



July 28, 2011

Ashland Inc. reports preliminary Q3 results: EPS from continuing operations of 86 cents; adjusted EPS of 92 cents excluding key items

COVINGTON, Ky. – Ashland Inc. (NYSE: ASH) today announced preliminary(1) results for the quarter ended June 30, 2011, the third quarter of its 2011 fiscal year.

Quarterly Highlights

| (in millions except per-share amounts) | Quarter Ended June 30, | |
|--|------------------------|--------|
| | 2011 | 2010 |
| Operating income | \$ 120 | \$ 139 |
| Key items* | 8 | - |
| Adjusted operating income* | \$ 128 | \$ 139 |
| Adjusted EBITDA* | \$ 194 | \$ 207 |
| Diluted earnings per share (EPS) | | |

| | | |
|---|---------|---------|
| From net income | \$ 1.09 | \$ 1.85 |
| From continuing operations | \$ 0.86 | \$ 1.46 |
| Key items* | 0.06 | (0.45) |
| Adjusted EPS from continuing operations* | \$ 0.92 | \$ 1.01 |
| Cash flows provided by operating activities from continuing operations | \$ 12 | \$ 96 |
| Free cash flow* | (46) | 45 |

* See Tables 5, 6 and 7 for definitions and U.S. GAAP reconciliations.

GAAP(2) Results

For its 2011 third quarter, Ashland reported sales of \$1,667 million, operating income of \$120 million, income from continuing operations of \$69 million (86 cents per share) and net income of \$87 million (\$1.09 per share). Net income included income from discontinued operations of \$18 million aftertax (23 cents per share), primarily related to favorable adjustments to asbestos reserves and related insurance receivables. Cash flows from operating activities from continuing operations amounted to \$12 million.

Adjusted Results

For the June 2011 quarter, Ashland's adjusted EPS was 92 cents. Adjusting for the impact of key items in both the current and prior-year quarters, Ashland's results for the June 2011 quarter as compared with the June 2010 quarter were as follows:

- sales increased 13 percent to \$1,667 million;
- adjusted operating income was \$128 million versus \$139 million in the prior year;
- adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$194 million versus \$207 million a year ago; and
- adjusted EPS from continuing operations was 92 cents versus \$1.01.

Key Items

In total, two key items had a net unfavorable EPS impact on continuing operations of 6 cents in the June 2011 quarter:

- a \$2 million (2 cents negative EPS impact) aftertax expense for accelerated depreciation related to capacity reductions at Ashland Performance Materials, and
- a \$3 million (4 cents negative EPS impact) aftertax expense for environmental reserves associated with legacy sites unrelated to ongoing operations.

In the year-ago quarter, three key items had a net favorable EPS impact of 45 cents. Refer to Table 5 of the accompanying financial statements for details of key items in both periods.

Performance Summary

Commenting on the company's performance during the fiscal third quarter, Ashland Chairman and Chief Executive Officer James J. O'Brien said, "Our June quarter results were significantly affected by steep raw-material cost increases. Across our commercial units, raw material costs increased nearly \$60 million sequentially – roughly double the average increase in the prior three quarters. Still, the June quarter was one of our strongest for pricing, as we essentially offset all of these increased costs sequentially.

"While we've been generally successful in recovering our raw material costs on a dollar basis, we have yet to recover margins, and as a result, gross profit as a percent of sales has declined."

Business Performance

In order to aid understanding of Ashland's ongoing business performance, the results of Ashland's business segments are presented on an adjusted basis and EBITDA is reconciled to operating income in Table 7 of this news release.

Ashland Aqualon Functional Ingredients grew sales by 33 percent over the June 2010 quarter and 12 percent sequentially, reaching \$303 million for the June 2011 quarter. Volumes rose 12 percent over the prior year, with gains in all regions and end markets. Sequentially, volume was up 8 percent. Gross profit as a percent of sales of 33.1 percent in the June 2011 quarter compared with 37.6 percent in the June 2010 quarter. Strong pricing gains during the quarter more than offset raw material costs, but were insufficient to restore percentage margins. This, coupled with the considerable growth in lower margin products sold into the construction market, led to the margin compression. Selling, general and administrative and research-and-development (SG&A) expenses have been well-controlled and were consistent with the prior year and sequentially. In total, Functional Ingredients' EBITDA rose to \$74 million in the June 2011 quarter, 28 percent above the year-ago quarter and up 16 percent sequentially. As a percent of sales, EBITDA for the June 2011 quarter was 24.4 percent as compared with 25.6 percent in the prior June quarter and 23.7 percent in the March 2011 quarter.

Ashland Hercules Water Technologies' sales were \$490 million in the June 2011 quarter, up 14 percent over the year-ago quarter and up 4 percent sequentially. Gross profit as a percent of sales of 29.7 percent was 400 basis points below the year-ago quarter and down 160 basis points sequentially. Raw-material cost escalation continued to negatively affect margins, and Water Technologies recovered around half of its roughly \$30 million of cost increases versus the prior year. SG&A expenses rose 3 percent over the prior-year quarter and 1 percent sequentially. In total, Water Technologies' EBITDA of \$43 million was down roughly 10 percent both versus the prior-year quarter and sequentially. EBITDA amounted to 8.8 percent of sales in the June 2011 quarter, as compared with 11.1 percent in the prior-year quarter and 10.0 percent in the March 2011 quarter.

Ashland Performance Materials' sales of \$352 million for the June 2011 quarter were 1 percent below the year-ago quarter, but up 8 percent sequentially. Year-over-year results were affected by the December 2010 formation of the global ASK Chemicals joint venture, to which Performance Materials contributed its former Casting Solutions business unit. Excluding the effects of this transaction, sales were up 17 percent over the prior year. On this same basis, volume per shipping day increased 2 percent over the year-ago quarter and 1 percent sequentially, weaker than typical seasonality would suggest. This volume softness was due to the still-weak construction market and weaker demand in Europe and Latin America. Gross profit as a percent of sales of 13.6 percent, which excludes key items, was 310 basis points below the June 2010 quarter and nearly flat sequentially. Excluding the effects of the ASK Chemicals joint venture, gross margin was down only 90 basis points versus the prior year. Similar to Functional Ingredients, Performance Materials' pricing was sufficient to offset costs on a dollar basis, but did not restore percentage margins. Actions continue to be taken in order to regain these lost margins. SG&A declined 24 percent from the prior year, primarily reflecting the transfer of Casting Solutions to the joint venture, and was flat sequentially. Overall, Performance Materials' EBITDA of \$24 million was equal to the prior-year quarter and up 20 percent sequentially. EBITDA as a percent of sales was 6.8 percent, 10 basis points above the year-ago quarter and a 60-basis-point increase sequentially.

Ashland Consumer Markets' sales of \$522 million increased 13 percent over the year-ago June quarter, despite a 4-percent decline in lubricant volume. Sequentially, sales grew 6 percent, and lubricant volume declined 1 percent. The volume declines can be attributed to two factors. First, higher gasoline prices likely led to fewer miles driven, thus reducing the need for oil changes. Second, supply constraints due to flooding on the Mississippi and Ohio rivers early in the quarter restricted Consumer Markets' ability to meet customer demand. Gross profit as a percent of sales declined to 26.6 percent in the June 2011 quarter, 580 basis points below the year-ago quarter and down 270 basis points sequentially, due to a particularly steep increase in raw material and supply costs during the quarter. Two separate price increases have previously been announced and will be in place during the September quarter. Subsequently, Consumer Markets received notice of an additional base-oil increase of 50 cents per gallon. As a result, further pricing action will be needed to fully restore margins. A larger investment in advertising for the launch of Valvoline™ NextGen™ recycled, refined motor oil led to a 12-percent increase in SG&A versus the year-ago quarter and a 6-percent increase sequentially. In total, Consumer Markets' June 2011 quarter EBITDA was \$61 million, 26 percent below the year-ago quarter and 14 percent below the March 2011 quarter. The EBITDA margin was 11.7 percent for the June 2011 quarter, 600 basis points below the prior year and down 280 basis points sequentially. After excluding the effects from key items, Ashland's effective tax rate for the June 2011 quarter was 30 percent.

Outlook

Commenting on Ashland's outlook, O'Brien said, "Our principal challenge in the near term continues to be recovery of raw-material cost increases. While Ashland has recovered these cost increases on an overall basis through pricing, our commercial units have had varying degrees of success. We will remain focused on, and continue to take, appropriate pricing actions to recover our costs and ultimately restore margins."

O'Brien continued, "Our overall goal has been to return maximum value to shareholders through a mix of options. The June quarter was a good example of delivering on this goal. We purchased 1.2 million shares of Ashland stock; increased the annual dividend by 17 percent; and most important, we announced the pending acquisition of International Specialty Products (ISP), and we have negotiated a very attractive financing package to support this transaction.

"This acquisition will more than double the size of our Functional Ingredients business, deepening relationships with existing customers and enhancing penetration of existing markets. In particular, it will significantly expand our position in higher-margin, higher-growth end markets such as personal care and pharmaceutical. Greater participation in these stable, less-cyclical end markets should help lead to more consistent, predictable earnings and cash-flow generation for Ashland. Overall, this defining transaction for Ashland creates a global technology and market-focused leader in specialty chemicals, with the ability to create significant shareholder value."

Conference Call Webcast

Today at 9 a.m. EDT, Ashland will provide a live webcast of its third-quarter conference call with securities analysts. The webcast and supporting materials will be accessible through Ashland's website at <http://investor.ashland.com>. Following the live event, an archived version of the webcast and supporting materials will be available for 12 months.

Use of Non-GAAP Measures

This news release includes certain non-GAAP measures. Such measurements are not prepared in accordance with GAAP and should not be construed as an alternative to reported results determined in accordance with GAAP. Management believes the use of such non-GAAP measures assists investors in understanding the ongoing operating performance of the company and its segments. The non-GAAP information provided may not be consistent with the methodologies used by other companies. All

non-GAAP amounts have been reconciled with reported GAAP results in Tables 5, 6 and 7 of the financial statements provided below.

About Ashland

In more than 100 countries, the people of Ashland Inc. (NYSE: ASH) provide the specialty chemicals, technologies and insights to help customers create new and improved products for today and sustainable solutions for tomorrow. Our chemistry is at work every day in a wide variety of markets and applications, including architectural coatings, automotive, construction, energy, personal care, pharmaceutical, tissue and towel, and water treatment. Visit www.ashland.com to see the innovations we offer through our four commercial units – Ashland Aqualon Functional Ingredients, Ashland Hercules Water Technologies, Ashland Performance Materials and Ashland Consumer Markets (Valvoline).

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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. In addition, Ashland may from time to time make forward-looking statements in its other filings with the Securities and Exchange Commission (SEC), news releases and other written and oral communications. These forward-looking statements are based on Ashland's expectations and assumptions, as of the date such statements are made, regarding Ashland's future operating performance and financial condition, the economy and other future events or circumstances. Ashland's expectations and assumptions include, without limitation, internal forecasts and analyses of current and future market conditions and trends, management plans and strategies, operating efficiencies and economic conditions (such as prices, supply and demand, cost of raw materials, and the ability to recover raw-material cost increases through price increases), and risks and uncertainties associated with the following: the pending acquisition of International Specialty Products Inc. (ISP) (including the possibility that the benefits anticipated from the acquisition of ISP will not be fully realized, the possibility that the transaction may not close and the possibility that financing may not be available on the terms committed), the substantial indebtedness Ashland will incur to finance the acquisition of ISP (including the possibility that such debt and related restrictive covenants may adversely affect Ashland's future cash flows, results of operations, financial condition and its ability to repay debt), weather, natural disasters, and legal proceedings and claims (including environmental and asbestos matters). Various risks and uncertainties may cause actual results to differ materially from those stated, projected or implied by any forward-looking statements, including, without limitation, risks and uncertainties affecting Ashland that are described in its most recent Form 10-K (including Item 1A Risk Factors) and Forms 10-Q filed with the SEC, which are available on Ashland's website at <http://investor.ashland.com> or on the SEC's website at www.sec.gov. Ashland believes its expectations and assumptions are reasonable, but there can be no assurance that the expectations reflected herein will be achieved. Ashland undertakes no obligation to subsequently update any forward-looking statements made in this news release or otherwise except as required by securities or other applicable law.

(1) Preliminary Results

Financial results are preliminary until Ashland's quarterly report on Form 10-Q for the quarterly period ended June 30, 2011, is filed with the U.S. Securities and Exchange Commission.

(2) Generally accepted accounting principles (U.S.)