we are well positioned as a world-class specialty company with a strong balance sheet and ample liquidity to implement our growth strategies. We expect to build upon our successes from 2010 and achieve further progress fiscal 2011.

With that we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Our first question comes from Mike Harrison with First Analysis. You may begin.

<Q – Michael Harrison>: Hi, good morning.

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

<Q – Michael Harrison>: Couple of questions on Aqualon, in terms of the raw material cost there, have those stabilized at this point and I guess what's the timing look like when you expect to actually catch up on the price versus raw material front.

<A – John Panichella>: Yes, Mike, good morning. This is John. Most costs have somewhat stabilized with the exception of cotton. Cotton is still pretty inflationary for us. So I think it's going to take another three months for cotton to stabilize in raw material. As far as our pricing, like we said we have got $3 million sequential pricing quarter-over-quarter and we expect that to continue into the first quarter. So cost – our other costs are not in too roughly shape right now in raw materials but cotton is still pretty rough store for us.

<Q – Michael Harrison>: And John what kind of flexibility do you have in terms of your raw material feed? To some extent can you shift away from cotton winters when you see those prices going up and shift more toward the wood, wood pulp?

<A>: We have the ability to do that, Mike. We are somewhat restricted by our ability to get resolving wood pulp and so we have contracts and the wood pulp market is pretty tight. So we are working that strategy to move away from some cotton lender where we can but it's also constrained by our ability to get wood pulp. So I expect you will see some change from us in the amount of products we make with cotton lenders going forward but not a big change.

<Q – Michael Harrison>: And the other question I had John is in a sold out situation where you are capacity constraint, I guess the general thought would be that you guys would have more pricing power than you seem to have why is that not the case?

<A – John Panichella>: Yeah, that's a good question. Take a look at our HEC and that's a good case. We are bringing on 10,000-tons of volume which is 25% increase in our capacity. So we've been pretty careful in the quarter to secure enough volume to fill up the new plant which we've done. And so we are trying to balance, bring in on enough new volume to fill up the new plant and get price. So we lagged a couple of months trying to secure the volume for HEC is the predominant reason like in HEC why we didn't force the pricing right away.

<Q – Michael Harrison>: All right. I was also curious, Jim, on the Water Technologies front, looking at the sequential volume improvement there, do you think demand is sustainable at these levels and can you comment maybe on what the operating margin in that business looks like at this level of demand if you adjust for the raw material impact?

<A>: On the water side, we had a lot of issues with raw materials not only just going up in cost but availability. There were many products because of disruptions we had to source from Europe and ship to the United States in other cases United States to Europe. So we incurred a lot of freight and disconnect as far as the supply chain itself. So we see that kind of settle down and those costs should not be incurred as we're going to the next quarter.

The focus of the water team is the plants that we serve are running fairly well and of course as we go through the summer months they probably peak as far as their needs for boiler treatment and treatment for allergy [ph] control based on those lines because of the summer heat, but as we go into the next quarter, we've announced a price increase to recover some of these material costs, and our focus is going to be on price versus volume.

So we may actually lose some volume over the next quarter to get the price. But as far as the leverage to our profitability, that would present us for the much more higher leverage hitting the price where we stand today. But overall from the standpoint of the overall economy, the water business has seen nothing different than what you read in the paper that things kind of continue to be somewhat stable to slight growth but our issues are around price right now.

<Q – Michael Harrison>: Got it. And then last question I had was on Valvoline. The 31 to 32% gross margin that you're tracking for October, is that a good number to use for the full December quarter or could you see further improvement from that level in the fall quarter?

<A – Lamar Chambers>: As we said Mike. This is Lamar. We would expect the pricing recovery that we are achieving to layer in through the quarter 31, 32% where we think we are today. That could improve a little bit but I wouldn't think a material difference from that level for the full quarter.

<Q – Michael Harrison>: All right. Thanks very much.

<A – Lamar Chambers>: Thank you.

Operator: Thank you. Our next question comes from Mike Sison with Key Banc. You may begin.

<Q – Mike Sison>: Hey, good morning guys.

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

<Q – Mike Sison>: Jim when I think about Valvoline, you had a as you suggest a very good year EBITDA around 298, so I guess when I think about 2011 if you get the pricing that you alluded to I can add plus 15 to that 298 as sort of a base.

<A – James O'Brien>: When we think about our coming year, it will be better than the past year. That's where the plan is put together on our expectations. So the way you are thinking about it is the right way to think about it. I can't confirm your number but directionally you are going the right way.

<Q – Mike Sison>: And then what type of growth do you think this business you've talked about historically growth in Asia. VIOC is doing well. Can this business grow to mid single on a volume basis next year?

<A – James O'Brien>: The opportunities that Valvoline has is primarily in its values in oil change business. I think that that will continue to grow and improve opportunities around consolidation in that particular industry over time, that our franchisees definitely have taken advantage of this past year and will continue to take advantage and perhaps we may pick up some stores from time to time again where it fits our markets. Internationally Asia continues to be an area of growth for us. India has been a big winner for us and we are building a packaging plant there this year with our joint venture. That's done well. So as we look to the international business that will continue to grow and Valvoline Instant Oil change will grow.

<Q – Mike Sison>: Okay. And then you talked about, the base oil was plus 15 did you have other raw materials go up like adhesives and other stuff that impacted Valvoline that would be offset as well?

<A>: Sure. The adhesives of course is just like the base stock they move pretty much in concert together and both have to recover through our pricing actions. And the other area that we invested more in the business was in our advertising especially in the last quarter. We had some key promotions that we wanted to support so we increased our spend there that about $4 million to help support some of those promotions. So from time to time you may see us with some good reasons to increase spending in that area but not on a continuous basis.

<Q – Mike Sison>: Okay, great. And then John one quick question on [indiscernible] what type of volume growth is implied into your numbers in '11 due to the expansion once that comes on stream?

<A – John Panichella>: You are talking about the ATC expansion?

<Q – Mike Sison>: Yeah. So is that going to represent, 4, 5, 6% type growth next year?

<A – John Panichella>: Right now it's about 5,000 tons on 40,000 tons. So that's about what we are expecting as far as growth that we'll deliver 5,000 additional tons out of the ATC plant on a 40,000-ton base.

<Q – Mike Sison>: And that's pretty much sold out as I understand it.

<A>: Yes. And the facility can produce 10,000 tons, but during the startup we'll only get 10,000. It would be at full capacity on a quarterly basis later in the fiscal year.

<Q – Mike Sison>: So you'll get the raw materials back so that squeeze in 11 versus 10, so add whatever the squeeze was back plus this growth is a good way to see the earnings trajectory for [indiscernible] in 11?

<A>: I think that's part of it. Yeah.

<Q – Mike Sison>: Okay. Great. Thank you.

<A>: Yeah. Mike I think the one thing that we emphasize on Nanjing, as is you further that plant production in through the year, it's a cost to us I think in the – in our first fiscal quarter, so its actually going to be a negative to earnings in the first quarter. It comes neutral in the second quarter. Starts building earnings in the third. It becomes something reasonable in the fourth.

So as you think about Nanjing you have to further in the effect. It goes slight negative, neutral, positive and then something more material in the fourth quarter, its how to think about it. You can't annualize it for this year. Then you go to next year then it runs at its engineering rated pace and then much more substantial contribution to earnings.

<Q – Mike Sison>: Got it. Thank you.

<A>: Thanks, Mike.

Operator: Thank you. Our next question comes from John McNulty with Credit Suisse. You may begin.

<Q – John McNulty>: Yeah, good morning. Just a few questions. On the Water Tech business when I look at kind of your mid-cycle margin target of 16 to 18%, we kind of steadily gone away from that over the past few quarters. Can you give us some color as to your confidence in hitting those targets? And also I know you didn't give kind of formal timing for your full company kind of mid-cycle environment but what are you thinking in terms of the timing for this water treatment or water tech platform and has it been extended or gone out further than may be what you were thinking before.

<A>: It really hasn't changed our thinking about what we think the real potential is of the business. I think what we've experienced this year is probably, representative of a difficult environment particularly for water. The way water prices are products is basically on the service contract. It isn't really based on the raw material consumed. It's more around the quality of the water we are trying to produce and the pricing is not as straightforward as a lot of other businesses were you sell a product and tied to that product is a certain cost and then you say okay, the cost went up 10% I got to raise my prices whatever to recover that.

With water it's more of a total service and when we look at the pricing, these are much, more highly negotiated and they are longer term. So as we go through a period of raw material deflation, obviously raw material effects hit us quicker and our margins expand as raw material cost go higher, it's much harder for us to negotiate these contracts at a reasonable manner not to put the business in jeopardy.

So as we have seen raw material costs go up over the last six, seven months, we have raised prices, but that we have not done it but it has not been enough. So what we are doing through this quarter is getting much more aggressive and that's why in my initial discussion of this I was saying that Valvoline potentially puts some volume at risk to get the margin back to where they belong. And hopefully we won't lose any business but the focus is how to get our service agreements priced appropriately to recover these costs because we think these are pretty much where it's going to be. So I think costs have kind of settled out and we kind of understand what the costs are going to be so as we sit and talk to our customers we have to demonstrate to them that this is the new reality and we need some relief.

<Q – John McNulty>: Okay. And have you seen in terms of the pricing that you have put through in Water Tech so far throughout the year, have you seen the competition moved kind of in lock step with you, is there discipline at this point or are we not really seeing that discipline?

<A>: For the most part there's discipline but you always have those instances where somebody is trying to get into a certain account and they maybe willing to take a lower margin to try to get the entry in. So you had to be sensitive not to lose business that you believe is key. So you try to work your way through that and it's still a competitive market. So I can't say that this is a slum dung its not. It's difficult. It's a lot of hard work but with the right attitude, and the right salesmanship I think we can get it done.

<Q – John McNulty>: Okay. Fair enough. Just a question on the cash flows, your balance sheets back to pretty much solid as it could be I mean I think your debt to EBITDA is about one time right now, so certainly arguably under leverage you're still throwing off a descent amount of cash any thoughts in further raising the dividend getting it kind of back to the pre-cut levels anytime soon?

<A>: As the Board discusses this issue we obviously are very sensitive to try to get returns back to our shareholders and being competitive in the market as far as dividends. The philosophy that we have at this stage is we want to be very competitive with our specialty chemicals peers. So we don't necessary want to be an outlier. We have a rated return on dividend that is substantially higher than our peers because we also have the desire and the ambition to reinvest some of this liquidity and available debt capacity and trying to further ambition of strengthening our specialty chemical core. So that's still an ambition that we have and obviously we are very careful about the types of projects that we undertake and the acquisitions that we make as far as the returns and not to say the things absolute but that would be the direction we would take it.

<Q – John McNulty>: Okay. Fair enough. And then just last question, just a housekeeping question. For your interest expense, the 120 or the 120 million that you are looking for going forward including the book interest expense, is that an apples-to-apples kind of comparison to the say, 27 million you just did in the fourth quarter?

<A>: Just to kind of reiterate on that we would expect our cash interest expense to be about $100 million as you think about our cash flow. But our book being more than 115 to 120 range including amortization and that would generally be relatively comparable to what we just did in the fourth quarter.

<Q – John McNulty>: So when I look at the 27 million that you did in the fourth quarter if I analyze, we're getting to kind of a 108 numbers. So are you expecting our interest expense to actually go up in 2011? Am I doing the math right on this?

<A>: Within a reasonable range of rounding. We're expecting basically the same level of interest expense. We don't expect to reduce our debt significantly John [ph] and in any given quarter we have a little bit of variation between what we get invested in cash versus paying down short term debt like we did this fourth quarter where we paid down our receivables program, increased our liquidity in that way. So generally the run rate we are at now as we close the fourth quarter is what we would expect through 2011.

<Q – John McNulty>: Okay. Thanks a lot.

Operator: Thank you. Our next question comes from Laurence Alexander with Jefferies. You may begin.

<Q>: Good morning. This is Rob [ph] on for Lawrence.

<A>: Good morning, Rob.

<Q>: Hi. Just a question son raw materials as a headwind. Just kind of given you mentioned the lag three to four months kind of how should we think about how much should be recouped in Q1 and if you can give us kind of the overall aggregate impact in the quarter that the raw had.

<A>: Right I'll let Lamar figure out what the aggregate impact was but as far as our expectations, Valvoline has pricing actions already in place that will recover what we need in this next quarter. Aqualon has pricing in place that will move their margins back up until a more typical historical range. So we believe in the first quarter that will get back into historical ranges.

Distribution is in a more stable environment. They still have some products on allocation as those things continue to be released allocation their margins should be at least stable to slightly increasing. When you look at performance materials, they are going to be entering a weaker sales period, but they continue to increase their throughput through their plants.

We are going to – as we mentioned we are going to decrease some capacity in some other plants. So our throughput utilization should improve which will help our margins. That business will improve the one that probably has the -- the tougher road to hold will be Water and they're just starting their journey. So they made their announcements, they've got to go out and have discussions with their customers. So I think the jury is still out as far as what impact that actually will have but my expectation is it would be better than it was. So directionally it should improve.

<A – David Neuberger>: And Rob this is David. Just the math on the overall material and I'll just do sequentially say about 20 to 25 million headwind specifically to Raws. The majority of that being consumer markets with about 15 and then the rest split pretty equally between Functional Ingredient and Water Tech.

<Q>: Okay, great. Thanks. And then just a follow-up on that kind of pricing any need for further restructuring to recover margin or is pricing going to suffice?

<A>: For which business?

<Q>: Just kind of an aggregate?

<A>: Yeah I think that the restructure you saw in Performance Materials is kind of their last piece. So I think that their design is pretty much where it needs to be and our focus now is on price and continue to participate with the recovery to increase our sales and grew volume.

<Q>: Okay. And then if I could just on Aqualon outages any kind of change there, what change has happened to prevent similar headwinds kind of next year?

<A>: I mean, what kind of outages do we have planned?

<Q>: No, in terms of kind of the outages this past quarter what has changed in terms of hiring that business to prevent them going forward?

<A>: Got it. Well, the one outage we had pretty significant one was an active, we had a plant struck by lightning and we were out 10 days. So we don't envision that to happen again. So I don't think there are many situations that the plants are running well and we don't have major outages planned. So I don't think we'll have anything right now that I can perceive.

<A>: Okay. I would say the Nanjing project should help a little bit. But that as well Rob [ph] I know John has been running the plants pretty hard here to meet customer demand. I think as Nanjing comes up online and freeze up a little bit available capacity that would loosen up the situation somewhat.

<Q>: Okay. Great. Thank you very much.

Operator: Thank you. Our next question comes from Dmitry Silversteyn with Longbow Research. You may begin.

<Q – Dmitry Silversteyn>: Good morning. A couple of questions if I may. First of all, on the Aqualon business you talked about volumes being up 15% but sales were only up 11% excluding Pinova. So was that a negative 4% that we're seeing that there was that a function of foreign exchange or mix or did you have to lower pricing just allow the plants and then dissipation of the Chinese plants drop? Can you explain the disconnect between volume and revenues?

<A>: I think it's a combination of mix and FX.

<Q – Dmitry Silversteyn>: Okay. And in terms of magnitude was it mostly mix or mostly FX.

<A>: I think it was mostly mix.

<A>: Looking at the data, Dmitry construction came on pretty strongly as well as energy and that tends to be a lower average price.

<Q – Dmitry Silversteyn>: Okay. Got it. Okay. That's helpful. Secondly, can you, I know you've provided directionally what the impact of the Chinese plant start up is going to be in Aqualon by saying that it's going to be dilutive in the first quarter of operations, which would be the first of your fiscal year and then neutral to slightly accretive to very accretive by the end of the year. All in for 2011 versus 2010, is that going to be a positive impact on the operating profit line?

<A>: Slightly positive.

<Q – Dmitry Silversteyn>: Slightly positive, okay. So what we are basically looking at is a fairly significant head then in the December quarter and then recovering that in the following three months to where you are even out more or less for the year.

<A>: Yes couple million dollars in the December quarter and then even out over the year and again it's just due to the size of the facility, it has large cost and to get it to scale up, it would take us six month to get it to scale up.

<Q – Dmitry Silversteyn>: Right. I understand that. I just wanted to make sure that I am accounting for it properly. Okay. And in terms of Valvoline and the margin recovery there, obviously you needed to stay promotional for much of this quarter. So you couldn't get your pricing as quickly as possible, we did have base oil stabilize this quarter. Do you have an outlook on base oil with respect to pricing or do you just intend to kind of handle it as comes along whichever direction it goes.

<A>: We are going to handle it as it comes along. But as we look at base oil right now, it's been fairly stable for the last three or four months which is good and crude seems to be in a trading range right now. So I guess it's all going to be determinant of crude kind of just jumps out of that trading range whether or not we would see a further raw material increases, but when you take a look at the graph of crude oil versus lube stock, they are pretty much aligned to historical rates. So as far as the typical recovery you would expect from a crude increase is pretty much in line to what they have been historically.

<Q – Dmitry Silversteyn>: Okay, all right. But there's nothing that changed in your market that you can tell if base oil breaks out of this range to the upside, that with a reasonable amount of time you wouldn't be able to recover the pricing?

<A>: There's nothing that would say that that relationship has changed.

<Q – Dmitry Silversteyn>: Okay, very good. Thank you very much.

<A>: Okay, I have time for one more question.

Operator: Our last question comes from Mark Pomper [ph] with MEAG [ph]. You may begin.

<Q>: Yeah, hi guys. Just wanted to follow up on your slide to liquidity in that debt chart, looking at your maturity structure you've got big bulge in 17, obviously it's a callable issue so its of course more manageable but is there any thought in terms of that high coupon debt being reduced or any permanent liability management exercise contemplate you know you do have a relatively complicated debt structure for a small number of issues?

<A – Lamar Chambers>: This is Lamar. Good question, good point. As we think about those bonds that actually become callable in June 2013 as we approach that date, we certainly would consider the economics of taking those out. It will depend a lot on how the market evolves and the opportunities evolve between now and then but that is our more expensive data at this point and frankly has some issues. We just assume not have to deal with it as well. So that would be our thinking, as evaluating the economics as we approach the call date on that.

<Q>: I guess I was just wondering if you would be contemplating that now as opposed to in to 2013 the market has been extremely accommodating and rates are about as low as you can imagine and I think your debt trades at a discount to where it should?

<A – Lamar Chambers>: Well, certainly something we have evaluated and we'll continue to evaluate on an ongoing basis. They're pretty pricy right now on our view to take that out, just buying it in before call date. But obviously that is an option we have and as we look at our other opportunities for investment or restructuring our debt, we'll be considering that I'd say as we sit here right now, we don't think the price benefit equation on that would suggest this is the right time to do that.

<Q>: Thanks very much.

<A>: Thank you.

David A. Neuberger, Director, Investor Relations

Okay. Thank you for everyone's time today and thank you for your interest in Ashland. Please feel free to give me a call, David Neuberger if you have any additional questions.

Operator: Ladies and gentlemen this concludes today's conference. Thank you for your participation and have a wonderful day.