ASHLAND INC.
Form 10-K
November 22, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to ___________

Commission file number 1-32532

ASHLAND INC.

Kentucky (State or other jurisdiction of incorporation or organization)	20-0865835 (I.R.S. Employer Identification No.)

50 E. RiverCenter Boulevard
P.O. Box 391
Covington, Kentucky 41012-0391
Telephone Number (859) 815-3333

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

At March 31, 2010, the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $4,119,623,083. In determining this amount, the Registrant has assumed that its directors and executive officers are affiliates. Such assumption shall not be deemed conclusive for any other purpose.

At October 31, 2010, there were 78,852,428 shares of Registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of Registrant's Proxy Statement (Proxy Statement) for its January 27, 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this annual report on Form 10-K to the extent described herein.

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PART I

ITEM 1. BUSINESS
GENERAL

Ashland Inc. is a Kentucky corporation, with its principal executive offices located at 50 E. RiverCenter Boulevard, Covington, Kentucky 41011 (Mailing Address: 50 E. RiverCenter Boulevard, P.O. Box 391, Covington, Kentucky 41012-0391) (Telephone: (859) 815-3333). Ashland was organized in 2004 as the successor to a Kentucky corporation of the same name organized on October 22, 1936. The terms “Ashland” and the “Company” as used herein include Ashland Inc., its predecessors and its consolidated subsidiaries, except where the context indicates otherwise.

Ashland’s business consists of five reportable segments: Ashland Aqualon Functional Ingredients; Ashland Hercules Water Technologies; Ashland Performance Materials; Ashland Consumer Markets (Valvoline); and Ashland Distribution.

Financial information about these segments for each of the fiscal years in the three-year period ended September 30, 2010 is set forth in Note R of “Notes to Consolidated Financial Statements” in this annual report on Form 10-K.

Ashland Aqualon Functional Ingredients is one of the world’s largest producers of cellulose ethers. It provides specialty additives and functional ingredients that primarily manage the physical properties of water-based systems. Many of its products are derived from renewable and natural raw materials and perform in a wide variety of applications.

Ashland Hercules Water Technologies is a leading global producer of papermaking chemicals and a leading specialty chemicals supplier to the pulp, paper, commercial and institutional, food and beverage, chemical, mining and municipal markets. Its process, utility and functional chemistries are used to improve operational efficiencies, enhance product quality, protect plant assets and ensure environmental compliance.

Ashland Performance Materials is a global leader in unsaturated polyester resins and vinyl ester resins. In addition, it provides customers with leading technologies in gelcoats, pressure-sensitive and structural adhesives, and metal casting consumables and design services.

Ashland Consumer Markets, which includes the Valvoline™ family of products and services, is a leading innovator, marketer and supplier of high-performing automotive lubricants, chemicals and appearance products. Valvoline™, the world’s first lubricating oil, is the number three passenger car motor oil brand, and Valvoline Instant Oil Change™ is the number two quick-lube franchise in the United States.

Ashland Distribution is a leading plastics and chemicals distributor in North America. It distributes chemicals, plastics and composite raw materials in North America, as well as plastics in Europe and China. Ashland Distribution also provides environmental services in North America, including hazardous and nonhazardous waste collection, recovery, recycling and disposal services.

At September 30, 2010, Ashland and its consolidated subsidiaries had approximately 14,500 employees (excluding contract employees).

Available Information — Ashland’s Internet address is http://www.ashland.com. On this website, Ashland makes available, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as well as any beneficial ownership reports of officers and directors filed on Forms 3, 4 and 5. All such reports will be available as soon as reasonably practicable after Ashland electronically files such material with, or electronically furnishes such material to, the Securities and Exchange Commission (SEC). Ashland also makes available, free of charge on its website, its Corporate Governance Guidelines; Board

Committee Charters; Director Independence Standards; and its code of business conduct that applies to Ashland's directors, officers and employees. These documents are also available in print to any shareholder who requests them. Information contained on Ashland's website is not part of this annual report on Form 10-K and is not incorporated by reference in this document. The public may read and copy any materials Ashland files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

CORPORATE DEVELOPMENTS

On November 5, 2010, Ashland signed a definitive agreement with TPG Accolade, LLC to sell substantially all of the assets of its global distribution business conducted by the Ashland Distribution segment. The transaction is an asset sale with the total cash proceeds expected to be $930 million, before transaction fees, subject to post-closing working capital adjustments and certain other adjustments, as specified in the definitive agreement. The transaction is expected to close prior to the end of the March 2011 quarter, subject to the receipt of certain regulatory approvals and the satisfaction of other standard closing conditions.

ASHLAND AQUALON FUNCTIONAL INGREDIENTS

Ashland Aqualon Functional Ingredients (Functional Ingredients) offers products that are primarily designed to modify the properties of water-based systems. Most of Functional Ingredients' products are sold as key ingredients to other manufacturers, where they are used as small-quantity additives to provide functionality such as thickening and rheology control; water retention; adhesive strength; binding power; film formation; protective colloid, suspending and emulsifying action; foam control; and pH stability. Functional Ingredients has a diversified, global customer base that is serviced directly and through a series of distributors.

Functional Ingredients is comprised of the following businesses:

Regulated Industries — Regulated Industries' food applications include bakery, beverage, confectionary, dairy, meat, meat analogues and pet food, prepared foods and sauces, dressings and fillings. Personal care applications include cosmetics, hair care, oral care, skin care, wound care and household products. In the pharmaceutical industry, Regulated Industries' products are used for tablet binding, coatings, modified release and liquid and semi-liquid rheology control.

Coatings Additives — Coatings Additives offers a portfolio of complete rheology solutions for consistent, superior performance at very low use levels. For manufacturers of paints and other waterborne coatings products, these additives are crucial in controlling key product characteristics such as gloss, spatter, leveling and build, all of which are critical to delivering paints and coatings that fill specific market demand.

Construction — Construction's product applications include tile and adhesive cements, gypsum plasters, renders, joint compounds, concrete, external insulation systems, masonry and mortar cements and self-leveling compounds. These product applications provide a comprehensive array of functional properties including thickening, water retention, sag resistance, workability and consistency, adhesion, stabilization, pumping, rheological properties and strength.

Energy and Specialties Solutions — Energy and Specialties Solutions offers water-soluble solutions for a variety of applications in the oil and gas industries including completion and workover fluids, drill-in fluids, oil-well cementing slurries, solvent thickeners and stimulation and hydraulic fracturing. This business also provides high-performance products to the industrial specialties market including applications in ceramics, fire-fighting fluids, foundry, industrial cleaners, inks and printing, mining, paint removers, paper and paper coatings, suspension polymerization and welding rods.

Functional Ingredients currently conducts manufacturing in the Americas, Europe and Asia Pacific at nine facilities in five countries and participates in one joint venture. Functional Ingredients operates manufacturing facilities in Wilmington, Delaware; Dalton, Georgia; Parlin, New Jersey; Kenedy, Texas and Hopewell, Virginia within the United States and Doel-Beveren, Belgium; Jiangmen, China; Alizay, France and Zwijndrecht, the Netherlands. Functional Ingredients also operates two production facilities through a joint venture in Luzhou and Suzhou, China. In addition, Functional Ingredients has completed construction of a large-capacity hydroxyethylcellulose production facility in Nanjing, China scheduled to begin operations in late 2010.

On January 28, 2010, Ashland completed the sale of its refined wood rosin and natural wood terpenes business, formerly known as Pinova, to a new company formed by TorQuest Partners, a Canadian private equity fund manager, for approximately $75 million before taxes, including $60 million in cash and a $15 million promissory note from the buyer.

ASHLAND HERCULES WATER TECHNOLOGIES

Ashland Hercules Water Technologies (Water Technologies) is a global service business delivering differentiated specialty chemical products to a number of industries including the paper, pulp, chemical, commercial and institutional, food and beverage, mining and municipal industries. Water Technologies is a leading global producer of papermaking chemicals for pulp and paper processing, tissues and towels, packaging, printing and writing papers, and virgin and deinked pulps. Its process, water treatment and functional chemistries are used to improve operational efficiencies, enhance product quality, protect plant assets and ensure environmental compliance. To meet the diverse requirements of its customers, Water Technologies offers a range of services, including analytical and applications laboratories, customized program offerings and, through its StreamLink Specialty Chemicals service model, a focused-service approach.

Water Technologies is comprised of the following businesses:

Process Chemistries — The Process Chemistries business manufactures and sells a broad array of deposit control agents, defoamers, biocides and other process additives for markets including pulp and paper manufacturing, food processing, oil refining and chemical processing, general manufacturing and extraction/mining. This business's products are designed to deliver benefits such as enhanced operational efficiencies, system cleanliness, and superior performance in a wide variety of manufacturing operations globally.

Utility Water Treatment Chemistries — The Utility Water Treatment Chemistries business provides specialized chemicals and consulting services for the utility water treatment market, which includes boiler water, cooling water, fuel and waste streams. This business also manufactures and sells automated equipment, including performance-based feed and control systems, proprietary monitoring devices and remote system surveillance. The utility water treatment products, services and equipment offerings are designed to protect plant assets and optimize energy, water and operational costs at customers' facilities.

Functional Chemistries — The Functional Chemistries business produces specialized chemicals for the paper industry that impart specific properties such as strength, liquid holdout and printability to the final paper or board. Product lines include sizing agents, wet/dry strength additives and specialized products such as crepe and release additives for tissue manufacturing.

Water Technologies operates throughout the Americas, Europe and Asia Pacific. It has 31 manufacturing facilities in 18 countries and participates in two joint ventures. Water Technologies has manufacturing plants in Macon and Savannah, Georgia; Chicopee, Massachusetts; Louisiana, Missouri; Greensboro, North Carolina; Portland, Oregon; Houston, Texas; Franklin, Virginia; Beckley, West Virginia and Milwaukee, Wisconsin within the United States and Chester Hill, Australia; Beringen, Belgium; Americana, Leme and Paulinia, Brazil; Burlington, Canada; Beijing and Shanghai, China; Somercotes, England; Tampere, Finland; Krefeld and Sobernheim, Germany; Perawang, Indonesia; Busnago, Italy; Mexico City, Mexico; Zwijndrecht, the Netherlands; Perm, Russia; Tarragona, Spain; Kim Cheon, South Korea; Helsingborg, Sweden and Nantou, Taiwan. Through separate joint ventures, it has production facilities in Navi Mumbai, India and Seoul, South Korea. Water Technologies also utilizes third-party tolling manufacturers.

Water Technologies markets and distributes its products and services directly and through third-party distributors.

ASHLAND PERFORMANCE MATERIALS

Ashland Performance Materials (Performance Materials) is a worldwide manufacturer and supplier of specialty chemicals and customized services to the building and construction, transportation, metal casting, packaging and converting and marine markets. It is a technology leader in unsaturated polyester and vinyl ester resins and gelcoats, high-performance adhesives and specialty resins; and metal casting consumables and design services.

Performance Materials is comprised of the following businesses:

Composites and Adhesives — The Composites and Adhesives business manufactures and sells a broad range of corrosion-resistant, fire-retardant, general-purpose and high-performance grades of unsaturated polyester and vinyl ester resins, gelcoats and low-profile additives for the reinforced plastics industry. Key markets include the transportation, construction, marine and infrastructure end markets. It also markets vinyl ester resins under the DERAKANE™ and HETRON™ brand names and unsaturated polyester resins under the AROPOL™ brand name.

The Composites and Adhesives business also manufactures and sells adhesive solutions to the packaging and converting, building and construction, and transportation markets and manufactures and markets specialty coatings and adhesive solutions across multiple industries. Key technologies and markets include: acrylic polymers for pressure-sensitive adhesives; polyvinyl acetate emulsions; urethane adhesives for flexible packaging applications; aqueous and radiation-curable adhesives and specialty coatings for the printing and converting applications; hot-melt adhesives for various packaging applications; emulsion polymer isocyanate adhesives for structural wood bonding; elastomeric polymer adhesives and butyl rubber roofing tapes for commercial roofing applications; acrylic, polyurethane and epoxy structural adhesives for bonding fiberglass reinforced plastics, composites, thermoplastics and metals in automotive, marine, recreational and industrial applications; specialty phenolic resins for paper impregnation and friction material bonding.

Casting Solutions — Casting Solutions manufactures and sells metal casting chemicals worldwide, including sand-binding resin systems, refractory coatings, release agents, engineered sand additives and riser sleeves. This business also provides casting process modeling, core-making process modeling and rapid prototyping services. In July 2010, Ashland and Süd-Chemie AG (Süd-Chemie) reached a contractual agreement on the formation of a global joint venture to merge their business activities in the foundry chemicals sector. The joint venture, to be known as ASK Chemicals GmbH, will be

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headquartered in Hilden, Germany and is expected to close in December 2010. Süd-Chemie and Ashland will each hold a fifty-percent interest in the joint venture with Süd-Chemie providing the operations management leadership.

Performance Materials operates throughout the Americas, Europe and Asia Pacific. It has 29 manufacturing facilities and participates in six manufacturing joint ventures in 14 countries. Composites and Adhesives has manufacturing plants in Fort Smith and Jacksonville, Arkansas; Los Angeles, California; Bartow, Florida; Calumet City, Illinois; Elkton, Maryland; Ashland and Columbus, Ohio; White City, Oregon; Philadelphia and Pittsburgh, Pennsylvania; Piedmont, South Carolina and Milwaukee, Wisconsin within the United States and Sao Paulo, Brazil; Kelowna and Mississauga, Canada; Changzhou and Kunshan, China; Kidderminster, England; Porvoo, Finland; Sauveterre, France; Miszewo, Poland; Benicarlo, Spain; and, through a separate joint venture, has a manufacturing plant in Jeddah, Saudi Arabia. Casting Solutions will contribute manufacturing sites located in Cleveland, Ohio (two sites) and in Campinas, Brazil and Idiazabal, Spain to the Süd-Chemie joint venture. The remaining Casting Solutions manufacturing sites located in Mississauga, Canada; Changzhou, China; Kidderminster, England; Milan, Italy and Castro-Urdilales, Spain will remain with Performance Materials. Casting Solutions also has joint venture manufacturing facilities located in Bendorf and Wuelfrath, Germany; Ulsan, South Korea; Arceniega, Spain and Alvsjo, Sweden.

Performance Materials markets and distributes its products directly and through third-party distributors in the Americas, Europe and Asia Pacific. Additionally, Performance Materials distributes its products through Ashland Distribution in North America.

ASHLAND CONSUMER MARKETS

Ashland Consumer Markets (Consumer Markets) markets premium packaged automotive lubricants, chemicals, appearance products, antifreeze and filters, with sales in more than 100 countries. Consumer Markets' Valvoline™ trademark was federally registered in 1873 and is the oldest trademark for lubricating oil in the United States. Consumer Markets markets the following key brands of products and services to the private passenger car, light truck and heavy duty markets: Valvoline lubricants; Valvoline Premium Blue™ commercial lubricants; MaxLife™ lubricant products for vehicles with 75,000 or more miles; Valvoline Professional Series™ automotive chemicals; Pyroil™ automotive chemicals; Eagle One™ automotive appearance products; Car Brite™ automotive reconditioning products; MaxLife™ and Zerex™ antifreeze; Tectyl™ industrial products and Valvoline Instant Oil Change™ automotive services.

Consumer Markets is comprised of the following businesses:

Do It Yourself (DIY) — The DIY business sells Valvoline™ and other branded and private label products to consumers who perform their own auto maintenance. These products are sold through retail auto parts stores such as AutoZone, O'Reilly's, Advance Auto Parts, mass merchandisers such as Wal-Mart Stores, Inc., and warehouse distributors and their affiliated jobber stores such as NAPA and CARQUEST.

Installer Channels — The Installer Channels business sells branded products and services to installers (such as car dealers, general repair shops and quick lubes) and to auto auctions through a network of independent distributors and company-owned and operated "direct market" operations. This business also sells to national accounts such as Goodyear, Monro and Sears. In addition, this business includes distribution to quick lubes branded "Valvoline Express Care™," which consists of 341 independently-owned and operated stores.

Valvoline Instant Oil Change (VIOC) — The Valvoline Instant Oil Change™ chain is the second largest franchise competitor in the U.S. "fast oil change" service business, providing Consumer Markets with a significant presence in the installer channels segment of the passenger car and light truck motor oil market. As of September 30, 2010, 256 company-owned and 606 independently-owned and operated franchise VIOC centers were operating in 41 states. VIOC centers offer customers an innovative computer-based preventive maintenance tracking system that allows service technicians to make service recommendations based primarily on manufacturers' recommendations.

Commercial & Industrial (C&I) — The C&I business sells branded products and services to on-highway fleets, construction companies and original equipment manufacturers (OEMs) through company-owned and operated “direct market” operations, national accounts and a network of distributors. The C&I business also maintains a strategic alliance with Cummins Inc. (Cummins) to distribute heavy duty lubricants to the commercial market, as well as smaller alliances with other global OEMs.

Valvoline International — Outside of North America, Valvoline International markets Valvoline™, Eagle One™, Zerex™ an other branded products through wholly-owned affiliates, joint ventures, licensees and independent distributors in more than 100 countries. Valvoline International operates joint ventures with Cummins in Argentina, Brazil, China and India. In addition, Valvoline International operates joint ventures with local entities in Ecuador, Thailand and Venezuela. Valvoline International markets products for both consumer and commercial vehicles and equipment and is served by company-owned plants in the United States, Australia and the Netherlands and by numerous third-party warehouses and toll manufacturers throughout the world.

Consumer Markets operates lubricant blending and packaging plants in Santa Fe Springs, California; Cincinnati, Ohio; East Rochester, Pennsylvania and Deer Park, Texas within the United States and Wetherill Park, Australia and Dordrecht, the Netherlands. Automotive chemical manufacturing and distribution is conducted in Hernando, Mississippi. Bulk blending and distribution facilities are located in College Park, Georgia; Willow Springs, Illinois and St. Louis, Missouri within the United States and Mississauga, Canada. Distribution operations are conducted from centers located in Orlando, Florida; College Park, Georgia; Willow Springs, Illinois; Indianapolis, Indiana; St. Louis, Missouri; Cincinnati, Ohio; East Rochester, Pennsylvania; Memphis, Tennessee and Dallas, Texas within the United States and through owned facilities in Dordrecht, the Netherlands and Birkenhead, United Kingdom and leased facilities in Adelaide, Melbourne, New Castle, Perth and Sydney, Australia.

Additives (from key suppliers such as The Lubrizol Corporation) and base oils (from key suppliers such as Motiva Enterprises LLC and SK E&P Company) constitute a large portion of the raw materials required to manufacture Consumer Markets' products. In addition to raw materials, Consumer Markets sources a significant portion of its packaging from key suppliers such as Graham Packaging Inc.

ASHLAND DISTRIBUTION

Ashland Distribution (Distribution) distributes chemicals, plastics and composite raw materials in North America and plastics in Europe and China. Distribution also provides environmental services, including hazardous and nonhazardous waste collection, recovery, recycling and disposal, in North America. Deliveries are made in North America through a network of owned, leased and third-party warehouses, as well as rail and tank terminals.

Distribution operates the following businesses:

Chemicals — The Chemicals business distributes specialty and industrial chemicals, additives and solvents to industrial users in North America as well as some export operations. Markets served include the paint and coatings, personal care, inks, adhesives, polymer, rubber, industrial and institutional compounding, automotive, appliance, oil and gas and paper industries.

Plastics — The Plastics business distributes a broad range of thermoplastic resins and offers specialized technical services to processors in North America as well as some export operations. Processors include injection molders, extruders, blow molders and rotational molders. This business provides plastic material transfer and packaging services and less-than-truckload quantities of packaged thermoplastics. It also markets a broad range of thermoplastics to processors in Europe and China.

Composites — The Composites business distributes polyester thermoset resins, gelcoats, fiberglass and other specialty reinforcements, catalysts and allied products to customers in the cast polymer, corrosion, marine, building and construction, and other fiber-reinforced plastics industries through distribution facilities located throughout North America.

Environmental Services — The Environmental Services business, working in cooperation with chemical waste service companies, provides customers, including major automobile manufacturers, with comprehensive, nationwide hazardous and nonhazardous waste collection, recovery, recycling and disposal services. These services are offered through a North American network of distribution centers, including several storage facilities that have been fully permitted by the United States Environmental Protection Agency (USEPA).

Distribution has 63 owned or leased facilities, 68 third-party warehouses, rail terminals and tank terminals and three locations that perform contract packaging activities. Distribution of thermoplastic resins in Europe is conducted in 20 countries primarily through 15 third-party warehouses and one leased warehouse that also operates as a compounding facility.

MISCELLANEOUS

Environmental Matters

Ashland has implemented a companywide environmental policy overseen by the Environmental, Health and Safety Committee of Ashland's Board of Directors. Ashland's Environmental, Health and Safety (EH&S) department has the responsibility to ensure that Ashland's businesses worldwide maintain environmental compliance in accordance with applicable laws and regulations. This responsibility is carried out via training; widespread communication of EH&S policies; information and regulatory updates; formulation of relevant policies, procedures and work practices; design and implementation of EH&S management systems; internal auditing by an independent auditing group; monitoring of legislative and regulatory developments that may affect Ashland's operations; assistance to the businesses in identifying compliance issues and opportunities for voluntary actions that go beyond compliance; and incident response planning and implementation.

Federal, state and local laws and regulations relating to the protection of the environment have a significant impact on how Ashland conducts its businesses. Ashland's operations outside the United States are subject to the environmental laws of the countries in which they are located. These laws include regulation of air emissions and water discharges, waste handling, remediation and product inventory, registration and regulation. New laws and regulations may be enacted or adopted by various regulatory agencies globally. The costs of compliance with any new laws or regulations cannot be estimated until the manner in which they will be implemented has been more precisely defined.

At September 30, 2010, Ashland's reserves for environmental remediation amounted to $207 million, reflecting Ashland's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Engineering studies and probability techniques are used, along with historical experience and other factors, to identify and evaluate remediation alternatives and their related costs in determining the estimated reserves for environmental remediation. Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Although it is not possible to predict with certainty the ultimate costs of environmental remediation, Ashland currently estimates that the upper end of the reasonably possible range of future costs for identified sites is approximately $360 million. Ashland does not believe that any current individual remediation location is material to Ashland, as its largest reserve for any site is less than 10% of the remediation reserve. Ashland regularly adjusts its reserves as environmental remediation continues. Environmental remediation expense, net of insurance receivables, amounted to $22 million in 2010, compared to $13 million in 2009 and $7 million in 2008.

Product Control, Registration and Inventory — Many of Ashland's products and operations in the United States are subject to the Toxic Substance Control Act; the Food, Drug and Cosmetics Act; the Chemical Diversion and Trafficking Act; the Chemical Weapons Convention and other product-related regulations. Since 2007, existing and new chemical substances produced or imported into the European Union (EU) are subject to the EU regulation known as REACH (Registration, Evaluation and Authorisation of Chemicals). In 2008, Ashland completed the pre-registration of its chemical substances as required by REACH. In addition, in accordance with REACH's requirements, Ashland is communicating the intended use of chemical substances in its products to suppliers and customers. Under REACH additional testing requirements, documentation, risk assessments and registrations are occurring and will continue to occur and may adversely affect Ashland's costs of products produced or imported in the EU. Other countries have similar laws and regulations relating to product control, registration and inventory.

Remediation — Ashland currently operates, and in the past has operated, various facilities at which, during the normal course of business, releases of hazardous substances have occurred. Additionally, Ashland has known or alleged potential environmental liabilities at a number of third-party sites for which Ashland has financial responsibility. Federal and state laws, including but not limited to the Resource Conservation and Recovery Act (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and various other remediation laws, require that contamination caused by such releases be assessed and, if necessary, remediated to meet applicable standards. Some of these laws also provide for liability for related damage to natural resources, and claims for alleged property and personal injury damage can also arise related to contaminated sites. Laws in other jurisdictions in which Ashland operates require that contamination caused by such releases at these sites be assessed and, if necessary, remediated to meet applicable standards.

Air — In the United States, the Clean Air Act (CAA) imposes stringent limits on facility air emissions, establishes a federally mandated operating permit program, allows for civil and criminal enforcement actions and sets limits on the volatile or toxic content of many types of industrial materials and consumer products. Additionally, it establishes air quality attainment deadlines and control requirements based on the severity of air pollution in a given geographical area. Various state clean air acts implement, complement and, in many instances, add to the requirements of the federal CAA. The requirements of the CAA and its state counterparts have a significant impact on the daily operation of Ashland's businesses and, in many cases, on product formulation and other long-term business decisions. Other countries where Ashland operates also have laws and regulations relating to air quality. Ashland's businesses maintain numerous permits pursuant to these clean air laws.

State and local air agencies in the United States continue to implement strategies for meeting ozone and particulate matter standards established by the USEPA in 1997. Ozone strategies have included emission controls for certain types of emission sources, reduced limits on the volatile organic compound content of industrial materials and consumer products, and requirements on the transportation sector. Particulate matter strategies have included dust control measures for construction sites and reductions in emission rates allowed for industrial operations. In 2006, 2008 and 2009, the USEPA established newer and more stringent standards for particulate matter, ozone and sulfur dioxide, respectively. State and local agencies are evaluating options for meeting these newest standards, which will begin to be implemented between 2010 and 2013. It is not possible at this time to estimate the potential financial impact that these newest standards may have on Ashland's operations or products. Ashland will continue to monitor and evaluate these standards to meet these and all air quality requirements.

Solid Waste — Ashland's businesses are subject to various laws relating to and establishing standards for the management of hazardous and solid waste. In the United States, RCRA applies. While many U.S. facilities are subject to the RCRA rules governing generators of hazardous waste, certain facilities are also required to have hazardous waste storage permits. Ashland has implemented systems to oversee compliance with the RCRA regulations and, where applicable, permit conditions. In addition to regulating current waste disposal practices, RCRA also addresses the environmental effects of certain past waste disposal operations, the recycling of wastes and the storage of regulated substances in underground tanks. Other countries where Ashland operates also have laws and regulations relating to hazardous and solid waste.

Climate Change and Related Regulatory Developments — Ashland has been collecting energy use data and calculating greenhouse gas (GHG) emissions for many years. For the past few years, Ashland has been evaluating the potential impacts from both climate change and the anticipated GHG regulations to facilities, products and other business interests, as well as the strategies commonly considered by the industrial sector to reduce the potential impact of these risks. These risks are generally grouped as impacts from legislative, regulatory and international developments, impacts from business and investment trends, and impacts to company assets from the physical effects of climate change. Current North American, European, and other regional regulatory developments are not expected to have a material affect on Ashland's operations, although some facilities are subject to promulgated rules. Business and investment trends are expected to drive an increase in the demand for products that improve energy efficiency, reduce energy use and increase the use of renewable resources. At this time, Ashland cannot estimate the impact of this expected demand increase to its businesses. Physical effects from climate change have the potential to affect Ashland's assets in areas prone to sea level rise or extreme weather events much as they do the general public and other businesses. Due to the uncertainty of these matters, Ashland cannot estimate the impact at this time of GHG-related developments on its operations or financial condition.

Water — Ashland's businesses maintain numerous discharge permits. In the United States, such permits may be required by the National Pollutant Discharge Elimination System of the Clean Water Act and similar state programs. Other countries have similar laws and regulations requiring permits and controls relating to water discharge.

Competition

Functional Ingredients, Water Technologies and Performance Materials compete in the highly fragmented specialty chemicals industry. The participants in the industry offer a varied and broad array of product lines designed to meet specific customer requirements. Participants compete with individual and service product offerings on a global, regional and/or local level subject to the nature of the businesses and products, as well as the end-markets and customers served. The industry has become increasingly global as participants focus on establishing and maintaining leadership positions outside of their home markets. Many of these segments' product lines face domestic and international competitive factors, including industry consolidation, pricing pressures and competing technologies.

Consumer Markets competes in the highly competitive automotive lubricants and consumer products car care businesses, principally through its offerings of premium products and services primarily under the Valvoline™ family of trademarks, coupled with strong brand marketing, customer support and distribution capabilities. Some of the major brands of motor oils and lubricants with which Consumer Markets competes globally are Castrol†, Mobil† and Pennzoil†. In the "fast oil change" business, Consumer Markets competes with other leading independent fast lube chains on a national, regional or local basis, as well as automobile dealers and service stations. Important competitive factors for Consumer Markets in the “fast oil change” market include Valvoline’s brand recognition; maintaining market presence through Valvoline Instant Oil Change™ and Valvoline Express Care™ outlets; and quality and speed of service, location, convenience and sales promotions.

Distribution competes with a large number of national, regional and local companies throughout North America. The Plastics business also competes with other distribution companies in Europe and China. Competition within each of Distribution’s businesses is based primarily on reliable and timely supply of products, breadth of product portfolio, service offerings and price.

Intellectual Property

Ashland's intellectual property portfolio, including patents, trademarks, copyrights, trade secrets, formulae and know-how, is an important component of Ashland’s business. The Valvoline™ trademark and other trademarks related to Valvoline products and franchises are of particular importance to the Consumer Markets segment and the overall Ashland business. Ashland also licenses intellectual property rights from third-parties.

Raw Materials and Supplies

Raw materials purchased by Ashland are ordinarily available in adequate quantities from multiple sources of supply in the U.S. and foreign countries. Ashland believes that raw material supplies will be available from multiple sources in quantities sufficient to meet demand in fiscal 2011.

Research

Ashland conducts a program of market-focused research and development to understand the needs of the marketplace, to frame those needs in a platform in which Ashland has capability to deliver, and to determine how to develop or access the intellectual property required to meet the identified market needs. Research and development costs are expensed as they are incurred and totaled $86 million in 2010 ($96 million in 2009 and $48 million in 2008).

Forward-Looking Statements

This annual report on Form 10-K 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. These forward-looking statements are not historical facts and generally are identified by words such as "anticipates," "believes," "estimates," "expects," "is likel "predicts," and variations of such words and similar expressions. Although Ashland believes that its expectations are based on reasonable assumptions, such expectations are subject to risks and uncertainties that are difficult to predict and may be beyond Ashland's control. As a result, Ashland cannot assure that the expectations contained in such statements will be achieved. Important factors that could cause actual results to differ materially from those contained in such statements are discussed under "Use of estimates, risks and uncertainties" in Note A of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K. For a discussion of other factors and risks that could affect Ashland's expectations and operations, see "Item 1A. Risk Factors" in this annual report on Form 10-K.

ITEM 1A. RISK FACTORS

The following discussion of "risk factors" identifies the most significant factors that may adversely affect Ashland's business, operations, financial position or future financial performance. This information should be read in conjunction with Management's Discussion and Analysis and the consolidated financial statements and related notes incorporated by reference into this annual report on Form 10-K. The following discussion of risks is designed to highlight what Ashland believes are important factors to consider when evaluating its expectations. These factors could cause future results to differ from those in forward-looking statements and from historical trends.

The competitive nature of Ashland's markets may delay or prevent the Company from passing increases in raw materials costs on to its customers. In addition, certain of Ashland's suppliers may be unable to deliver products or raw materials or may withdraw from contractual arrangements. The occurrence of either event could adversely affect Ashland's results of operations.

Rising and volatile raw material prices, especially those of hydrocarbon derivatives or cotton linters or wood pulp, may negatively impact Ashland's costs. Similarly, energy costs are a significant component of certain of Ashland's product costs. Ashland is not always able to raise prices in response to such increased costs, and its ability to pass on the costs of such price increases is dependent upon market conditions.

Likewise, Ashland purchases certain products and raw materials from suppliers, often pursuant to written supply contracts. If those suppliers are unable to timely meet Ashland's orders or choose to terminate or otherwise avoid contractual arrangements, Ashland may not be able to make alternative supply arrangements. Also, domestic and global government regulations related to the manufacture or transport of certain raw materials may impede Ashland's ability to obtain those raw materials on commercially reasonable terms. If Ashland is unable to obtain and retain qualified suppliers under commercially acceptable terms, its ability to manufacture and deliver products in a timely, competitive and profitable manner could be adversely affected.

Several of Ashland’s businesses are cyclical in nature, and economic downturns or declines in demand, particularly for certain durable goods, may negatively impact its revenues and profitability.

Ashland’s revenues and profitability are susceptible to downturns in the economy, particularly in those segments serving the housing, construction, automotive and paper industries. Both overall demand for Ashland’s products and services and its profitability are affected by economic recession, inflation, changes in prices of raw materials (including many hydrocarbon derivatives, wood pulp and cotton linters) or changes in governmental monetary or fiscal policies. During the recent economic downturn, a number of Ashland’s customers in the construction, automotive, paper and certain other industries experienced financial and production stresses, which led to decreased demand for Ashland’s products and has affected Ashland’s margins on products sold. Demand for Ashland’s products by many of these customers has not returned to pre-downturn levels, and may not. While Ashland strives to reduce costs to help offset the effects of this decreased demand, there is no assurance Ashland will be able to manage costs in light of any further demand decreases. If another economic downturn occurs, the economic recovery is slower than expected or there is a significant decline in customer demand, Ashland's business, results of operations and financial condition could be negatively impacted.

Ashland faces competition from other companies, which places downward pressure on prices and margins and may otherwise adversely affect Ashland's business.

Ashland operates in highly competitive markets, competing against a number of domestic and foreign companies. Competition is based on several key criteria, including product performance and quality, product price, product availability and security of supply, responsiveness of product development in cooperation with customers and customer service. Certain key competitors are significantly larger than Ashland and have greater financial resources, leading to greater operating and financial flexibility. As a result, these competitors may be better able to withstand changes in conditions within the relevant industry, changes in the prices of raw materials and energy and in general economic conditions. In addition, competitors' pricing decisions could compel Ashland to decrease its prices, which could negatively affect its margins and profitability. Also, additional competition in markets served by Ashland could adversely affect margins and profitability and could lead to a reduction in market share.

Ashland's success depends upon its ability to attract and retain key employees and the identification and development of talent to succeed senior management.

Ashland's success depends on its ability to attract and retain key personnel, and Ashland relies heavily on its management team. The inability to recruit and retain key personnel or the unexpected loss of key personnel may adversely affect Ashland's operations. Also, approximately one-third of Ashland's U.S. based employees will be retirement-eligible within the next five years, which increases the risk that key employees could leave the Company. In addition, because of its reliance on its management team, Ashland's future success depends in part on its ability to identify and develop talent to succeed its senior management. The retention of key personnel and appropriate senior management succession planning will continue to be critical to the successful implementation of Ashland's strategies.

Changes in laws or regulations or the manner of their interpretation or enforcement could adversely impact Ashland's financial performance and restrict its ability to operate its business or execute its strategies.

New laws or regulations, or changes in existing laws or regulations or the manner of their interpretation or enforcement, could increase Ashland's cost of doing business and restrict its ability to operate its business or execute its strategies. This includes, among other things, the possible taxation under U.S. law of certain income from foreign operations, compliance costs and enforcement under the Dodd-Frank Wall Street Reform and Consumer Protection Act, and costs associated with complying with the Patient Protection and Affordable Care Act of 2010 and the regulations promulgated thereunder.

Ashland's substantial international operations subject it to risks of doing business in foreign countries, which could adversely affect its business, financial condition and results of operations.

About one-third of Ashland's net sales for fiscal 2010 were to customers outside of North America. Also, Ashland currently has approximately 50 facilities located outside the United States. Ashland expects sales from international markets to continue to represent an even larger portion of the Company's net sales in the future. If the sale of Ashland Distribution is consummated, the Company expects that almost half of its sales will be from outside North America. Accordingly, Ashland's business is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions.

The global nature of Ashland's business presents difficulties in hiring and maintaining a workforce in certain countries. Fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products and services provided in foreign countries. In addition, foreign countries may impose additional withholding taxes or otherwise tax Ashland's foreign income, or adopt other restrictions on foreign trade or investment, including currency exchange controls. The imposition of tariffs is also a risk that could impair Ashland's financial performance.

Certain legal and political risks are also inherent in the operation of a company with Ashland's global scope. For example, it may be more difficult for Ashland to enforce its agreements or collect receivables through foreign legal systems. There is a risk that foreign governments may nationalize private enterprises in certain countries where Ashland operates. In certain countries or regions, terrorist activities and the response to such activities may threaten Ashland's operations more than in those in the United States. Also, changes in general economic and political conditions in countries where Ashland operates, particularly in emerging markets, are a risk to Ashland's financial performance.

As Ashland continues to operate its business globally, its success will depend in part on its ability to anticipate and effectively manage these and other related risks. There can be no assurance that the consequences of these and other factors relating to its multinational operations will not have an adverse effect on Ashland.

Ashland is responsible for, and has financial exposure to, liabilities from pending and threatened claims, including those alleging personal injury caused by exposure to asbestos, which reduce Ashland's cash flows and could reduce profitability.

There are various claims, lawsuits and administrative proceedings pending or threatened, including those alleging personal injury caused by exposure to asbestos, against Ashland and its current and former subsidiaries. Such actions are with respect to commercial matters, product liability, toxic tort liability and other matters that seek remedies or damages, some of which are for substantial amounts. While these actions are being contested, their outcome is not predictable. Ashland's businesses could be adversely affected by financial exposure to these liabilities.

Projecting future asbestos costs is subject to numerous variables that are extremely difficult to predict. In addition to the significant uncertainties surrounding the number of claims that might be received, other variables include the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, Ashland believes that its asbestos reserves represent the best estimate within a range of possible outcomes. As a part of the process to develop these estimates of future asbestos costs, a range of long-term cost models was developed. These models are based on national studies that predict the number of people likely to develop asbestos-related diseases and are heavily influenced by assumptions regarding long-term inflation rates for indemnity payments and legal defense costs, as well as other variables mentioned previously. Because of the inherent uncertainties in projecting future asbestos liabilities and establishing appropriate reserves, Ashland's actual asbestos costs may exceed its reserves, which could adversely affect its profitability and financial performance.

Ashland has incurred, and may continue to incur, substantial operating costs and capital expenditures as a result of environmental, health and safety, and hazardous substances liabilities and requirements, which could reduce Ashland's profitability.

Ashland is subject to extensive federal, state, local and foreign laws, regulations, rules and ordinances relating to pollution, protection of the environment and human health and safety, and the generation, storage, handling, treatment, disposal and remediation of hazardous substances and waste materials. Ashland has incurred, and will continue to incur, significant costs and capital expenditures to comply with these laws and regulations.

Environmental, health and safety regulations change frequently, and such regulations and their enforcement have tended to become more stringent over time. Accordingly, the enforcement of environmental, health and safety laws and regulations could interrupt Ashland's operations, require modifications to its facilities or cause Ashland to incur significant liabilities, costs or losses that could adversely affect the profitability of the Company. Actual or alleged violations of environmental, health or safety laws and regulations could result in restrictions or prohibitions on plant operations as well as substantial damages, penalties, fines, civil or criminal sanctions and remediation costs. In addition, under some environmental laws, Ashland may be strictly liable and/or jointly and severally liable for environmental damages and penalties.

Ashland is also subject to various federal, state and local environmental laws and regulations that require environmental assessment or remediation efforts (collectively environmental remediation) at multiple locations. Ashland uses engineering studies, historical experience and other factors to identify and evaluate remediation alternatives and their related costs in determining the estimated reserves for environmental remediation. Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the applicable costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology and the number and financial strength of other potentially responsible parties at multiparty sites. As a result, Ashland's actual costs for environmental remediation could exceed its reserves and, therefore, adversely affect Ashland's financial performance.

Ashland's business exposes it to potential product liability claims and recalls, which could adversely affect its financial condition and performance.

The development, manufacture and sales of specialty chemical products by Ashland, including products produced as food ingredients or with pharmaceutical and nutritional supplement applications, involve an inherent risk of exposure to product liability claims, product recalls, product seizures and related adverse publicity. A product liability claim or judgment against Ashland could also result in substantial and unexpected expenditures, affect consumer or customer confidence in its products, and divert management's attention from other responsibilities. Although Ashland maintains product liability insurance, there can be no assurance that this type or the level of coverage is adequate or that Ashland will be able to continue to maintain its existing insurance or obtain comparable insurance at a reasonable cost, if at all. A product recall or a partially or completely uninsured judgment against Ashland could have a material adverse effect on results of operations and financial condition.

Business disruptions could seriously harm Ashland’s operations and financial performance.

Business disruptions, including those related to natural disasters, severe weather conditions, supply disruptions, increasing costs for energy, temporary plant and/or power outages, information technology systems and network disruptions, terrorist attacks, armed conflict, war, pandemic diseases or other catastrophic events, could seriously harm Ashland’s operations, as well as the operations of its customers and suppliers, and adversely impact Ashland’s financial performance. Although it is impossible to predict the occurrences or consequences of any such events, they could result in reduced demand for Ashland’s products, make it difficult or impossible for Ashland to manufacture its products or deliver products and services to its customers or to receive raw materials from suppliers, or create delays and inefficiencies in the supply chain.

While Ashland maintains business continuity plans that are intended to allow the Company to continue operations or mitigate the effect of events that could disrupt its business, the Company cannot provide assurances that its plans would fully protect the Company from all such events. In addition, insurance maintained by the Company to protect against loss of business and other related consequences resulting from business disruptions is subject to coverage limitations, depending on the nature of the risk insured. This insurance may not be sufficient to cover all of the Company’s damages or damages to others in the event Ashland’s business is disrupted. In addition, insurance related to these types of risks may not be available now or, if available, may not be available in the future at commercially reasonable rates.

Ashland’s pension and postretirement benefit plan obligations are currently underfunded, and Ashland may have to make significant cash payments to some or all of these plans, which would reduce the cash available for Ashland’s businesses.

Ashland has unfunded obligations under its domestic and foreign pension and postretirement benefit plans. The funded status of Ashland’s pension plans is dependent upon many factors, including returns on invested assets, the level of certain market interest rates and the discount rate used to determine pension obligations. Unfavorable returns on the plan assets or unfavorable changes in applicable laws or regulations could materially change the timing and amount of required plan funding, which would reduce the cash available for Ashland’s businesses. In addition, a decrease in the discount rate used to determine pension obligations could result in an increase in the valuation of pension obligations, which could affect the reported funding status of Ashland’s pension plans and future contributions, as well as the periodic pension cost in subsequent fiscal years.

Under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, the Pension Benefit Guaranty Corporation, or PBGC, has the authority to terminate an underfunded tax-qualified pension plan under limited circumstances. In the event Ashland’s tax-qualified pension plans are terminated by the PBGC, Ashland could be liable to the PBGC for some portion of the underfunded amount and, under certain circumstances, the liability could be senior to Ashland’s senior unsecured notes.

Ashland is undergoing a strategic transformation to focus on investing in and growing its specialty chemicals businesses. If Ashland is unable to achieve the expected benefits from its growth strategy, its business, financial condition and results of operations could be adversely affected.

Ashland’s strategic objective has been to create a more focused company built around a strong core of specialty chemicals businesses. Ashland intends to invest in and to grow its specialty chemicals businesses, operating its other businesses to generate strong cash flows to fund this investment. As a result, Ashland is currently in a transformational period in which it has made and may continue to make changes that could be material to its business, financial condition and results of operations. Over the past six years, changes have included the disposition of Ashland's refining and marketing and highway construction businesses, the acquisition of Hercules Incorporated (Hercules) and the proposed sale of the Distribution business.

The success of Ashland's growth strategy may be limited by, among other things, the availability and suitability of acquisition candidates and Ashland's financial resources, including available cash and borrowing capacity. In addition, acquisitions involve numerous risks including determining appropriate valuations, integrating operations and personnel, achieving expected synergies, providing new product or service offerings and dedicating management attention away from other business matters. Dispositions also involve certain risks, including stranded costs and the possibility that the benefits anticipated from a sale will not be fully realized. If Ashland is unable to achieve the expected benefits from its growth strategy, the Company's business, financial condition or results of operations may be adversely affected.

Ashland may not be able to effectively protect or enforce its intellectual property rights.

Ashland relies on the patent, trademark, trade secret and copyright laws of the United States and other countries to protect its intellectual property rights. The laws of some countries may not protect Ashland's intellectual property rights to the same extent as the laws of the United States. Failure of foreign countries to have laws to protect Ashland's intellectual property rights or an inability to effectively enforce such rights in foreign countries could result in the loss of valuable proprietary information, which could have an adverse effect on Ashland's business and results of operations.

Even in circumstances where Ashland has a patent on certain technologies, such patents may not provide meaningful protection against competitors or against competing technologies. In addition, any patent applications submitted by Ashland may not result in an issued patent. There can be no assurance that Ashland's intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable. Ashland could also face claims from third parties alleging that Ashland's products or processes infringe on their proprietary rights. If Ashland is found liable for infringement, it could be responsible for significant damages, prohibited from using certain products or processes or required to modify certain products and processes. Any such infringement liability could adversely affect Ashland's product and service offerings, profitability and results of operations.

Ashland also protects its know-how and trade secrets by entering into confidentiality and non-disclosure agreements with most of its employees and third parties. There can be no assurance that such agreements will not be breached or that Ashland will be able to effectively enforce them. Any unauthorized disclosure of any of Ashland's material know-how or trade secrets could adversely affect Ashland's business and results of operations.

Ashland's restrictive debt covenants may affect its ability to operate its business successfully.

The terms of Ashland's credit facilities and senior unsecured notes contain various provisions that limit its ability to, among other things: grant liens; incur additional indebtedness; provide guarantees or support other contingent obligations; engage in mergers and acquisitions and consolidations; sell, transfer and otherwise dispose of property and assets; make loans, acquisitions, joint ventures and other investments; declare dividends, make distributions or redeem or repurchase capital stock; change the nature of Ashland's business; and enter into transactions with its affiliates. These covenants could adversely affect Ashland's ability to finance its future operations or capital needs and pursue available business opportunities.

In addition, Ashland's credit facilities require it to maintain specified financial ratios and satisfy certain financial condition tests. Events beyond Ashland's control, including changes in general economic and business conditions, may affect its ability to meet those financial ratios and financial condition tests. Ashland cannot assure that it will meet those tests or that the lenders will waive any failure to meet those tests. A breach of any of these covenants or any other restrictive covenants contained in Ashland's credit facilities or senior unsecured notes would result in an event of default.

If an event of default under Ashland's credit facilities occurs, the holders of the affected indebtedness could declare all amounts outstanding, together with accrued interest, to be immediately due and payable, which, in turn, could cause the default and acceleration of the maturity of certain of Ashland's other indebtedness. If Ashland was unable to pay such amounts, the lenders under its credit facilities could proceed against the collateral pledged to them. Ashland has pledged a substantial portion of its assets to the lenders under its credit facilities. If an event of default occurs under the senior unsecured notes, the trustee under the notes or holders of at least 25% of the outstanding aggregate principal amount of notes may declare the principal of the notes and any accrued interest immediately payable, which, in turn, could cause the default and acceleration of the maturity of certain of Ashland's other indebtedness, including its credit facility.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Ashland's corporate headquarters is located in Covington, Kentucky. Principal offices of other major operations are located in Wilmington, Delaware (Functional Ingredients and Water Technologies); Dublin, Ohio (Performance Materials and Distribution); Lexington, Kentucky (Consumer Markets); Barendrecht, the Netherlands; Shanghai, China and Schaffhausen, Switzerland. All of these offices are leased, except for portions of the Dublin, Ohio facilities that are owned. Principal manufacturing, marketing and other materially important physical properties of Ashland and its subsidiaries are described within the appropriate business segment under "Item 1" in this annual report on Form 10-K. All of Ashland's physical properties are owned or leased. Ashland believes its physical properties are suitable and adequate for the Company's business. Additional information concerning certain leases may be found in Note K of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

The following is a description of Ashland's material legal proceedings.

Asbestos-Related Litigation

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Such claims result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation (Riley), a former subsidiary. Although Riley was neither a producer nor a manufacturer of asbestos, its industrial boilers contained some asbestos-containing components provided by other companies.

Hercules, a wholly-owned subsidiary of Ashland, is also subject to liabilities from asbestos-related personal injury lawsuits involving claims which typically arise from alleged exposure to asbestos fibers from resin encapsulated pipe and tank products which were sold by one of Hercules' former subsidiaries to a limited industrial market.

Ashland and Hercules are also defendants in lawsuits alleging exposure to asbestos at facilities formerly or presently owned or operated by Ashland or Hercules.

For additional detailed information regarding liabilities arising from asbestos-related litigation, see "Management's Discussion and Analysis – Application of Critical Accounting Policies – Asbestos-related litigation" and Note N of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K.

Environmental Proceedings

(1) CERCLA and Similar State Law Sites – Under CERCLA and similar state laws, Ashland and Hercules may be subject to joint and several liability for cleanup costs in connection with alleged releases of hazardous substances at sites where it has been identified as a "potentially responsible party" (PRP). As of September 30, 2010, Ashland and Hercules have been identified as a PRP by U.S. federal and state authorities, or by private parties seeking contribution, for the cost of environmental investigation and/or cleanup at 92 waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by the USEPA or a state agency, in which Ashland or Hercules is typically participating as a member of a PRP group. Generally, the type of relief sought includes remediation of contaminated soil and/or groundwater, reimbursement for past costs of site cleanup and administrative oversight and/or long-term monitoring of environmental conditions at the sites. The ultimate costs are not predictable with assurance.

(2) Multi-Media Environmental Compliance Investigation – In April 2005, Hercules' Franklin, Virginia manufacturing facilities were subject to a multi-media environmental compliance investigation by the USEPA and the Virginia Department of Environmental Quality (VADEQ), and in April 2007, Hercules' Hopewell, Virginia manufacturing facilities were subject to a CAA compliance investigation by USEPA and the VADEQ. In April 2008, the results of both investigations were provided to Hercules. The investigation uncovered areas of potential noncompliance with various environmental requirements which are being evaluated by Hercules. While it is reasonable to believe that these matters could potentially involve penalties exceeding $100,000, the potential liability with respect to these matters should not be material to Ashland.

(3) Hattiesburg, Mississippi Notice of Violation from MDEQ – In November 2008, the Mississippi Department of Environmental Quality (MDEQ) issued a Notice of Violation to Hercules' now-closed Hattiesburg, Mississippi manufacturing facility alleging that a storm water retention basin at the facility had been operated as a hazardous waste storage and treatment facility without a permit in violation of the RCRA. Ashland is working with MDEQ to settle this matter in the context of the shutdown and ongoing remediation of the Hattiesburg facility. MDEQ has proposed to Ashland a settlement penalty in excess of $100,000. While it is reasonable to believe that this matter will

involve a penalty exceeding $100,000, the potential liability with respect to this matter should not be material to Ashland.

(4) Louisiana, Missouri Air Inspection and Penalty Assessment – In 2007, the USEPA conducted an inspection of Hercules' Louisiana, Missouri production facility for compliance with the CAA's Leak Detection and Repair regulations. Hercules subsequently provided additional information to the USEPA in response to matters identified during the inspection close-out meeting. In July 2010, USEPA issued an offer of settlement and a proposed penalty assessment in excess of $100,000 to address alleged violations. Ashland is working with USEPA to address the allegations. While it is reasonable to believe that this matter could potentially involve a penalty exceeding $100,000, the potential liability with respect to this matter should not be material to Ashland.

For additional information regarding environmental matters and reserves, see "Management's Discussion and Analysis – Application of Critical Accounting Policies – Environmental remediation" and Note N of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K.

Other Pending Legal Proceedings

In addition to the matters described, there are various claims, lawsuits and administrative proceedings pending or threatened against Ashland and its current and former subsidiaries. Such actions are with respect to commercial matters, product liability, toxic tort liability, environmental and other matters that seek remedies or damages, some of which are for substantial amounts. While these actions are being contested, their outcome is not predictable with assurance.

ITEM 4. (REMOVED AND RESERVED)

ITEM X. EXECUTIVE OFFICERS OF ASHLAND

The following is a list of Ashland's executive officers, their ages and their positions and offices during the last five years (listed alphabetically after the Chief Executive Officer and the current members of Ashland's Executive Committee).

JAMES J. O'BRIEN (age 56) is Chairman of the Board, Chief Executive Officer and a Director of Ashland and has served in such capacities since 2002.

LAMAR M. CHAMBERS (age 56) is Senior Vice President and Chief Financial Officer of Ashland and has served in such capacities since 2008. During the past five years, he has also served as Vice President and Controller of Ashland.

DAVID L. HAUSRATH (age 58) is Senior Vice President and General Counsel of Ashland and has served in such capacities since 2004 and 1999, respectively. During the past five years, he has also served as Secretary of Ashland.

ROBERT M. CRAYCRAFT, II (age 41) is Vice President of Ashland and President of Distribution and has served in such capacities since 2008. During the past five years, he has also served as Vice President-U.S. Chemicals of Distribution and Senior Vice President and General Manager-Retail Business of Consumer Markets.

SUSAN B. ESLER (age 49) is Vice President, Human Resources and Communications of Ashland and has served in such capacity since 2006. During the past five years, she has also served as Vice President - Human Resources of Ashland.

THEODORE L. HARRIS (age 45) is Vice President of Ashland; President, Global Supply Chain and Environmental, Health and Safety; and President of Performance Materials and has served in such capacities since 2006, 2008 and 2009, respectively. During the past five years, he has also served as Vice President of Information Technology, President of Distribution and Vice President and General Manager of the Composite Polymers Division of Ashland.

J. WILLIAM HEITMAN (age 56) is Vice President and Controller of Ashland and has served in such capacities since 2008. During the past five years, he has also served as Controller of the North American Operations of The Goodyear Tire & Rubber Company.

SAMUEL J. MITCHELL, JR. (age 49) is Vice President of Ashland and President of Consumer Markets and has served in such capacities since 2002.

JOHN E. PANICHELLA (age 51) is Vice President of Ashland and President of Functional Ingredients and has served in such capacities since 2008. During the past five years, he has also served as Vice President and President-Aqualon Division of Hercules and Vice President and General Manager-Americas of General Electric Water & Process Technologies.

PAUL C. RAYMOND, III (age 48) is Vice President of Ashland and President of Water Technologies and has served in such capacities since 2008. During the past five years, he has also served as Vice President, President-Paper Technologies and Ventures Division and President-Pulp and Paper Division of Hercules.

ANNE T. SCHUMANN (age 50) is Vice President and Chief Information and Administrative Services Officer of Ashland and has served in such capacities since 2008 and 2009, respectively. During the past five years, she has also served as Vice President, Acquisition Integration of Ashland and Vice President, Information Technology and Human Resources and Vice President, Shared Services Center of Hercules.

WALTER H. SOLOMON (age 51) is Vice President and Chief Growth Officer of Ashland and has served in such capacities since 2005.

Each executive officer is elected by the Board of Directors of Ashland to a term of one year, or until a successor is duly elected, at the annual meeting of the Board of Directors, except in those instances where the officer is elected other than at an annual meeting of the Board of Directors, in which case his or her tenure will expire at the next annual meeting of the Board of Directors unless the officer is re-elected.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

See Quarterly Financial Information on page F-50 for information relating to market price and dividends of Ashland's Common Stock.

At October 31, 2010, there were approximately 16,132 holders of record of Ashland's Common Stock. Ashland Common Stock is listed on the New York Stock Exchange (NYSE) (ticker symbol ASH) and has trading privileges on NASDAQ.

There were no sales of unregistered securities required to be reported under Item 701 of Regulation S-K and Ashland made no purchases of Ashland Common Stock during the fourth quarter of fiscal 2010.

FIVE-YEAR TOTAL RETURN PERFORMANCE GRAPH

The following graph compares Ashland's five-year cumulative total shareholder return with the cumulative total return of Standard & Poor's 500 Index, Standard & Poor's 400 Midcap Index and a peer group of companies. Ashland was listed in the S&P 500 Index until November 2008 and is now listed in the S&P 400 Midcap Index. The cumulative total shareholder return for each of these groups assumes the reinvestment of dividends.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
ASHLAND, S&P 500 INDEX, S&P 400 MIDCAP INDEX, AND PEER GROUP

	2005	2006	2007	2008	2009	2010
Ashland 1	100	117	129	65	97	111
S&P 500	100	111	129	101	94	103
S&P 400 Midcap	100	107	127	105	102	120
Peer Group 2	100	107	134	124	142	173

1 Ashland's former Transportation Construction operations consisted of Ashland Paving And Construction, Inc. which was sold on August 28, 2006, to Oldcastle Materials, Inc.

2 Ashland's Peer Group five-year cumulative total return index reflects Transportation and Construction peers for fiscal 2006.

The peer group consists of the following industry indices:

- Specialty Chemical Production, Distribution, and Motor Oil and Car Care Products Portfolio: Standard & Poor's 500 Specialty Chemicals (Large-Cap), Standard & Poor's 400 Specialty Chemicals (Mid-Cap), Standard & Poor's 600 Specialty Chemicals (Small-Cap), and Standard & Poor's 400 Diversified Chemicals (Mid-Cap).

- Highway Construction Portfolio, for fiscal 2006 only: Standard & Poor's 500 Construction Materials (Large-Cap), Standard & Poor's 400 Construction Materials (Mid-Cap), and Standard & Poor's 600 Construction Materials (Small-Cap).

As of September 30, 2010, the aforementioned indices consisted of 28 companies. The annual returns for the companies or indices in each of the portfolios have been weighted by their respective beginning-of-year market capitalization. Each portfolio is then weighted to reflect Ashland's annual invested capital in each of these lines of business with the annual return for the peer group represented by the sum of these weighted portfolios.

ITEM 6. SELECTED FINANCIAL DATA

See Five-Year Selected Financial Information on page F-51.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See Management's Discussion and Analysis of Financial Condition and Results of Operations on pages M-1 through M-33.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Quantitative and Qualitative Disclosures about Market Risk on page M-33.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and financial schedule of Ashland presented in this annual report on Form 10-K are listed in the index on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures — As of September 30, 2010, Ashland, under the supervision and with the participation of Ashland's management, including Ashland's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of Ashland's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2010.

Internal Control — See Management's Report on Internal Control Over Financial Reporting on page F-2 and the Reports of Independent Registered Public Accounting Firms on pages F-3 and F-4.

Changes in Internal Control Over Financial Reporting — There has been no change in Ashland's internal control over financial reporting during the quarter ended September 30, 2010, that has materially affected, or is reasonably likely to materially affect, Ashland's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

There is hereby incorporated by reference the information to appear under the captions “Election of Directors” and “Miscellaneous - Section 16(a) Beneficial Ownership Reporting Compliance” in Ashland’s Proxy Statement, which will be filed with the SEC within 120 days after September 30, 2010. See also the list of Ashland’s executive officers and related information under “Executive Officers of Ashland” in Part I - Item X in this annual report on Form 10-K.

There is hereby incorporated by reference the information to appear under the caption “Corporate Governance - Governance Principles” in Ashland’s Proxy Statement.

There is hereby incorporated by reference the information to appear under the caption “Corporate Governance - Shareholder Nominations of Directors” in Ashland’s Proxy Statement.

There is hereby incorporated by reference the information to appear under the caption “Audit Committee Report” regarding Ashland’s audit committee and audit committee financial experts, as defined under Item 407(d)(4) and (5) of Regulation S-K of the Securities Exchange Act of 1934, as amended, in Ashland’s Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference the information to appear under the captions “Compensation of Directors,” “Committees and Meetings of the Board of Directors - Personnel and Compensation Committee Interlocks and Insider Participation,” “Executive Compensation,” “Compensation Discussion and Analysis,” and “Personnel and Compensation Committee Report on Executive Compensation” in Ashland’s Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

There is hereby incorporated by reference the information to appear under the captions “Ashland Common Stock Ownership of Certain Beneficial Owners,” “Ashland Common Stock Ownership of Directors and Executive Officers of Ashland” and “Equity Compensation Plan Information” in Ashland’s Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

There is hereby incorporated by reference the information to appear under the captions “Corporate Governance - Director Independence and Certain Relationships,” and “Related Person Transaction Policy,” and “Audit Committee Report” in Ashland’s Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

There is hereby incorporated by reference the information with respect to principal accountant fees and services to appear under the captions “Audit Committee Report” and “Ratification of Independent Registered Public Accountants” in Ashland’s Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report

(1) and (2) Financial Statements and Financial Schedule

(3) See Item 15(b) in this annual report on Form 10-K

The consolidated financial statements and financial schedule of Ashland presented in this annual report on Form 10-K are listed in the index on page F-1.

Schedules other than that listed have been omitted because of the absence of the conditions under which they are required or because the information required is shown in the consolidated financial statements or the notes thereto. Separate financial statements of unconsolidated affiliates are omitted because each company does not constitute a significant subsidiary using the 20% tests when considered individually. Summarized financial information for such affiliates is disclosed in Note E of "Notes to Consolidated Financial Statements."

(b) Documents required by Item 601 of Regulation S-K

3.1 - Third Restated Articles of Incorporation of Ashland and amendment thereto effective February 3, 2009 (filed as Exhibit 3.1 to Ashland's Form 10-Q for the quarter ended December 31, 2008, and incorporated herein by reference).

3.2 - By-laws of Ashland, effective as of June 30, 2005 (filed as Exhibit 3(ii) to Ashland's Form 10-Q for the quarter ended June 30, 2005, and incorporated herein by reference).

4.1 - Ashland agrees to provide the SEC, upon request, copies of instruments defining the rights of holders of long-term debt of Ashland and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the SEC.

4.2 - Indenture, dated as of August 15, 1989, as amended and restated as of August 15, 1990, between Ashland and Citibank, N.A., as Trustee (filed as Exhibit 4.2 to Ashland's Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).

4.3 - Agreement of Resignation, Appointment and Acceptance, dated as of November 30, 2006, by and among Ashland, Wilmington Trust Company (Wilmington) and Citibank, N.A. (Citibank) whereby Wilmington replaced Citibank as Trustee under the Indenture dated as of August 15, 1989, as amended and restated as of August 15, 1990, between Ashland and Citibank (filed as Exhibit 4 to Ashland's Form 10-Q for the quarter ended December 31, 2006, and incorporated herein by reference).

4.4 - Indenture, dated May 27, 2009, by and among Ashland, the Guarantors and U.S. Bank National Association (filed as Exhibit 4.1 to Ashland's Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference).

4.5 - Registration Rights Agreement, dated May 27, 2009, by and among Ashland, the Guarantors and Banc of America Securities, LLC and Scotia Capital (USA) Inc. (filed as Exhibit 4.2 to Ashland's Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference).

4.6 - Warrant Agreement dated July 27, 1999 between Hercules and The Chase Manhattan Bank, as warrant agent (filed as Exhibit 4.4 to Hercules' Form 8-K filed on July 28, 1999 (SEC File No. 001-00496), and incorporated herein by reference).

4.7 - Form of Series A Junior Subordinated Deferrable Interest Debentures (filed as Exhibit 4.5 to Hercules' Form 8-K filed on July 28, 1999 (SEC File No. 001-00496), and incorporated herein by reference).

4.8 - Form of CRESTSSM Unit (filed as Exhibit 4.7 to Hercules' Form 8-K filed on July 28, 1999 (SEC File No. 001-00496), and incorporated herein by reference).

4.9 - Form of Warrant (filed as Exhibit 4.8 to Hercules' Form 8-K filed on July 28, 1999 (SEC File No. 001-00496), and incorporated herein by reference).

The following Exhibits 10.1 through 10.20 are contracts or compensatory plans or arrangements or management contracts required to be filed as exhibits pursuant to Items 601(b)(10)(ii)(A) and 601(b)(10)(iii)(A) and (B) of Regulation S-K.

10.1 - Ashland Inc. Deferred Compensation Plan for Non-Employee Directors and Amendment No. 1 (filed as Exhibit 10.5 to Ashland's Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference).

10.2 - Ashland Inc. Deferred Compensation Plan and Amendment No. 1 (filed as Exhibit 10.3 to Ashland's Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference).

10.3 - Amended and Restated Ashland Inc. Deferred Compensation Plan for Employees (2005) (filed as Exhibit 10.3 to Ashland's Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).

10.4 - Amended and Restated Ashland Inc. Deferred Compensation Plan for Non-Employee Directors (2005) (filed as Exhibit 10.4 to Ashland's Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).

10.5 - Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees.

10.6 - Amended and Restated Ashland Inc. Nonqualified Excess Benefit Pension Plan (filed as Exhibit 10.6 to Ashland's Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).

10.7 - Hercules Incorporated Long Term Incentive Compensation Plan (as Amended and Restated) (filed as Exhibit 10.2 to Ashland's Form 10-Q for the quarter ended December 31, 2008, and incorporated herein by reference).

10.8 - Amended and Restated Hercules Deferred Compensation Plan.

10.9 - Hercules Incorporated Employee Pension Restoration Plan.

10.10 - Form of Chief Executive Officer Change in Control Agreement (filed as Exhibit 10.1 to Ashland's Form 8-K filed on January 7, 2009, and incorporated herein by reference).

10.11 - Form of Executive Officer Change in Control Agreement (filed as Exhibit 10.2 to Ashland's Form 8-K filed on January 7, 2009, and incorporated herein by reference).

10.12 - Form of Executive Officer Change in Control Agreement, effective for agreements entered into after July 2009 (filed as Exhibit 10.11 to Ashland's Form 10-K for the fiscal year ended September 30, 2009, and incorporated herein by reference).

10.13 - Ashland Inc. Severance Pay Plan (filed as Exhibit 10.3 to Ashland's Form 8-K filed on January 7, 2009, and incorporated herein by reference).

10.14 - Employment Agreement between Ashland and John E. Panichella (filed as Exhibit 10.14 to Ashland's Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).

10.15 - Employment Agreement between Ashland and Paul C. Raymond, III (filed as Exhibit 10.15 to Ashland's Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).

10.16 - Form of Indemnification Agreement between Ashland and members of its Board of Directors (filed as Exhibit 10.10 to Ashland's annual report on Form 10-K for fiscal year ended September 30, 2005, and incorporated herein by reference).

10.17 - Amended and Restated Ashland Inc. Incentive Plan (filed as Exhibit 10.17 to Ashland's Form 10-K for the fiscal year ended September 30, 2009, and incorporated herein by reference).

10.18 - 2006 Ashland Inc. Incentive Plan (filed as Exhibit 10 to Ashland's Form 10-Q for the quarter ended December 31, 2005, and incorporated herein by reference).

10.19 - Form of Notice granting Stock Appreciation Rights Awards.

10.20 - Form of Notice granting Restricted Stock Awards (filed as Exhibit 10 to Ashland's Form 10-Q for the quarter ended March 31, 2010, and incorporated herein by reference).

10.21 - Credit Agreement dated as of March 31, 2010 among Ashland, Bank of America, N.A., as Administrative Agent, The Bank of Nova Scotia, as Syndication Agent, the other Lenders party thereto, and Banc of America Securities LLC and The Bank of Nova Scotia, as Joint Lead Arrangers and Joint Book Managers (filed as Exhibit 10.1 to Ashland's Form 8-K filed on April 6, 2010, and incorporated herein by reference).

10.22 - Amended and Restated Transfer and Administration Agreement dated as of March 31, 2010 among CVG Capital II LLC, Ashland, each of Liberty Street Funding LLC, Market Street Funding LLC and Three Pillars Funding LLC, as Conduit Investors and Uncommitted Investors, The Bank of Nova Scotia, as Agent, a Letter of Credit Issuer, a Managing Agent, an Administrator and a Committed Investor, and the Letter of Credit Issuers, Managing Agents, Administrators, Uncommitted Investors and Committed Investors parties thereto from time to time (filed as Exhibit 10.2 to Ashland's Form 8-K filed on April 6, 2010, and incorporated herein by reference).

10.23 - Sale Agreement dated as of November 13, 2008 among Ashland and CVG Capital II LLC (filed as Exhibit 10.4 to Ashland's Form 8-K filed on November 19, 2008, and incorporated herein by reference).

10.24 - First Amendment to Sale Agreement dated as of March 31, 2010, between Ashland and CVG Capital II LLC (filed as Exhibit 10.3 to Ashland's Form 8-K filed on April 6, 2010, and incorporated herein by reference).

10.25 - Purchase Agreement for the $650 Million 9 1/8% Senior Notes due 2017, dated May 19, 2009, between Ashland and Banc of America Securities, LLC, Scotia Capital (USA) Inc. and SunTrust Robinson Humphrey, Inc. (filed as Exhibit 10.1 to Ashland's Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference).

10.26 - Master Formation Agreement dated July 15, 2010, among Ashland, Süd-Chemie Aktiengesellschaft and Ashland-Südchemie-Kernfest GmbH (pursuant to Item 601(b)(2) of Regulation S-K, exhibits and schedules to the Master Formation Agreement have been omitted; exhibits and schedules will be supplementally provided to the SEC upon request).

10.27 - Master Contribution and Sale Agreement dated July 15, 2010, among Ashland, Ashland International Holdings, Inc., Süd-Chemie Aktiengesellschaft, Tecpro Holding Corporation Inc. and Ashland-Südchemie-Kernfest GmbH (pursuant to Item 601(b)(2) of Regulation S-K, exhibits and schedules to the Master Contribution and Sale Agreement have been omitted; exhibits and schedules will be supplementally provided to the SEC upon request).

10.28 - Agreement of Purchase and Sale dated November 5, 2010, by and between Ashland Inc. and TPG Accolade, LLC (filed as Exhibit 2.1 to Ashland's Form 8-K filed on November 10, 2010, and incorporated herein by reference).

11 - Computation of Earnings Per Share (appearing in Note A of "Notes to Consolidated Financial Statements" in this annual report on Form 10-K).

12 - Computation of Ratio of Earnings to Fixed Charges.

21 - List of Subsidiaries.

23.1 - Consent of PricewaterhouseCoopers LLP.

23.2 - Consent of Ernst & Young LLP.

23.3 - Consent of Hamilton, Rabinovitz & Associates, Inc.

24 - Power of Attorney.

31.1 - Certification of James J. O'Brien, Chief Executive Officer of Ashland, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 - Certification of Lamar M. Chambers, Chief Financial Officer of Ashland, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 - Certification of James J. O'Brien, Chief Executive Officer of Ashland, and Lamar M. Chambers, Chief Financial Officer of Ashland, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS* XBRL Instance Document.

101.SCH* XBRL Taxonomy Extension Schema Document.

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB* XBRL Taxonomy Extension Label Linkbase Document.

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

*Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Statements of Consolidated Income for years ended September 30, 2010, 2009 and 2008; (ii) Consolidated Balance Sheets at September 30, 2010 and 2009; (iii) Statements of Consolidated Stockholders' Equity at September 30, 2010, 2009 and 2008; (iv) Statements of Consolidated Cash Flows for the years ended September 30, 2010, 2009 and 2008; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

™ Trademark Ashland or its subsidiaries, registered in various countries.
† Trademark owned by a third party.

Upon written or oral request, a copy of the above exhibits will be furnished at cost.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASHLAND INC.
(Registrant)
By:
/s/ Lamar M. Chambers
Lamar M. Chambers
Senior Vice President and Chief Financial Officer
Date: November 22, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, in the capacities indicated, on November 22, 2010.

Signatures	Capacity
/s/ James J. O'Brien James J. O'Brien	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Lamar M. Chambers Lamar M. Chambers	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ J. William Heitman J. William Heitman	Vice President and Controller (Principal Accounting Officer)
* Roger W. Hale	Director
* Bernadine P. Healy	Director
* Kathleen Ligocki	Director
* Vada O. Manager	Director
* Barry W. Perry	Director
* Mark C. Rohr	Director
*	Director

George A. Schaefer, Jr.	
* Theodore M. Solso	Director
* John F. Turner	Director
* Michael J. Ward	Director

*By: /s/ David L. Hausrath
David L. Hausrath
Attorney-in-Fact

Date: November 22, 2010

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements for the years ended September 30, 2010, 2009 and 2008.

BUSINESS OVERVIEW

Ashland profile

Ashland is a global specialty chemicals company that provides products, services and solutions that meet customer needs throughout a variety of industries. With approximately 14,500 employees worldwide, Ashland serves customers in more than 100 countries.

During the past several years Ashland has been focused on the objective of creating a dynamic, global specialty chemicals company. In that process, Ashland has divested certain noncore businesses, redesigned business models, and acquired businesses in growth markets like specialty additives, functional ingredients, water and adhesives to enhance Ashland's specialty chemicals offerings. Ashland's acquisition of Hercules, in November 2008, propelled the combined company to a global leadership position with expanded capabilities and promising growth potential in specialty additives and functional ingredients, paper and water technologies, and specialty resins.

Ashland's sales generated outside of North America were 33% in 2010, 32% in 2009 and 29% in 2008. Sales by region expressed as a percentage of total consolidated sales were as follows:

Sales by Geography	2010		2009 (a)		2008	
North America	67	%	68	%	71	%
Europe	21	%	20	%	21	%
Asia Pacific	8	%	8	%	5	%
Latin America & other	4	%	4	%	3	%
	100	%	100	%	100	%

(a) Sales from the acquired operations of Hercules are included herein from November 14, 2008.

Business segments

Ashland's reporting structure is composed of five reporting segments: Ashland Aqualon Functional Ingredients (Functional Ingredients), Ashland Hercules Water Technologies (Water Technologies), Ashland Performance Materials (Performance Materials), Ashland Consumer Markets (Consumer Markets) and Ashland Distribution (Distribution). For further descriptions of each business segment see the "Results of Operations – Business Segment Review" beginning on page M-10.

The contribution to sales by each business segment expressed as a percentage of total consolidated sales were as follows:

Sales by Business Segment	2010		2009	(a)	2008	
Functional Ingredients	10	%	10	%	n/a	
Water Technologies	20	%	20	%	11	%
Performance Materials	14	%	13	%	19	%
Consumer Markets	19	%	20	%	19	%
Distribution	37	%	37	%	51	%
	100	%	100	%	100	%

(a) Sales from the acquired operations of Hercules are included herein from November 14, 2008.

KEY DEVELOPMENTS

During 2010 and other previous periods, the following operational decisions and economic developments had an impact on Ashland's current and future cash flows, results of operations and financial position.

Economic environment

Despite a sluggish overall economic environment worldwide, Ashland's financial performance during 2010 reflected improved demand within the markets it serves, as all of the business segments have reported increased volume levels, on a comparable basis, from the 2009 period, which was severely affected by a significant decline in demand from 6% to 22% across all of its business segments. Ashland has continued to emphasize product pricing to offset significant raw material cost increases in the most recent period, while internally assessing operations for cost reduction opportunities, to optimize cash flow generation and improve financial flexibility, positioning the company for future opportunities.

Cost-structure efficiency and Hercules integration programs

During 2010, Ashland successfully completed its last major step in the integration of Hercules by integrating its enterprise resource planning (ERP) system within the business units acquired as part of this acquisition. Additionally, Ashland continued the progress on the specific cost-structure efficiency programs implemented in 2008 and 2009 and is targeting these programs to be completed during fiscal 2011.

During 2008, Ashland implemented operational redesigns (2008 Program), primarily within Ashland's Water Technologies and Performance Materials businesses, to take proactive steps to enhance profitability through streamlined operations and an improved overall cost structure of the businesses. This program continued during 2009 and was further expanded to capture additional cost saving opportunities.

In conjunction with the Hercules acquisition in November 2008, Ashland announced an integration plan (Integration Plan) that targeted certain projected cost savings as part of combining joint and redundant services and facilities. This program focused primarily on capturing operational, selling and administrative savings within the combined company. Additionally, with the prolonged and significant deterioration of global economic demand during 2009, Ashland announced in January 2009 an additional cost reduction and organizational restructuring plan (2009 Program), which was subsequently expanded in July 2009, to further reduce Ashland's overall cost structure.

A summary of each program, along with initial targeted savings and status as of September 30, 2010, is as follows:

2008 Program – Originally intended to produce annualized cost savings of $40 million by the end of 2009, primarily within the Water Technologies and Performance Materials businesses, this program was expanded to $85 million by the end of 2009. Essentially all cost savings initiatives related to this program had been achieved as of the end of fiscal 2009.

Integration Program – Originally intended to produce synergy cost savings of $50 million, this program was expanded to $130 million in expected synergy savings by the end of 2010. As of the end of fiscal 2009, Ashland had achieved essentially all of the total run rate cost savings associated with this program.

2009 Program – Originally intended to produce reduced costs (including various plant and operational efficiencies and significant reductions in travel and entertainment expenses) of $85 million. This program was expanded to $185 million and included a specific $27 million cost reduction program within Distribution to realign the cost structure of this business and additional continued efforts to resize Ashland to match the current global economic demand. As of the end of fiscal 2010, Ashland had achieved essentially all of the total run rate cost savings associated with this program. Other items included in the program announced in January 2009, but not part of the totals above, reduced costs during 2009 only. These items primarily included:

- Freezing wage and salaries globally for 2009, except where legally mandated otherwise, with savings of approximately $25 million; and

- Implementing a two-week furlough program for most U.S. and Canadian based employees, that was essentially completed in June of 2009, and several other job and benefits related actions. Furlough program savings for 2009 totaled approximately $25 million.

Combined with previous operational redesigns (2008 Program) completed during 2009, Ashland has achieved run rate cost reductions of $425 million through September 30, 2010, an increase of $70 million from the September 30, 2009 run rate cost reductions achieved, which exceeded the previously targeted run rate cost savings of $400 million estimated for these cost reduction initiatives. The cumulative effect of these restructuring activities has resulted in 12 permanent facility closings through the end of fiscal 2010, and in total has reduced the global workforce by over 2,000 employees, or approximately 13%, exceeding the previous estimate by over 100 employees. The total restructuring cost incurred under the cost-structure efficiency programs for the twelve months ended September 30, 2010 was $4 million, and was classified within the selling, general and administrative expense caption. The total restructuring cost incurred under the cost-structure efficiency programs for the twelve months ended September 30, 2009 was $96 million, of which $75 million during 2009 had been charged as an expense within the Statement of Consolidated Income, consisting of $58 million classified within the selling, general and administrative expense caption and $17 million of accelerated depreciation charged to the cost of sales caption. The remaining cost of $21 million related to established severance reserves associated with Hercules personnel which qualified for purchase method of accounting in accordance with U.S. GAAP, had no effect on the Statement of Consolidated Income. Additional costs from reductions in resources or facilities may occur in future periods, which could include additional charges related to severance, plant closings, reassessed pension plan valuations or other items. For further information on Ashland's cost-structure efficiency and Hercules' integration programs, see Note F of Notes to Consolidated Financial Statements.

In addition to the programs described above, during 2010, Performance Materials incurred a severance charge of $11 million and accelerated depreciation expense of $6 million. This was primarily related to reductions in production capacity, as part of Ashland's continued effort to optimize its cost structure with the current market demand.

Debt repayments and Senior Credit Facilities refinancing

During 2010, Ashland reduced total debt by $389 million to $1,224 million at September 30, 2010, which is a $1,244 million reduction from the total debt outstanding as of the purchase date of the Hercules acquisition in November 2008. The total debt reduction was primarily funded by operating cash flows and resulted in Ashland achieving its targeted debt level capital structure goal approximately two years earlier than expected.

On March 31, 2010, as part of a refinancing of its then-existing senior credit facilities, Ashland entered into a Credit Agreement with Bank of America, N.A., as Administrative Agent, The Bank of Nova Scotia, as Syndication Agent, and the other Lenders party thereto (the Senior Credit Agreement). The Senior Credit Agreement provided for an aggregate principal amount of $850 million in senior secured credit facilities (the Senior Credit Facilities), consisting of a $300 million four-year Term Loan A facility and a $550 million revolving credit facility. The proceeds from the borrowings from the Term Loan A facility were used, together with proceeds from the accounts receivable securitization facility described below, and cash on hand to repay all amounts outstanding under Ashland's previous senior secured facilities and to pay for fees and expenses incurred in connection with the Senior Credit Facilities and the related transactions. The new revolving credit facility will provide ongoing working capital and will be used for other general corporate purposes as well as support for the issuance of letters of credit. The new Senior Credit Agreement has more favorable terms as compared to the previously existing senior credit facility, including less restrictive covenants, which includes the removal of covenants associated with consolidated net worth and capital expenditure limits, and lower interest rates. In conjunction with the new Senior Credit Agreement, Ashland expanded the availability of the accounts receivable securitization facility from $200 million to $350 million, subject to available funding from qualifying receivables. For further information on the new Senior Credit Agreement and accounts receivable securitization, see the "Liquidity" section of the "Financial Position" discussion and Note I of Notes to Consolidated Financial Statements.

Corporate credit ratings

During 2010, Ashland's corporate credit ratings were upgraded by both Standard & Poor's and Moody's Investor Services from BB- and Ba2, respectively, at September 30, 2009 to BB+ and Ba1, respectively, at September 30, 2010 with an outlook of positive from Standard & Poor's and positive from Moody's Investor Services.

Both rating agencies cited Ashland's positive cash flows since the Hercules acquisition and Ashland's significant debt reduction as major factors in these ratings actions. Ashland's ability to access capital markets to provide liquidity has remained largely unchanged as a result of these ratings actions; however, the improved corporate credit ratings, along with improvements in the credit markets and Ashland's financial performance, has allowed, and should continue in the future to allow, Ashland to borrow on more favorable terms, including less restrictive covenants and lower interest rates.

Acquisitions/Divestitures

Süd-Chemie joint venture agreement

In July 2010, Ashland and Süd-Chemie AG (Süd-Chemie) signed an agreement for the formation of an expanded global joint venture serving the foundry chemical sector. The transaction will combine three businesses: Ashland's Casting Solutions business group, the Foundry-Products and Specialty Resins business unit of Süd-Chemie, and Ashland-Südchemie-Kernfest GmbH (ASK), the existing fifty-percent owned European-based joint venture between Ashland and Süd-Chemie, for which Ashland only recognizes equity income of the joint venture within its consolidated results. Ashland's Casting Solutions and ASK businesses recorded sales of $279 million and $145 million, respectively, during each businesses' most recently completed fiscal year. The Foundry-Products and Specialty Resins business unit of Süd-Chemie to be contributed to the joint venture generated sales of approximately $146 million for its most recently completed fiscal year.

During the fifth year of the joint venture's operations, Ashland will have the option to sell its shares in the new joint venture to Süd-Chemie under mutually agreed terms. If Ashland does not execute this option by the end of the sixth year of the joint venture's operations, Süd-Chemie will have the option to acquire Ashland's shares under mutually agreed terms. Under both options, if mutually agreed terms cannot be reached, then the fair market value of the shares will be determined through an appraisal process set forth in the agreement.

The transaction is expected to close by the end of the calendar year, subject to customary closing conditions, including regulatory review. At closing, the joint venture is expected to distribute a cash payment to Ashland of approximately 19 million euros. During the period in which the transaction closes, Ashland is expecting to recognize a gain, primarily attributable to the fair value remeasurement of the net assets contributed to the new joint venture exceeding the recorded values.

Ara Quimica acquisition

In April 2010, Ashland acquired the remaining 50% interest in Ara Quimica S.A. (Ara Quimica), a leading producer of custom unsaturated polyester resin formulations for the composites industry in South America, for $28 million. Prior to the acquisition, Ashland owned a 50% interest in Ara Quimica, which it recorded as an equity-method investment within the Performance Materials reporting segment. Ara Quimica reported sales of approximately $50 million from its most recent fiscal year ended December 31, 2009. Ashland recognized a pretax gain of $23 million as a result of revaluing its existing equity interest held in Ara Quimica before the business combination. The gain was included in the net gain on acquisitions and divestitures caption on the Statements of Consolidated Income.

Pinova divestiture

In January 2010, Ashland sold its refined wood rosin and natural wood terpenes business, formerly known as Pinova, a business unit of Functional Ingredients, to TorQuest Partners in a transaction valued at approximately $75 million before tax, which was comprised of $60 million in cash and a $15 million five-year promissory note from TorQuest Partners. The Pinova business, with annual revenues of approximately $85 million per year, had approximately 200 employees along with an associated manufacturing facility located in Brunswick, Georgia. The transaction resulted in a pretax gain of less than $1 million, which was included in the net gain on acquisitions and divestitures caption on the Statements of Consolidated Income. As part of this transaction, TorQuest Partners has agreed to continue to manufacture certain products on behalf of Ashland.

Drew Marine divestiture

In August 2009, Ashland sold its global marine services business known as Drew Marine, a business unit of Water Technologies, to J. F. Lehman & Co. in a transaction valued at approximately $120 million before tax, which was subsequently reduced by $4 million after giving affect to post-closing adjustments related primarily to working capital. Drew Marine businesses had annual sales of approximately $140 million per year. The transaction resulted in an initial pretax gain of $56 million during 2009, which was included in the net gain on acquisitions and divestitures caption on the Statements of Consolidated Income. As part of this transaction, Ashland has agreed to continue to manufacture certain products on behalf of Drew Marine.

Hercules acquisition

In November 2008, Ashland acquired Hercules Incorporated. The transaction was valued at $2,594 million and included $798 million of debt assumed in the acquisition. As part of the financing arrangement for the transaction, Ashland borrowed $2,300 million, which included $100 million drawn on the $400 million revolving credit facility, a

$400 million Term Loan A facility, an $850 million Term Loan B facility, and a $200 million accounts receivable securitization facility. This debt has been reduced significantly since the original date of the acquisition and was refinanced in March of 2010. In addition, an initial $750 million bridge loan that was borrowed at the closing of this transaction was subsequently replaced with the issuance of $650 million senior unsecured bonds in May 2009. Ashland also retained $205 million of assumed Hercules debt.

Quarterly dividend increased

In May 2010, the Board of Directors of Ashland announced a quarterly dividend increase to 15 cents per share effective with the dividend payment on June 15, 2010 to eligible shareholders of record. This amount was double the previous quarterly dividend of 7.5 cents per share paid since November 2008. This increase reflected the progress made over the past two years in integrating the Hercules acquisition, paying down debt, creating operating leverage, executing Ashland's business strategies, and Ashland's confidence in future cash generation.

RESULTS OF OPERATIONS – CONSOLIDATED REVIEW

Use of non-GAAP measures

Based on clarification and interpretive guidance from the Securities and Exchange Commission regarding the use of non-GAAP measures, Ashland has included within this document certain non-GAAP measures which include EBITDA (operating income plus depreciation and amortization), adjusted EBITDA (EBITDA adjusted for key items, which may include pro forma affects for significant acquisitions or divestitures, as applicable), adjusted EBITDA margin (adjusted EBITDA divided by sales, which can include pro forma adjustments) and free cash flow (cash flows by operating activities from continuing operations minus cash dividends paid and additions to property, plant and equipment). Such measurements are not prepared in accordance with U.S. GAAP and should not be construed as an alternative to reported results determined in accordance with U.S. GAAP. Management believes the use of such non-GAAP measures on a consolidated and business segment basis assists investors in understanding the ongoing operating performance by presenting the financial results between periods on a more comparable basis. In addition, certain financial covenants related to Ashland's Senior Credit Agreement are based on similar non-GAAP measures. The non-GAAP information provided is unique to Ashland and may not be consistent with the methodologies used by other companies.

Consolidated review

Net income

Ashland's net income amounted to $332 million in 2010, $71 million in 2009 and $167 million in 2008, or $4.18, $.96 and $2.63 diluted earnings per share, respectively. Ashland's net income is primarily affected by results within operating income, net interest and other financing (expense) income, income taxes, discontinued operations and other significant events or transactions that are unusual or nonrecurring. Income from continuing operations, which excludes results from discontinued operations, amounted to $301 million in 2010, $78 million in 2009 and $175 million in 2008, or $3.79, $1.07 and $2.76 per diluted earnings per share, respectively.

Ashland incurred pretax net interest and other financing expense of $197 million and $205 million during 2010 and 2009, respectively, as compared to net interest and other financing income of $28 million in 2008. Included within 2010 was an additional $66 million of accelerated amortization for deferred debt issuance costs and prepayment penalties associated with the Senior Credit Facility refinancing during March 2010. Included within 2009 was $18 million of accelerated amortization, of which $10 million related to debt issuance costs associated with the bridge loan payoff in May 2009 and $8 million related to debt issuance costs for prepayments made on both the Term Loans A and B facilities during 2009. The decrease in interest expense during 2010 compared to 2009 was primarily attributable to a lower weighted-average rate of borrowing due to Ashland's refinancing of debt, as well as approximately $400 million in debt reduction. The increase in interest expense during 2009 compared to 2008 was attributable to the debt issued in conjunction with the financing of the Hercules acquisition.

The effective income tax rates of 23.2% for 2010 and 50.6% for 2009 were significantly affected by a number of discrete items discussed in further detail within the income tax expense caption discussion below in the comparative Statement of Consolidated Income analysis. The effective tax rate of 32.9% for 2008 was also impacted by several nonrecurring items during the year as well as the resolution of specific foreign and domestic tax matters, but to a lesser extent than during 2010 and 2009.

Discontinued operations, which are reported net of taxes, resulted in $31 million of income during 2010 and losses of $7 million and $8 million in 2009 and 2008, respectively. Each year had various adjustments related to previously recorded divestiture gains as well as updates to the asbestos liability and receivable models, which in 2010 included an income adjustment of $9 million after-tax related to an agreement with a number of London market insurance companies with respect to coverage for asbestos-related insurance claims.

Ashland reported significant nonrecurring items in both 2010 and 2009 that were not classified in operating income. These items in 2010 included a $23 million pretax gain as a result of remeasuring Ashland's previously held 50% equity interest in Ara Quimica offset by a $5 million pretax charge as a result of the Patient Protection and Affordable Care Act included within the net gain on acquisitions and divestitures caption of the Statement of Consolidated Income. These items in 2009 included a $56 million pretax gain from the sale of Drew Marine, which was also reported within the net gain on acquisitions and divestitures caption of the Statement of Consolidated Income, as well as a $54 million pretax loss related to cross-currency swaps and a $32 million pretax loss on auction rate securities, which were both caused by the Hercules acquisition and reported within the other income and (expense) caption of the Statement of Consolidated Income. Ashland did not have any qualifying unusual or nonrecurring items in 2008.

Operating income

Operating income amounted to $566 million in 2010, $390 million in 2009 and $213 million in 2008. Operating income results in 2010 compared to 2009 included an additional $24 million of operating income from the additional 44 day period the businesses of Hercules (acquired on November 13, 2008) were owned in 2010 as compared to 2009. Additionally, the current year included a $17 million restructuring charge for plant closure costs associated with capacity reductions in the composites line of business within Performance Materials. The results in 2009 included $47 million in nonrecurring purchase accounting adjustments related to inventory and in-process research and development associated with the Hercules acquisition and $54 million in severance charges for the ongoing integration and reorganization from the Hercules acquisition and other cost reduction programs. Excluding the items above, operating results improved from 2009 due partially to Ashland's focus on cost control and price management over the past year. This cost control and price management, along with significant sales growth from increased volumes within all of Ashland's business segments, after excluding the effect of acquisitions and divestitures as compared to 2009, helped mitigate the effect of substantial raw material cost increases.

Operating results in 2009 compared to 2008 increased as the acquisition of Hercules businesses increased operating income by approximately $49 million in 2009, despite $47 million in nonrecurring purchase accounting charges related to inventory fair value adjustments and in-process research and development. In addition, Ashland incurred $75 million for severance charges and accelerated depreciation for the ongoing integration and reorganization from the Hercules acquisition and other cost-structure efficiency programs. These items, along with significant volume declines across all business segments, severely affected operating results as compared to 2008 for legacy Ashland businesses, but were more than offset by aggressive cost reductions, lower raw materials costs and the affects of price increases, particularly within the Consumer Markets segment.

Operating income for 2010, 2009 and 2008 included depreciation and amortization (including a $10 million in-process research and development charge during 2009) of $304 million, $339 million and $145 million, respectively. EBITDA totaled $870 million, $729 million and $358 million for 2010, 2009 and 2008, respectively. As a result of the Hercules acquisition, adjusted EBITDA results in the table below have been prepared to illustrate the ongoing affects of Ashland's acquisition of Hercules, which include the exclusion of certain charges, assuming the acquisition had been consummated on October 1, 2007. Adjusted EBITDA also excludes other key items, such as severance and restructuring, as management believes the use of such non-GAAP measures on a consolidated and business segment basis assists investors in understanding the ongoing operating performance by presenting the financial results between periods on a more comparable basis. The inventory fair value adjustment of $37 million in 2009 relates to a charge required by U.S. GAAP upon acquisition of a company's inventory, which will no longer occur. The Hercules business results of $35 million and $381 million in 2009 and 2008, respectively, relate to the operating income earned and depreciation and amortization expense for 2009 and 2008 during the period in which Ashland did not yet own this business.

(In millions)	2010	2009	2008
Operating income	$566	$390	$213
Depreciation and amortization (a)	304	339	145
EBITDA	870	729	358
Severance	11	54	9
Distribution environmental reserve adjustment	6	-	-
Inventory fair value adjustment	-	37	-
Results of the Hercules business prior to acquisition	-	35	381
Plant closing costs	-	4	-
Currency gain on intracompany loan	-	(5)	-

Ashland-Cargill JV write-off and other due diligence costs	-	-	8
Adjusted EBITDA	$887	$854	$756

(a) Includes a $10 million charge for purchased in-process research and development in 2009.

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Statement of consolidated income – caption review

A comparative analysis of the Statement of Consolidated Income by caption is provided as follows for the years ended September 30, 2010, 2009 and 2008.

(In millions)	2010	2009	2008	2010 change	2009 change
Sales	$9,012	$8,106	$8,381	$906	$(275)

Sales for 2010 increased $906 million, or 11%, compared to 2009 primarily as a result of increases in volume, favorable currency exchange rates, and disciplined pricing management to offset increases in raw material costs. During 2010, Ashland experienced solid volume growth as all operating segments reported volume increases, after excluding the effect of acquisitions and divestitures, which increased sales $603 million, or 8%. Favorable currency exchange rates increased sales $105 million, or 1%, while net price and product mix increased sales by $91 million, or 1%. An additional increase in sales of $107 million, or 1%, occurred in 2010 from net acquisitions and divestitures attributable to the November 2008 acquisition of Hercules, the August 2009 divestiture of Drew Marine, the January 2010 divestiture of Pinova, and the April 2010 purchase of Ara Quimica.

Sales for 2009 decreased $275 million, or 3%, compared to 2008. Sales in 2009 included $1,709 million, or 20%, related to the acquired Hercules businesses. Significant volume declines across all businesses substantially decreased sales by $1,585 million, or 19%, with unfavorable currency exchange rates decreasing sales by $292 million, or 3%, compared to 2008. Price declines and unfavorable product mix of $189 million, or 2%, also reduced sales compared to 2008 as successful price management within Consumer Markets and Water Technologies were more than offset by price declines within Performance Materials and Distribution. Sales from the acquisition of the pressure-sensitive adhesive and atmospheric emulsions business of Air Products and Chemicals, Inc. (Air Products) within Performance Materials in June 2008 contributed an additional $82 million, or 1%, in 2009.

(In millions)	2010	2009	2008	2010 change	2009 change
Cost of sales	$ 7,012	$ 6,317	$ 7,056	$695	$(739)
Gross profit as a percent of sales	22.2 %	22.1 %	15.8 %		

Cost of sales for 2010 increased $695 million, or 11%, compared to 2009 primarily due to increases in volume and price. Volume increased cost of sales by $397 million, or 7%, while rising raw material costs increased cost of sales an additional $173 million, or 3%, as savings achieved by Ashland's cost reduction programs were unable to offset the increases in raw material costs during 2010. Currency exchange, due to the weakening of the U.S. dollar as compared to 2009, increased cost of sales by $74 million, or 1%, while the net acquisitions and divestitures impact of Hercules, Drew Marine, Pinova and Ara Quimica represented an $82 million, or 1%, increase in cost of sales for 2010. Change in product mix decreased cost of sales by $31 million, or 1%.

Cost of sales for 2009 decreased $739 million, or 11%, as increases related to the acquisitions of Hercules and Air Products were more than offset by significant declines in volume and raw material costs in 2009 as compared to 2008. The acquisitions of Hercules and Air Products represented a $1,308 million, or 18%, increase in cost of sales for 2009, which includes a nonrecurring charge of $37 million associated with the inventory fair value adjustment of Hercules' acquired inventory. Additionally, a change in product mix increased cost of sales by $18 million. Significant volume declines reduced cost of sales by $1,276 million, or 18%, while currency exchange, due to the strengthening of the U.S. dollar's average as compared to 2008, reduced cost of sales by $224 million, or 3%. Decreases in raw material costs contributed an additional $565 million, or 8%, decline in cost of sales. Gross profit margin increased by 6.3 percentage points compared to 2008 as a result of the Hercules acquisition, which included higher margin businesses, the mix of higher margin products sold during 2009 and improved pricing, particularly within Consumer Markets.

(In millions)	2010	2009	2008	2010 change	2009 change
Selling, general and administrative expense	$ 1,399	$ 1,341	$ 1,118	$ 58	$ 223
As a percent of sales	15.5 %	16.5 %	13.3 %		

Selling, general and administrative expenses for 2010 increased 4% compared to 2009, however, expenses as a percent of sales decreased 1.0 percentage point, as Ashland was able to leverage 11% sales growth through strict cost management efforts. Expenses impacting the comparability of 2010 compared to 2009 included $4 million and $58 million for severance and restructuring charges during 2010 and 2009, respectively, primarily due to the ongoing integration and reorganization from the Hercules acquisition, and a $21 million reduction in expenses during 2009 as a result of the employee furlough program. In addition, 2009 excluded approximately $50 million of costs related to the former Hercules businesses due to the timing of the acquisition (44 days into the first quarter). Currency exchange also increased expenses by an additional $18 million, while the remaining increase related primarily to increases in incentive compensation during 2010 compared to 2009.

Selling, general and administrative expenses for 2009 increased 20% compared to 2008, with expenses as a percent of sales increasing 3.2 percentage points as the acquisition of Hercules businesses and several key charges increased this percentage. Expenses impacting the comparability of 2009 as compared to 2008 include $58 million in severance and restructuring charges, primarily due to the ongoing integration and reorganization from the Hercules acquisition. The acquisitions of Hercules and Air Products added $348 million in selling, general and administrative expenses (excluding the severance and restructuring charges) as compared to 2008. Ashland's cost reduction initiatives and other items reduced expenses by $138 million from 2008, while currency exchange effects reduced selling, general and administrative expenses by $45 million. For further information on cost saving initiatives see the "Key Fiscal 2009 Developments" discussion within Management's Discussion and Analysis as well as Note F of Notes to Consolidated Financial Statements.

(In millions)	2010	2009	2008	2010 change	2009 change
Research and development expense	$86	$96	$48	$(10)	$48

Research and development expenses for 2010 decreased as compared to 2009 primarily as a result of a $10 million charge related to the purchased in-process research and development projects at Hercules as of the acquisition date that occurred in 2009.

Research and development expenses for 2009 doubled compared to 2008 and included a charge of $10 million related to the purchased in-process research and development projects at Hercules as of the acquisition date. The acquired businesses of Hercules added $45 million in research and development expenses (excluding the previously mentioned in-process research and development charge) as compared to 2008, while legacy Ashland businesses decreased expenses by $10 million during 2009.

(In millions)	2010	2009	2008	2010 change	2009 change
Equity and other income					
Equity income	$19	$14	$23	$5	$(9)
Other income	32	24	31	8	(7)
	$51	$38	$54	$13	$(16)

Total equity and other income increased 34% during 2010 compared to 2009. The increase in 2010 primarily relates to increased equity income from various joint venture affiliations and other income attributable to Consumer Markets, Performance Materials and other corporate activities.

Total equity and other income decreased 30% during 2009 compared to 2008. The decrease in 2009 primarily relates to decreased equity income from joint ventures associated with Performance Materials, which was severely impacted by significant declines in global demand in 2009.

(In millions)	2010	2009	2008	2010 change	2009 change
Net interest and other financing (expense) income					
Interest expense	$(198)	$(215)	$(9)	$17	$(206)
Interest income	12	21	40	(9)	(19)
Other financing costs	(11)	(11)	(3)	-	(8)
	$(197)	$(205)	$28	$8	$(233)

The combined decrease, excluding interest income, in interest expense and other financing costs of $17 million in 2010 compared to 2009 is a result of the significant decrease in debt outstanding of approximately $400 million compared to 2009 and a lower weighted-average interest rate as a result of the Senior Credit Facility debt refinanced during 2010. Additionally, 2010 included $66 million of accelerated amortization of debt issuance costs and prepayment penalties associated with the Senior Credit Facility refinancing. Excluding this charge and the $18 million of accelerated amortization for the bridge loan extinguishment and prepayments made on both Term A and Term B facilities, interest expense and other financial costs decreased by $65 million during 2010. In conjunction with the Hercules acquisition, interest income in 2010 compared to 2009 also declined, as part of the funding to complete the acquisition was paid from Ashland's existing liquid investments in the first quarter of fiscal 2009.

The increase in net interest and other financing expense of $233 million during 2009 primarily relates to an increase in interest expense of $206 million compared to 2008, which represents interest charges associated with debt borrowed at closing, on November 13, 2008, of the Hercules acquisition, which also increased other financing costs as compared to 2008. Interest expense for 2009 includes $52 million of amortization for deferred debt issuance costs, with $10 million related to the bridge loan extinguishment that was converted into senior unsecured bonds during 2009. In addition, interest expense included $8 million related to accelerated amortization from prepayments made on both the Term Loan A and Term Loan B facilities. In conjunction with the Hercules acquisition, interest income declined during 2009 as the remaining funding to complete the merger was paid from Ashland's existing liquid investments. For further information on Ashland's debt, including rates paid and scheduled maturities, see Note I of Notes to Consolidated Financial Statements.

(In millions)	2010	2009	2008	2010 change	2009 change
Net gain on acquisitions and divestitures					
Ara Quimica	$23	$-	$-	$23	$-
MAP Transaction	(4)	3	20	(7)	(17)
Drew Marine	2	56	-	(54)	56
	$21	$59	$20	$(38)	$39

Net gain on acquisitions and divestitures during 2010 includes the remeasurement gain from Ashland's previously held equity interest in Ara Quimica upon the purchase of the remaining 50% interest in April 2010 and subsequent adjustments to the 2005 transfer of Ashland's 38% interest in the Marathon Ashland Petroleum joint venture and two other small businesses to Marathon Oil Corporation (Marathon) (the MAP Transaction), along with a final closing gain associated with the sale of Drew Marine.

Net gain on acquisitions and divestitures for 2009 includes the sale of Drew Marine, as well as subsequent adjustments to the 2005 transfer of Ashland's 38% interest in Marathon. The gain in 2008 primarily relates to the settlement with Marathon of certain tax related matters associated with the MAP Transaction, which resulted in a $23 million gain. Other MAP Transaction losses recorded during 2008 primarily relate to decreases in the recorded receivable from Marathon for the estimated present value of future tax deductions related primarily to environmental and other postretirement obligations. See Notes B and C of Notes to Consolidated Financial Statements for further discussion on acquisitions and divestitures.

(In millions)	2010	2009	2008	2010 change	2009 change
Other income and (expense)					
Loss on currency swaps	$-	$(54)	$-	$54	$(54)
Gain (loss) on auction rate securities	2	(32)	-	34	(32)
	$2	$(86)	$-	$88	$(86)

Other income and expense during 2009 included two significant nonrecurring charges related to the Hercules acquisition. The first was a $54 million loss on currency swaps related to a swap associated with the Hercules acquisition. Hercules had held a significant hedge against certain open currency swap positions that Ashland immediately settled upon the acquisition. The second was a $32 million charge on auction rate securities as a result of a permanent realized loss on these securities due to the continued illiquid market these securities trade in and Ashland's change in intent to no longer hold these securities until maturity. For further information on auction rate securities see the "Liquidity" discussion within Management's Discussion and Analysis as well as Note G of Notes to Consolidated Financial Statements.

(In millions)	2010	2009	2008	2010 change	2009 change
Income tax expense	$ 91	$ 80	$ 86	$ 11	$ (6)
Effective tax rate	23.2 %	50.6 %	32.9 %		

The overall effective tax rate of 23.2% for 2010 includes certain discrete items such as the change in the tax treatment of a federal subsidy related to Ashland's postretirement plan resulting in a charge of $14 million, a benefit of $9 million related to a deferred tax balance adjustment, a $17 million benefit for research and development credits associated with Hercules, a $6 million favorable adjustment related to the utilization of capital losses for which a benefit had not previously been recognized, and a benefit of $8 million associated with the gain on the Ara Quimica acquisition.

The overall effective tax rate was significantly increased during 2009 due to several key factors. Using a 35% statutory federal tax rate applied to the income from continuing operations for 2009, income taxes would have been an expense of $55 million. Significant discrete items for 2009 included an $8 million valuation allowance on auction rate securities losses and increases in the resolution and re-evaluation of tax positions taken in prior years of $29 million. These discrete expense items were partially offset by research and development credits of $9 million.

The overall effective tax rate of 32.9% in 2008 was affected by a $9 million charge from investments held for life insurance policies, which historically has been a tax benefit for Ashland. See Note L of Notes to Consolidated Financial Statements for a complete reconciliation of Ashland's tax provision for the last three years to the 35% U.S. statutory rate.

(In millions)	2010	2009	2008	2010 change	2009 change
Income (loss) from discontinued operations (net of income taxes)					
APAC	$8	$(6)	$(6)	$14	$-
Asbestos-related litigation reserves	21	2	(2)	19	4
Electronic Chemicals	2	(3)	-	5	(3)
	$31	$(7)	$(8)	$38	$1

During 2010, Ashland entered into a new agreement with a number of London market insurance companies with respect to coverage for asbestos-related insurance claims. As a result, a $12 million increase to the Ashland asbestos receivable was recorded within the Consolidated Balance Sheet, which had a $9 million (after-tax) affect on the Statement of Consolidated Income within the discontinued operations caption. As a result of this agreement and other revised estimates, Ashland no longer discounts any portion of the asbestos receivable. In addition, both 2010 and 2009 were impacted by after-tax favorable net adjustments to the asbestos reserve and receivables of $12 million and $2 million, respectively, as a result of Ashland's ongoing assessment of these matters. Additionally, during 2010, 2009 and 2008, subsequent tax adjustments were made to the gain on the sale of APAC (divested in 2006) and adjustments to environmental claims were made to the gain on the sale of Electronic Chemicals (divested in 2003). See Notes D and N of Notes to Consolidated Financial Statements for further information.

Quarterly operating income (loss)

The following details Ashland's quarterly reported operating income (loss) for the years ended September 30, 2010, 2009 and 2008.

(In millions)	2010	2009	2008
December 31	$146	$(7)	$46
March 31	151	112	52
June 30	163	152	87

September 30	106	133	28

RESULTS OF OPERATIONS – BUSINESS SEGMENT REVIEW

Results of Ashland's business segments are presented based on its management structure and internal accounting practices. The structure and practices are specific to Ashland; therefore, the financial results of Ashland's business segments are not necessarily comparable with similar information for other comparable companies. Ashland refines its expense allocation methodologies to the reportable segments from time to time as internal accounting practices are improved, more refined information becomes available and businesses change. Revisions to Ashland's methodologies that are deemed insignificant are applied on a prospective basis. During 2009, Ashland began fully allocating significant actual corporate costs as opposed to budgeted expenditures which was utilized in prior periods, except for certain significant company-wide restructuring activities, such as the restructuring plan related to the Hercules acquisition described in Note F of Notes to Consolidated Financial Statements, and other costs or adjustments that relate to former businesses that Ashland no longer operates. To align prior period results to the current period presentation, Ashland reclassified certain depreciation and amortization charges in 2008 that were previously presented within the unallocated and other section to the applicable reporting segments that were originally allocated these corporate charges.

As previously discussed, Ashland's businesses are managed along five industry segments: Functional Ingredients, Water Technologies, Performance Materials, Consumer Markets and Distribution. For additional information, see Note R of Notes to Consolidated Financial Statements.

The following table shows sales, operating income and statistical operating information by business segment for each of the last three years ended September 30.

(In millions)	2010	2009	2008
Sales			
Functional Ingredients	$ 915	$ 812	$ -
Water Technologies	1,785	1,652	893
Performance Materials	1,286	1,106	1,621
Consumer Markets	1,755	1,650	1,662
Distribution	3,419	3,020	4,374
Intersegment sales	(148)	(134)	(169)
	$ 9,012	$ 8,106	$ 8,381
Operating income (loss)			
Functional Ingredients	$ 115	$ 36	$ -
Water Technologies	114	78	10
Performance Materials	23	1	52
Consumer Markets	262	252	83
Distribution	55	52	51
Unallocated and other	(3)	(29)	17
	$ 566	$ 390	$ 213
Depreciation and amortization			
Functional Ingredients (a)	$ 99	$ 106	$ -
Water Technologies (a)	88	99	29
Performance Materials	53	63	46
Consumer Markets	36	36	35
Distribution	28	28	28
Unallocated and other	-	7	7
	$ 304	$ 339	$ 145
Operating information			
Functional Ingredients (b) (c)			
Sales per shipping day	$ 3.6	$ 3.7 %	$ -
Metric tons sold (thousands)	163.6	154.1	-
Gross profit as a percent of sales	33.7 %	26.7 %	-
Water Technologies (b) (c)			
Sales per shipping day	$ 7.1	$ 6.6	$ 3.5
Gross profit as a percent of sales	34.1 %	33.9 %	36.7 %
Performance Materials (b)			
Sales per shipping day	$ 5.1	$ 4.4	$ 6.4
Pounds sold per shipping day	4.5	3.9	4.9
Gross profit as a percent of sales	16.0 %	17.0 %	17.0 %
Consumer Markets (b)			
Lubricant sales gallons	174.3	158.8	169.2
Premium lubricants (percent of U.S. branded volumes)	29.6 %	28.2 %	24.9 %
Gross profit as a percent of sales	32.0 %	32.0 %	23.0 %

Distribution (b)			
Sales per shipping day	$ 13.6	$ 12.0	$ 17.3
Pounds sold per shipping day	15.1	14.7	18.8
Gross profit as a percent of sales (d)	9.3 %	10.0 %	7.8 %

(a) Includes amortization for purchased in-process research and development of $5 million within both Functional Ingredients and Water Technologies in 2009.

(b) Sales are defined as sales and operating revenues. Gross profit is defined as sales, less cost of sales.

(c) Industry segment results from November 14, 2008 forward include operations acquired from Hercules Incorporated.

(d) Distribution's gross profit as a percentage of sales for 2010 includes a LIFO quantity charge of $2 million and for 2009 and 2008 include a LIFO quantity credit of $15 million and $16 million, respectively.

Ashland's financial performance during 2010 improved from 2009 due partially to Ashland's focus on cost control and price management over the past year. This cost control and price management, along with significant sales growth from increased volumes within all of Ashland's business segments, after excluding the effect of acquisitions and divestitures as compared to 2009, helped mitigate the effect of substantial raw material cost increases, primarily within Functional Ingredients, Water Technologies and Consumer Markets, during 2010.

Ashland's financial performance during 2009 was severely impacted by significantly declining demand, a direct result of the weakness in the global economy, especially within the North American and European transportation and construction industries. Volume levels were down across all businesses, including operations acquired from Hercules on November 13, 2008, decreasing anywhere from 6% to 22% versus 2008. Despite this pressure Ashland implemented pricing improvements and aggressively reduced excess capacity to match current market demands, which more than offset the effects of the declining volume, as average selling prices were generally higher in 2009 versus 2008. This coupled with significant reductions in selling, general and administrative expenses from the cost-structure efficiency programs previously described further improved operating income during 2009.

Functional Ingredients

Functional Ingredients is one of the world's largest producers of cellulose ethers. It provides specialty additives and functional ingredients that primarily manage the physical properties of water-based systems. Many of its products are derived from renewable and natural raw materials and perform in a wide variety of applications.

In January 2010, Ashland sold its refined wood rosin and natural wood terpenes business, formerly known as Pinova, a business unit of Functional Ingredients, to TorQuest Partners in a transaction valued at approximately $75 million before tax. The Pinova business, with annual sales of approximately $85 million a year, had approximately 200 employees along with an associated manufacturing facility located in Brunswick, Georgia.

In November 2008, Ashland acquired Hercules in a transaction valued at approximately $3.4 billion. The acquired company included the Functional Ingredients business. This significant global business, which had sales of $1,096 million for the twelve month period ended September 30, 2008, now forms one of Ashland's five current operating business segments.

2010 compared to 2009

Functional Ingredients' sales increased 13% to $915 million compared to $812 million for the 321 day period this business was owned in 2009, which was due to the closing of the Hercules acquisition on November 13, 2008. The additional 44 days in 2010 contributed $112 million, or 14%, in sales, while the divestiture of Pinova in January of 2010 reduced sales by $59 million, or 7%. Sales in 2009 included a significant nonrecurring transaction to an oilfield chemical supplier in the amount of $17 million, representing 5% of the product volume for 2009. Including this one-time sales transaction, volume increased sales by $85 million, or 10%, primarily due to strength in demand within the regulated and coatings markets, while an unfavorable currency exchange decreased sales by $5 million. Price and product mix decreased sales by $30 million, or 4%, compared to 2009.

Gross profit increased $92 million in 2010 compared to 2009. The additional 44 day period that the acquired operations of the Hercules business was owned in 2010 increased gross profit by $36 million. Increased volume added an additional $55 million in gross profit as metric tons sold increased 6% to 163.6 thousand. Price decreased gross profit by $48 million, while the divestiture of Pinova and currency exchange reduced gross profit by an additional $7 million and $2 million, respectively. A favorable change in product mix added an additional $28 million in gross profit. In addition, during 2009, gross profit was negatively affected by a nonrecurring charge of $30 million related to the fair value of inventory acquired from Hercules. In total, gross profit margin during 2010 increased 7.0

percentage points to 33.7%.

Selling, general and administrative expenses (which include research and development expenses throughout the business segment discussion and analysis) increased $14 million primarily as a result of the $20 million increase associated with the additional 44 day period that the acquired operations of the Hercules business was owned in 2010. Salaries, benefits and incentive compensation combined to increase expenses by $5 million in 2010, primarily due to the employee furlough program that was in place during 2009. These increases were partially offset by a nonrecurring $5 million in-process research and development charge recorded in 2009, which was associated with the valuation from the Hercules acquisition and severance and restructuring accruals of $10 million charged during 2009. Equity and other income increased by $1 million during 2010 as compared to 2009.

Operating income totaled $115 million in 2010 compared to $36 million during the 321 day period Functional Ingredients was owned in 2009. Adjusted EBITDA increased $11 million, from $203 million in 2009 to $214 million in 2010. Adjusted EBITDA margin increased 1.4 percentage points in 2010 from 22.0% in 2009 to 23.4% in 2010.

2009 compared to 2008

Functional Ingredients' sales were $812 million in 2009 and included a significant one-time sales transaction to an oilfield chemical supplier in the amount of $17 million, which represented 2% of sales and 5% of volume for 2009. Sales per shipping day for 2009 were $3.7 million and metric tons sold were 154.1 thousand.

Gross profit was $218 million during 2009 and included a nonrecurring $30 million inventory fair value adjustment from the Hercules acquisition. In addition, the gross profit margin of 26.7% was negatively impacted by 4.3 points due to the significant one-time sales transaction and acquisition-related inventory charge described above.

Selling, general and administrative expenses during 2009 were $182 million, or 22% of sales. These expenses during 2009 included two nonrecurring charges of $10 million for severance and $5 million for purchased in-process research and development that related to the Hercules acquisition.

Operating income totaled $36 million for 2009. Adjusted EBITDA was $203 million in 2009 while the EBITDA margin was 22.0%.

EBITDA and Adjusted EBITDA reconciliation

The following EBITDA and adjusted EBITDA presentation for the three annual periods below is provided as a means to enhance the understanding of financial measurements that Ashland has internally determined to be relevant measures of comparison for the results of Functional Ingredients. Adjusted EBITDA results have been prepared to illustrate the ongoing effects of Ashland's acquisition of Hercules, which exclude certain acquisition related charges, while assuming the acquisition of Hercules had been consummated on October 1, 2007. The inventory fair value adjustment of $30 million in 2009 relates to a charge required by U.S. GAAP upon acquisition of a company's inventory, which will not reoccur for this inventory purchased. The Hercules business results of $21 million during 2009 and $258 million for 2008 relate to the operating income and depreciation and amortization recognized for the 44 day period in 2009 and the twelve month period in 2008 that this business was not owned, respectively.

		September 30	
(In millions)	2010	2009	2008
Operating income	$115	$36	$-
Depreciation and amortization (a)	99	106	-
EBITDA	214	142	-
Severance	-	10	-
Inventory fair value adjustment	-	30	-
Results of the Hercules business prior to acquisition	-	21	258
Adjusted EBITDA	$214	$203	$258

(a) Includes $5 million for purchased in-process research and development expensed in 2009.

Water Technologies

Water Technologies is a leading global producer of papermaking chemicals and a leading specialty chemicals supplier to the pulp, paper, commercial and institutional, food and beverage, chemical, mining and municipal markets. Its process, utility and functional chemistries are used to improve operational efficiencies, enhance product quality, protect plant assets and ensure environmental compliance.

In August 2009, Ashland sold its global marine services business known as Drew Marine, a business unit of Water Technologies, to J. F. Lehman & Co. in a transaction valued at approximately $120 million before tax. The Drew Marine business, with annual sales of approximately $140 million a year, had approximately 325 employees, 28 offices and 98 stocking locations in 47 countries. The transaction resulted in an initial pretax gain of $56 million recorded in 2009, which is included in the net gain on acquisitions and divestitures caption of the Statement of Consolidated Income. As part of this transaction, Ashland agreed to continue to manufacture certain products on behalf of Drew Marine.

In November 2008, Ashland acquired Hercules, in a transaction valued at approximately $3.4 billion. The acquired company included a significant global pulp, paper, and water treatment business. This business, which had sales of $1,222 million for the twelve month period ended September 30, 2008, was combined into Ashland's existing water technologies business to form a global water treatment business with significant scale worldwide.

2010 compared to 2009

Water Technologies' sales increased 8% to $1,785 million compared to $1,652 million in 2009, a direct result of the inclusion of the additional 44 day period that the Hercules paper business was owned in 2010, which contributed sales of $155 million, or 9%. Additionally, volume and currency exchange increased sales $92 million and $31 million, respectively, for a total of 7%, compared to 2009. The previously mentioned divestiture of Drew Marine in August of 2009 reduced sales by $130 million, or 7%, compared to 2009, with unfavorable pricing adding an additional $20 million, or 1%, decline. Change in product mix increased sales by $5 million.

Gross profit increased $49 million in 2010 compared to 2009. The additional 44 day period that the acquired operations of the Hercules business was owned in 2010 increased gross profit by $47 million. Volume and currency exchange increased gross profit by $31 million and $14 million, respectively, with pricing and product mix adding an additional $5 million and $2 million, respectively, in gross profit. The divestiture of Drew Marine in August of 2009 reduced gross profit by $57 million compared to 2009. In addition, during 2009, gross profit was negatively affected by a nonrecurring charge of $7 million related to the fair value of inventory from the Hercules acquisition. In total, gross profit margin during 2010 increased 0.2 percentage points to 34.1%.

Selling, general and administrative expenses increased $11 million during 2010, or 2%, primarily as a result of the additional 44 day period the Hercules paper business was owned, which contributed an additional $30 million in expense when comparing to 2009. Foreign currency added an additional $8 million of expense, while the divestiture of Drew Marine and various cost saving initiatives, primarily integration and employee reduction activities, reduced expenses by approximately $18 million. In addition, during 2009, the selling, general and administrative expenses were negatively affected by a nonrecurring charge of $5 million related to purchased in-process research and development projects and $4 million in severance, both a result of the Hercules acquisition. Equity and other income decreased by $2 million during 2010 as compared to 2009.

Operating income totaled $114 million in 2010 compared to $78 million during 2009. Adjusted EBITDA increased $4 million, from $198 million in 2009 to $202 million in 2010. Adjusted EBITDA margin increased 0.3 percentage points in 2010 from 11.0% in 2009 to 11.3% in 2010.

2009 compared to 2008

Water Technologies' sales increased 85% to $1,652 million compared to $893 million, a direct result of the Hercules paper business acquired on November 13, 2008, which contributed sales of $919 million. This increase in sales was partially offset by a $126 million, or 14%, decline in volume and a $63 million, or 7%, decline attributable to foreign currency. Improved pricing and mix contributed an additional $29 million, or 3%, as compared to 2008.

Gross profit increased $231 million in 2009 compared to 2008. Overall raw material inflation was experienced early in 2009, with sequential moderation through the rest of the year; however, this was more than offset by successfully negotiated full service and municipal contracts that recaptured the increased raw material costs during the period. The acquired Hercules business contributed $264 million to gross profit while price increases and mix improvements that reduced cost of goods sold, contributed an additional $47 million to gross profit. Other items affecting gross profit included a $45 million decrease in volume and a $28 million decrease attributable to foreign currency. In addition, during 2009, gross profit was negatively affected by a nonrecurring charge of $7 million related to the fair value of inventory from the Hercules acquisition. In total, gross profit margin during 2010 decreased 2.8 percentage points to 33.9%, which reflects the inclusion of the former Hercules paper business, which has historically been a lower gross profit business as compared to the legacy Ashland business.

Selling, general and administrative expenses increased $163 million during 2009 compared to 2008, as cost increases of $216 million from the acquired operations of Hercules were partially offset by a $43 million reduction in selling expense, principally related to operational cost savings from restructuring the business subsequent to the Hercules acquisition, and a $19 million reduction attributable to foreign currency. In addition, during 2009, selling, general and administrative expenses were negatively affected by a nonrecurring charge of $5 million related to purchased in-process research and development projects and $4 million in severance, both a result of the Hercules acquisition.

Operating income totaled $78 million in 2009 compared to $10 million during 2008. Adjusted EBITDA increased $4 million, from $194 million in 2008 to $198 million in 2009. Adjusted EBITDA margin increased 1.8 percentage points in 2009 from 9.2% in 2008 to 11.0% in 2009.

EBITDA and Adjusted EBITDA reconciliation

The following EBITDA and adjusted EBITDA presentation for the three annual periods below is provided as a means to enhance the understanding of financial measurements that Ashland has internally determined to be relevant measures of comparison for the results of Water Technologies. Adjusted EBITDA results have been prepared to illustrate the ongoing effects of Ashland's acquisition of Hercules, which exclude certain acquisition related charges, while assuming the acquisition of Hercules had been consummated on October 1, 2007. The inventory fair value adjustment of $7 million in 2009 relates to a charge required by U.S. GAAP upon acquisition of a company's inventory, which will not reoccur for this purchased inventory. The Hercules paper business results of $10 million in 2009 and $152 million in 2008 relate to the operating income and depreciation and amortization recognized for the 44 day period in 2009 and twelve month period in 2008 that this business was not owned, respectively.

	September 30		
(In millions)	2010	2009	2008
Operating income	$114	$78	$10
Depreciation and amortization (a)	88	99	29
EBITDA	202	177	39
Severance	-	4	3
Inventory fair value adjustment	-	7	-
Results of the Hercules business prior to acquisition	-	10	152
Adjusted EBITDA	$202	$198	$194

(a) Includes $5 million for purchased in-process research and development expensed in 2009.

Performance Materials

Performance Materials is a global leader in unsaturated polyester resins and vinyl ester resins. In addition, it provides customers with leading technologies in gelcoats, pressure-sensitive and structural adhesives, and metal casting consumables and design services.

In July 2010, Ashland and Süd-Chemie AG (Süd-Chemie) reached a contractual agreement on the formation of an expanded global joint venture serving the foundry chemical sector. The transaction will combine three businesses: Ashland's Casting Solutions business group, the Foundry-Products and Specialty Resins business unit of Süd-Chemie, and Ashland-Südchemie-Kernfest GmbH (ASK), the existing fifty-percent owned European-based joint venture between Ashland and Süd-Chemie, for which Ashland only recognizes equity income of the joint venture within its consolidated results. Ashland's Casting Solutions and ASK businesses recorded sales of $279 million and $145 million, respectively, during each businesses' most recent completed fiscal year. The Foundry-Products and Specialty Resins business unit of Süd-Chemie to be contributed to the joint venture generated sales of approximately $146 million for its most recent completed fiscal year. The joint venture agreement will cause the existing Ashland Casting Solutions business to qualify for the equity method of accounting under U.S. GAAP, which will require Ashland to deconsolidate the results within its business operations and record equity income for its share of the joint venture results.

In April 2010, Ashland acquired the remaining 50% of Ara Quimica, a leading producer of custom unsaturated polyester resin formulations for the composites industry in South America, for $28 million. Prior to the acquisition, Ashland owned a 50% interest in Ara Quimica which it accounted for as an equity-method investment within the Performance Materials reporting segment. Ara Quimica reported sales of approximately $50 million from its most recent fiscal year ended December 31, 2009. Ashland recognized a pretax gain of $23 million as a result of valuing its prior equity interest held in Ara Quimica before the business combination at the current fair market price. The gain is included in the net gain on acquisitions and divestitures caption on the Statements of Consolidated Income for the current period.

In June 2008, Ashland acquired the assets of the pressure-sensitive adhesive business and atmospheric emulsions business of Air Products and Chemicals, Inc. The $92 million transaction included manufacturing facilities in Elkton, Maryland and Piedmont, South Carolina. The purchased operations, which were merged into Performance Materials, had sales of $126 million in calendar year 2007, principally in North America.

2010 compared to 2009

Performance Materials' sales increased 16% to $1,286 million compared to $1,106 million in 2009. Volume increased sales by $171 million, or 15%, as pounds sold per shipping day increased 15% to 4.5 million. Pricing reduced sales by $38 million, or 3%, as weak demand over the prior year contributed to excess product supply within the market, resulting in downward pricing pressure, especially within the composites line of business. A favorable currency exchange increased sales by $18 million, or 2%, and the acquisition of Ara Quimica contributed an additional $29 million, or 2%, in sales.

Gross profit increased $16 million in 2010 compared to 2009. Both 2010 and 2009 included plant closure costs of $17 million for each period, of which $6 million and $14 million, respectively, related to accelerated depreciation. Plant closure costs in both periods were the result of capacity reductions in reaction to a substantial overall decline in industry demand as well as Ashland's continued overall effort to optimize cost structure. Volume and foreign currency increased gross profit by $59 million and $3 million, respectively, while the acquisition of Ara Quimica contributed an additional

$7 million in gross profit. These increases were partially offset by increases in raw material costs, which resulted in a $53 million decrease in gross profit. In total, gross profit margin during 2010 decreased 1.0 percentage points to 16.0%, as compared to 2009.

Selling, general and administrative expenses decreased $4 million, or 2%, compared to 2009, primarily due to various reductions associated with recent cost saving initiatives of $16 million, which were partially offset by incentive compensation and the inclusion of Ara Quimica expenses, which combined to increase expenses by $12 million. Equity and other income increased $2 million during 2010 compared to 2009, primarily due to a $3 million charge in the prior period from a joint venture that closed a significant manufacturing facility.

Operating income totaled $23 million in 2010 compared to $1 million in 2009. Adjusted EBITDA increased $11 million, from $76 million in 2009 to $87 million in 2010. Adjusted EBITDA margin decreased 0.1 percentage points in 2010 from 6.9% in 2009 to 6.8% in 2010.

2009 compared to 2008

Performance Materials' sales decreased 32% to $1,106 million compared to $1,621 million in 2008. A decrease in volume of $463 million, or 29%, was the primary factor in sales decline due to significant demand weakness within the transportation, construction, packaging and converting and metal casting markets. A currency exchange decrease of $83 million, or 5%, and price declines of $51 million, or 3%, also contributed to the sales decline. These decreases were partially offset by sales from the acquisition of Air Products which contributed $82 million, or 5%, to 2009 sales. Excluding the effect of Air Products for 2009, sales decreased 37%.

Gross profit decreased by $88 million in 2009 compared to 2008. Pounds sold per shipping day decreased 20% to 3.9 million during 2009, which caused a $140 million decrease in gross profit, while the effect of foreign currency decreased gross profit by $16 million. However, disciplined price management and aggressive reductions in manufacturing costs from excess capacity mitigated the gross profit margin decline from lost volume, as price increases coupled with raw material cost decreases added $55 million to gross profit, which included a $17 million charge for plant closure costs. The acquisition of Air Products contributed $13 million to gross profit. In total, gross profit margin during 2010 remained unchanged at 17.0%.

Selling, general and administrative expenses decreased $44 million, or 18%, during 2009 as compared to 2008, primarily due to a $20 million decrease related to headcount and other cost reduction programs and a $17 million decline in reduced corporate allocations. These decreases were partially offset by increased severance charges of $1 million during 2009 compared to 2008. Equity and other income decreased $7 million during 2009 compared to 2008, primarily due to reduced equity income from various joint ventures impacted by the current global economic environment as well as a $3 million charge from a joint venture that closed a manufacturing facility.

EBITDA and Adjusted EBITDA reconciliation

Operating income totaled $1 million in 2009 compared to $52 million in 2008. Adjusted EBITDA decreased $28 million, from $104 million in 2008 to $76 million in 2009. Adjusted EBITDA margin increased 0.5 percentage points in 2009 to 6.9% from 6.4% in 2008. A reconciliation of EBITDA and Adjusted EBITDA results for 2010, 2009 and 2008 were as follows.

	September 30		
(In millions)	2010	2009	2008
Operating income	$23	$1	$52

Depreciation and amortization	53	63	46
EBITDA	76	64	98
Severance	11	9	6
Plant closing costs	-	3	-
Adjusted EBITDA	$87	$76	$104

Consumer Markets

Consumer Markets, which includes the Valvoline™ family of products and services, is a leading innovator, marketer and supplier of high-performing automotive lubricants, chemicals and appearance products. Valvoline™, the world's first lubricating oil, is the number three passenger car motor oil brand, and Valvoline Instant Oil Change™ is the number two quick-lube franchise in the United States.

2010 compared to 2009

Consumer Markets' sales increased 6% to $1,755 million compared to $1,650 million in 2009. Volume increased sales by $119 million, or 7%, as the lubricant volume increase of 10% to 174.3 million gallons was primarily due to increases within the Do-It-Yourself, Do-It-For-Me and international market channels. A favorable currency exchange increased sales by $32 million, or 2%. These increases were partially offset by price declines in the first half of the year, which reduced sales by $47 million, or 3%, while changes in product mix resulted in a $1 million increase in sales.

Gross profit increased $34 million in 2010 as compared to 2009. Volume increased gross profit by $34 million due to the 10% increase in lubricant sales. Foreign currency increased gross profit by $13 million, while pricing and a change in product mix reduced gross profit by $11 million and $2 million, respectively. In total, gross profit margin remained flat at 32.0% as price increases and various operational cost saving initiatives mitigated raw material cost inflation.

Selling, general and administrative expenses increased $30 million, or 10%, during 2010 primarily due to increases in advertising costs of $7 million, foreign currency of $7 million and salary, benefits and incentive compensation of $12 million, which was partially related to the employee furlough program in place during the prior period. Equity and other income increased by $6 million during 2010 compared to 2009, primarily due to increased equity income from various joint venture arrangements.

Operating income totaled a record $262 million in 2010 as compared to $252 million for 2009, the previous operating income record. EBITDA increased $10 million from $288 million in 2009 to $298 million in 2010. EBITDA margin decreased 0.5 percentage points in 2010 from 17.5% in 2009 to 17.0% in 2010. There were no unusual or key items that affected comparability for adjusted EBITDA during 2010 and 2009.

2009 compared to 2008

Consumer Markets' sales decreased 1% to $1,650 million compared to $1,662 million in 2008. Increased pricing of $112 million, or 7%, and a $22 million, or 1%, favorable change in product mix due to more premium lubricants sold during 2009 partially offset volume declines in sales of $92 million, or 6%, as lubricant volume decreased to 158.8 million gallons during 2009. Foreign currency declines also reduced sales by an additional $54 million, or 3%, as compared to 2008.

Gross profit increased $147 million in 2009 as compared to 2008. The combination of price increases that began in fiscal 2008, lower raw material costs and cost saving initiatives positively impacted results, causing an increase in gross profit of $170 million. This increase in gross profit was offset by net volume and mix decreases, reducing gross profit by $7 million and foreign currency declines of $16 million compared to 2008. In total, gross profit margin during 2009 increased 9.0 percentage points to 32.0%.

Selling, general and administrative expenses decreased $18 million, or 6%, during 2009 primarily due to currency exchange decreases of $11 million and reduced travel, entertainment and other expenses of $13 million. Equity and other income increased by $4 million during 2009, primarily due to increases in equity income from various joint ventures.

Operating income totaled $252 million in 2009 compared to $83 million in 2008. EBITDA increased $170 million, from $118 million in 2008 to $288 million in 2009. EBITDA margin increased 10.4 percentage points in 2009 from 7.1% in 2008 to 17.5% in 2009. There were no unusual or key items that affected comparability for adjusted EBITDA during 2009 and 2008.

Distribution

Distribution is a leading plastics and chemicals distributor in North America. It distributes chemicals, plastics and composite raw materials in North America, as well as plastics in Europe and China. Ashland Distribution also provides environmental services in North America, including hazardous and nonhazardous waste collection, recovery, recycling and disposal services.

2010 compared to 2009

Distribution's sales increased 13% to $3,419 million compared to $3,020 million in 2009. Price and volume increases of $219 million, or 7%, and $151 million, or 5%, respectively, were the primary factors as a disciplined price increase environment has been successful in conjunction with increased product demand within the market, as indicated by the 3% increase in pounds sold per shipping day to 15.1 million. A favorable currency exchange increased sales $29 million, or 1%.

Gross profit increased $15 million in 2010 compared to 2009. Volume and favorable currency exchange increased gross profit by $25 million and $3 million, respectively, while material cost increases reduced gross profit by $13 million in 2010 as compared to 2009. In total, gross profit margin during 2010 decreased 0.7 percentage points to 9.3% from 10.0%, which included a $15 million LIFO quantity credit benefit as compared to a $2 million charge in 2010.

Selling, general and administrative expenses increased $11 million, or 4%, during 2010 as increases attributable to incentive compensation of $8 million, environmental remediation of $6 million and foreign currency of $2 million were partially offset by reductions in salaries and benefits due to operational cost reductions of $5 million. Equity and other income decreased by $1 million during 2010 compared to 2009.

Operating income totaled $55 million in 2010 compared to $52 million in 2009. Adjusted EBITDA results for 2010 and 2009 totaled $89 million and $84 million, respectively, and included a $6 million charge for an environmental remediation assessment for 2010 and a $4 million severance charge for 2009. Adjusted EBITDA margin decreased 0.2 percentage points in 2010 from 2.8% in 2009 to 2.6% in 2010.

2009 compared to 2008

Distribution's sales decreased 31% to $3,020 million compared to $4,374 million in 2008, primarily as a result of volume declines. Pounds sold per shipping day decreased 22% to 14.7 million compared to 18.8 million in 2008, causing a $962 million decline in sales. Decreases in foreign currency of $92 million, or 2%, and price of $300 million, or 7%, contributed to the overall sales decline as price increase announcements with customers during 2009 were met with limited success.

Gross profit decreased $38 million in 2009 compared to 2008. Volume decreased gross profit by $109 million and currency exchange reduced gross profit an additional $7 million. Material cost decreases resulted in a favorable contribution of $78 million to gross profit, which included a $15 million favorable quantity LIFO adjustment in 2009. In total, gross profit margin during 2009 increased 2.2 percentage points to 10.0%.

Selling, general and administrative expenses decreased $39 million, or 13%, during 2009 as compared to 2008, with decreases in corporate allocations of $15 million, incentive compensation and salaries of $16 million, travel and entertainment of $6 million and currency exchange of $6 million as the primary factors. These decreases were partially offset by severance charges of $4 million incurred during 2009.

Operating income totaled $52 million in 2009 as compared to $51 million in 2008. EBITDA totaled $80 million for 2009 as compared to $79 million for 2008. Adjusted EBITDA results for 2009 totaled $84 million and included a $4 million severance charge. There were no unusual or key items that affected comparability for adjusted EBITDA during 2008. Adjusted EBITDA margin increased 1.0 percentage points in 2009 from 1.8% in 2008 to 2.8% in 2009.

Unallocated and other

Unallocated and other recorded costs of $3 million for 2010 and $29 million for 2009 compared to income of $17 million for 2008. During 2009, Ashland began fully allocating significant actual corporate costs as opposed to budgeted expenditures which was utilized in prior periods, except for certain significant company-wide restructuring activities, such as the current restructuring plan related to the Hercules acquisition described in Note D of Notes