ASHLAND INC.
Form 10-K
November 26, 2008

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, 2008

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
Hercules Incorporated 8% Convertible Subordinated Debentures due August 15, 2010	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 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. þ

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, 2008, the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $2,970,002,995. 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, 2008, there were 63,022,667 shares of Registrant s common stock outstanding.

Documents Incorporated by Reference

Portions of Registrant s Proxy Statement (the Proxy Statement) for its January 29, 2009 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 has operated its business through four reportable segments: Ashland Performance Materials, Ashland Distribution, Valvoline and Ashland Water Technologies. Financial information about these segments for each of the fiscal years in the three-year period ended September 30, 2008, is set forth on pages F-34 through F-36 of this annual report on Form 10-K.

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

Ashland Distribution distributes chemicals, plastics and composite raw materials in North America and plastics in Europe and also provides environmental services in North America. Ashland Distribution s suppliers include many of the world s leading chemical, composite and plastics manufacturers. This segment specializes in providing material transfer and packaging services in mixed truckload and less-than-truckload quantities to customers in a wide range of industries.

Valvoline is a leading marketer of premium packaged automotive lubricants, chemicals, appearance products, antifreeze and filters. In addition, Valvoline is engaged in the fast oil change business through outlets operating under the Valvoline Instant Oil Change® name.

Ashland Water Technologies supplies chemical and non-chemical water treatment solutions for industrial, municipal and commercial facilities. It provides industrial, commercial and institutional water treatments, wastewater treatment, paint and coating additives, pulp and paper processing and mining chemistries. In addition, it also provides boiler and cooling water treatments; fuel treatments; welding, refrigerant and sealing products; and fire fighting, safety and rescue products and services for the ocean-going marine market. For a discussion of recent changes affecting this business segment, see Corporate Developments in this annual report on Form 10-K.

At September 30, 2008, Ashland and its consolidated subsidiaries had approximately 11,900 employees (excluding contract employees).

Available Information - Ashland s Internet address is http://www.ashland.com. There, 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 electronically 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 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 which 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 13, 2008, Ashland completed the acquisition of Hercules Incorporated (Hercules), through a subsidiary merger transaction (the Hercules Transaction). As a result of the Hercules Transaction, Hercules has become a wholly owned subsidiary of Ashland. Each share of Hercules Common Stock outstanding at the effective time of the merger was exchanged for (i) 0.0930 of a share of Ashland Common Stock and (ii) $18.60 in cash. The cash portion of the Hercules

Transaction was funded through a combination of cash on hand and debt financing. For additional information regarding the Hercules Transaction, see Note Q of   Notes to Consolidated Financial Statements   in this annual report on Form 10-K.

Prior to the Hercules Transaction, Hercules operated through the following two reportable business segments:

Paper Technologies and Ventures - The Paper Technologies business group is one of the key global suppliers of functional and process chemicals for the paper industry, offering a wide and highly sophisticated range of technology and applications expertise with in-mill capabilities for use throughout the paper-making process. The Ventures business group targets key industry verticals with distinct products such as: pulping chemicals; water treatment chemicals; lubricants; and adhesives, resin modifiers and coatings for the building and converting industries. Paper Technologies and Ventures properties are located in Beringen, Belgium; Burlington, Ontario, Canada; Busnago, Italy; Chicopee, Massachusetts, U.S.; Franklin, Virginia, U.S.; Hattiesburg, Mississippi, U.S.; Helsingborg, Sweden; Kim Cheon, Korea; Louisiana, Missouri, U.S.; Macon, Georgia, U.S.; Mexico City, Mexico; Milwaukee, Wisconsin, U.S.; Natou, Taiwan; Paulinia, Brazil; Portland, Oregon, U.S.; Savannah, Georgia, U.S.; Shanghai, China; Sobernheim, Germany; Tampere, Finland; Tarragona, Spain; Voreppe, France; and Zwijndrecht, The Netherlands. Hercules owns a manufacturing facility in Pilar, Argentina that has been leased to a major U.S. company under a five-year lease. Hercules purchases its products for sale in Argentina from this plant under a five-year supply and distribution agreement which ends in 2009. In Paper Technologies, customers and competitors are consolidating to enhance market positions and product offerings on a worldwide basis.

Aqualon Group - Products offered by the Aqualon Group are primarily designed to manage the properties of aqueous (water-based) systems. Most of the products are derived from renewable natural raw materials and are sold as key ingredients to other manufacturers where they are used as small-quantity additives to provide functionality such as thickening, water retention, film formation, emulsifying action and binding power. Major end uses for the Aqualon Group   s products include personal care products, food additives, pharmaceutical products, construction materials, paints, coatings and oil and gas recovery, where polymers are used to modify viscosity, gel strength and/or fluid loss. The Aqualon Group also manufactures wood and gum rosin resins and is the world   s only producer of pale wood rosin derivatives. Product applications and markets include food and beverage, construction specialties, adhesives and rubber and plastic modifiers. Aqualon Group properties are located in Alizay, France; Doel, Belgium; Dalton, Georgia, U.S.; Hopewell, Virginia, U.S.; Jiangmen City, China; Kenedy, Texas, U.S.; Luzhou and Suzhou, China (40% joint venture interest); Nanjing, China (land-use rights acquired in 2006 for facility construction beginning in 2007); Parlin, New Jersey, U.S.; Zwijndrecht, The Netherlands; and Brunswick, Georgia, U.S. Aqualon is facing competitive threats from emerging Asian producers. To address this threat, one element of Aqualon   s strategy includes reducing costs in existing facilities and adding production capacity in the growing, low-cost Asian region.

The reportable business segments through which Ashland operated prior to the consummation of the Hercules Transaction are discussed below. As a result of the Hercules Transaction, certain changes have been made to Ashland   s business segments. Ashland Water Technologies segment has been integrated with Hercules   Paper Technologies and Ventures segment to form Ashland Hercules Water Technologies segment. In addition, a new specialty additives and ingredients segment has been formed, Ashland Aqualon Functional Ingredients.

ASHLAND PERFORMANCE MATERIALS

Ashland Performance Materials is a worldwide manufacturer and supplier of specialty chemicals and customized services to the building and construction, transportation, metal casting, marine, and packaging and converting markets. It is a technology leader in metal casting consumables and design services; unsaturated polyester and vinyl ester resins and gelcoats; and high-performance adhesives and specialty resins. Through this segment, Ashland owns and operates 34 manufacturing facilities and participates in eight manufacturing joint ventures in 15 countries. This segment competes globally in selected niche markets, largely on the basis of technology and service. The number of competitors in the specialty chemical business varies from product to product, and it is not practical to identify such competitors because of the broad range of products and markets served by those products. However, many of Ashland Performance Materials businesses hold proprietary technologies, and Ashland believes it has a leading or strong market position in many of its specialty chemical products.

Composite Polymers - This business group 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 wind energy industries. Composite Polymers markets vinyl ester resins under the brand name DERAKANE®, HETRON® and AROPOL®. This business group has manufacturing plants in Jacksonville and Fort Smith, Arkansas; Los Angeles, California; Bartow, Florida; Pittsburgh and Philadelphia, Pennsylvania; Johnson Creek, Wisconsin; Campinas, Brazil; Kelowna and Mississauga, Canada; Changzhou and Kunshan, China; Porvoo and Lahti, Finland; Sauveterre, France; Miszewo, Poland; Benicarlo, Spain; and, through separate joint ventures, has manufacturing plants in Sao Paulo, Brazil and Jeddah, Saudi Arabia.

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Specialty Polymers and Adhesives - This business group manufactures and sells adhesive solutions to the packaging and converting, building and construction, and transportation markets. In addition to these adhesive products, the business also manufactures and markets specialty coatings and adhesive solutions across the printing industry. Key technologies and markets include: acrylic polymers for pressure-sensitive adhesives; polyvinyl 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. The group has manufacturing plants in Calumet City, Illinois; Totowa, New Jersey; Greensboro, North Carolina; Ashland and Columbus, Ohio; White City, Oregon; Milwaukee, Wisconsin; Piedmont, South Carolina; Elkton, Maryland; and Kidderminster, England.

Casting Solutions - This business group manufactures and sells metal casting chemicals worldwide, including sand-binding resin systems, refractory coatings, release agents, engineered sand additives and riser sleeves. This group also provides casting process modeling, core making process modeling and rapid prototyping services. This business group serves the global metal casting industry from nine owned and operated manufacturing sites located in Campinas, Brazil; Mississauga, Canada; Changzhou, China; Milan, Italy; Castro-Urdilales and Idiazabal, Spain; Kidderminster, England; and Cleveland, Ohio (two sites). Casting Solutions also has seven joint venture manufacturing facilities located in Vienna, Austria; Le Goulet, France; Bendorf and Wuelfrath, Germany; Ulsan, South Korea; Arceniega, Spain and Alvsjo, Sweden.

In June 2008, Ashland and Süd-Chemie AG signed a nonbinding memorandum of understanding to form a new, global 50-50 joint venture to serve foundries and the metal casting industry. The joint venture would combine three businesses: Ashland s Casting Solutions business group, the foundry-related businesses of Süd-Chemie, and Ashland-Südchemie–Kernfest GmbH, the existing European-based joint venture between Ashland and Süd-Chemie. This transaction is anticipated to close during fiscal 2009. In connection with this proposed joint venture, Ashland Performance Materials combined the Composite Polymers and the Specialty Polymers and Adhesives business groups under a single leadership team and business model effective October 1, 2008.

ASHLAND DISTRIBUTION

Ashland Distribution distributes chemicals, plastics and composite raw materials in North America and plastics in Europe. Ashland 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 60 owned or leased facilities, 70 third-party warehouses, rail terminals and tank terminals and 4 locations that perform contract packaging activities for Ashland Distribution. Distribution of thermoplastic resins in Europe is conducted in 18 countries primarily through 14 third-party warehouses and one owned warehouse. Each of Ashland Distribution s lines of business (chemicals, plastics, composites and environmental services) competes with national, regional and local companies throughout North America. The plastics distribution business also competes with other distribution companies in Europe. Competition within each line of business is based primarily on breadth of product portfolio, service offerings, reliability of supply and price.

Chemicals - Ashland Distribution 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 - Ashland Distribution offers a broad range of thermoplastic resins, and specialized technical service to processors in North America as well as some export operations. Processors include injection molders, extruders, blow molders and rotational molders. Ashland Distribution provides plastic material transfer and packaging services and less-than-truckload quantities of packaged thermoplastics. Ashland Distribution also markets a broad range of thermoplastics to processors in Europe via distribution centers located in Belgium, Denmark, England, Finland, France, Germany, Ireland, Italy, The Netherlands, Norway, Poland, Portugal, Spain and Sweden.

Composites - Ashland Distribution supplies mixed truckload and less-than-truckload quantities of polyester thermoset resins, fiberglass and other specialty reinforcements, catalysts and allied products to customers in the cast polymer, corrosion, marine, building and construction, and other specialty reinforced plastics industries through distribution facilities located throughout North America. It also offers Ashland s own line of resins and gel coats, serving the fiber-reinforced plastics and cast-polymer industries.

Environmental Services - Working in cooperation with chemical waste service companies, Ashland Distribution 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 more than 20 distribution centers, including ten storage facilities that have been fully permitted by the United States Environmental Protection Agency (USEPA).

Ashland Distribution has significant relationships with suppliers of its products and services. For a discussion of the risks affecting Ashland Distribution s supplier relationships, see Item 1A. Risk Factors in this annual report on Form 10-K.

VALVOLINE

Valvoline markets premium packaged automotive lubricants, chemicals, appearance products, antifreeze and filters, with sales in more than 100 countries. The Valvoline® trademark was federally registered in 1873 and is the oldest trademark for lubricating oil in the United States. Valvoline competes in the highly competitive automotive lubricants and consumer products car care businesses, principally through its offerings of premium products and services, coupled with a strong brand marketing, customer support, and distribution capabilities. Some of the major brands of motor oils and lubricants with which Valvoline competes globally are Castrol®, Mobil® and Pennzoil®. In the fast oil change business, Valvoline 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 Valvoline 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 of service, speed, location, convenience and sales promotion.

Valvoline 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® automotive 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; Zerex® antifreeze; Tectyl® industrial products; and Valvoline Instant Oil Change® automotive services.

Valvoline operates lubricant blending and packaging plants in Santa Fe Springs, California; Cincinnati, Ohio; East Rochester, Pennsylvania; and Deer Park, Texas. Automotive chemical manufacturing and distribution is conducted in Hernando, Mississippi. Bulk blending and distribution facilities are located in College Park, Georgia; Willow Springs, Illinois; St. Louis, Missouri; and Mississauga, Canada. Direct market distribution operations are conducted out of 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.

Additives (from key suppliers such as Lubrizol Corporation) and base oils (from key suppliers such as Motiva Enterprises LLC) constitute a large portion of the raw materials required to manufacture Valvoline s products. In addition to raw materials, Valvoline sources a significant portion of its packaging from key suppliers such as Graham Packaging Inc. For a discussion of the risks affecting Valvoline s supplier relationships, see Item 1A. Risk Factors in this annual report on Form 10-K.

In North America, Valvoline is comprised of the following business groups:

- Do It Yourself (DIY) - The DIY business group sells Valvoline products to consumers who perform their own auto maintenance. Valvoline products are sold through retail auto parts stores such as Autozone and Advance Auto Parts, mass merchandisers such as WalMart, and warehouse distributors and their affiliated jobber stores such as NAPA and Carquest.

- Installer Channels - The Installer Channels business group 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 includes distribution to quick lubes branded "Valvoline Express Care®," which consists of 368 independently owned and operated stores.

- Valvoline Instant Oil Change® (VIOC) - The VIOC chain is one of the largest competitors in the U.S. fast oil change service business, providing Valvoline with a significant presence in the Installer Channels segment of the passenger car and light truck motor oil market. As of September 30, 2008, 261 company-owned and 585 independently-owned and operated franchise centers were operating in 39 states. VIOC has continued its customer service innovation through its upgraded and enhanced preventive maintenance tracking system for consumers and fleet operators. This computer-based system maintains service records on all customer vehicles and contains a database on most car models, which allows service technicians to make service recommendations based primarily on manufacturer s recommendations.

- Commercial & Industrial (C&I) - The C&I business group 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. C&I direct market distribution operations are conducted out of centers located in Orlando, Florida; Willow Springs, Illinois; Indianapolis, Indiana; Cincinnati, Ohio; East Rochester, Pennsylvania; and Dallas, Texas. The C&I business group also has a strategic alliance with Cummins Inc. (Cummins) to distribute heavy duty lubricants to the commercial market and Eaton Inc. (Eaton) to distribute co-branded hydraulic fluids to the commercial and industrial markets.

Outside North America, Valvoline is comprised of one business group:

- Valvoline International - Valvoline International markets Valvoline®, Eagle One® and Zerex® branded products through wholly-owned affiliates, joint ventures, licensees and independent distributors in more than 100 countries. The profitability of the business is dispersed geographically, although more than half of the profit comes from mature markets in Europe and Australia. There are rapidly growing businesses in the emerging markets, including joint ventures with Cummins in Argentina, Brazil, China and India. In addition, Valvoline 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 toll manufacturers.

ASHLAND WATER TECHNOLOGIES

Ashland Water Technologies provides specialized chemicals and consulting services for the utility water treatment market, which includes boiler water, cooling water, fuel and waste streams. Programs include performance-based feed and control automation and remote system surveillance. This segment also provides process water treatments for the municipal, extraction/mining, pulp and paper processing, food processing, oil refining and chemical processing markets. It also provides technical products and shipboard services for the ocean-going marine market. Comprehensive marine programs include water and fuel treatment; maintenance, including specialized cleaners, welding and refrigerant products and sealants; and fire fighting, safety and rescue products and services. Ashland Water Technologies also provides specialized chemical additives for the paint and coatings industry.

Ashland Water Technologies owns and operates 11 manufacturing facilities in eight countries and participates in three joint ventures. Ashland Water Technologies diverse spectrum of products competes globally in niche markets. The number of competitors varies from product to product and markets served.

It conducts operations throughout the Americas, Europe and Asia Pacific and has manufacturing plants in Kearny, New Jersey; Houston, Texas; Greensboro, North Carolina; Americana, Brazil; Chester Hill, Australia; Nanjing, China; Beijing, China; Singapore; Somercotes, England; Krefeld, Germany; and Perm, Russia and, through separate joint ventures, has production facilities in Seoul, South Korea and Navi Mumbai, India.

As a result of the Hercules Transaction, Ashland Water Technologies segment has been integrated with Hercules Paper Technologies and Ventures segment to form Ashland Hercules Water Technologies segment.

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 operating groups 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 operating divisions 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/regulation. New laws and regulations may be enacted or adopted by various regulatory agencies globally. The costs of compliance with new rules cannot be estimated until the manner in which they will be implemented has been more precisely defined.

At September 30, 2008, Ashland s reserves for environmental remediation amounted to $149 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, judgments and estimates 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 could be as high as approximately $230 million. Ashland does not believe that any current individual remediation location is material to Ashland, as its largest reserve for any site does not exceed 15% of the remediation reserve. Ashland regularly adjusts its reserves as environmental remediation continues. Environmental remediation expense, net of receivable activity, amounted to $7 million in 2008, compared to $7 million in 2007 and $47 million in 2006.

Air - In the United States, the Clean Air Act (the 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 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.

The United States Environmental Protection Agency (USEPA) is currently implementing the ozone and particulate matters standards they proposed in 1997. State and local air agencies were required to submit their plans to meet the 1997 ozone standard by 2007, and states have begun to propose strategies for meeting this standard. Proposed ozone strategies have included emission controls for certain types of emission sources, reduced limits on the volatile content of industrial and consumer products and many requirements on the transportation sector. States had until April 2008 to propose strategies for meeting the 1997 particulate matter standard. Additionally, in 2006 USEPA proposed new and more stringent standards, specifically for particulate matter and in 2007 for ozone. It is not possible at this time to estimate any potential financial impact that the newly proposed standards may have on Ashland s operations. Ashland will continue to monitor and evaluate the newly proposed standards.

Climate Change - Ashland has been collecting energy use data and calculating greenhouse gas (GHG) emissions for several years and is evaluating the potential risks from climate change to facilities, products, and other business interests, and the strategies to respond to those risks. In light of the uncertainty of these risks and any related opportunities, as well as the evolving nature of legislative and regulatory efforts in the U.S. and around the world, Ashland cannot predict whether GHG-related developments will affect 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.

Solid Waste - Ashland s businesses are subject to various laws around the world relating to and establishing standards for the management of hazardous and solid waste. In the United States, the Resource Conservation and Recovery Act (RCRA) applies. While many U.S. facilities are subject to the RCRA rules governing generators of hazardous waste, certain facilities also 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.

Remediation - Ashland currently operates, and in the past has operated, various facilities where, 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 RCRA, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and various 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 where Ashland operates require that contamination caused by such releases at these sites be assessed and, if necessary, remediated to meet applicable standards.

Product Control, Registration and Inventory - Many of Ashland s products and operations in the United States are subject to the Toxic Substance Control Act (TSCA); the Food, Drug and Cosmetics Act; the Chemical Diversion and Trafficking Act; the Chemical Weapons Convention; and other product-related regulations. For further information about a TSCA compliance audit, see Item 3. Legal Proceedings in this annual report on Form 10-K. The European Commission issued a new regulatory framework for the chemicals industry in the European Union (EU). The regulation is known as REACH (Registration, Evaluation and Authorization of Chemicals) and applies to existing and new chemical substances produced or imported into the EU in quantities of greater than one ton per year. Ashland is actively monitoring this regulation and has identified chemical substances that Ashland will pre-register for REACH by the deadline of December 1, 2008. Under REACH additional testing, documentation and risk assessments will occur and may adversely affect Ashland s costs of products produced in or for export to the EU. Other countries have similar rules to TSCA and REACH.

Research

Ashland conducts a program of market-focused research and development to understand unmet needs in the marketplace, to frame those unmet 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 $52 million in 2008 ($50 million in 2007 and $48 million in 2006). Hercules research and development efforts have historically been directed toward the discovery and development of new products and processes, the improvement and refinement of existing products and processes, the development of new applications for existing products, and cost improvement initiatives. Hercules incurred costs of $44 million in research and development activities in its fiscal year ended December 31, 2007 as compared to $39 million and $41 million in its 2006 and 2005 fiscal years, respectively.

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. Words such as anticipates, believes, estimates, expects, is likely, predicts, and variations of such words and similar expressions are intended to iden such forward-looking statements. Although Ashland believes that its expectations are based on reasonable assumptions, it 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 affecting Ashland s 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 (MD&A) and the consolidated financial statements and related notes incorporated by reference into this report. 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.

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.

The profitability of Ashland is susceptible to downturns in the economy, particularly in those segments related to durable goods, including the housing, construction, automotive and marine industries. Both overall demand for Ashland s products and services and its profitability will likely change as a direct result of an economic recession, inflation, changes in hydrocarbon (and its derivatives) and other raw materials prices or changes in governmental monetary or fiscal policies.

Ashland s substantial indebtedness may impair its financial condition and prevent it from fulfilling its obligations under the debt instruments.

As a result of the Hercules Transaction, Ashland has incurred a substantial amount of debt. Ashland s substantial indebtedness could have important consequences including:

§ limiting Ashland s ability to borrow additional amounts to fund working capital, capital expenditures, acquisitions, debt service requirements, execution of its growth strategy and other purposes;

§ requiring Ashland to dedicate a substantial portion of its cash flow from operations to pay interest on its debt, which would reduce availability of Ashland s cash flow to fund working capital, capital expenditures, acquisitions, execution of its growth strategy and other general corporate purposes;

§ making Ashland more vulnerable to adverse changes in general economic, industry and government regulations and in its business by limiting its flexibility in planning for, and making it more difficult for Ashland to react quickly to, changing conditions;

§ placing Ashland at a competitive disadvantage compared with those of its competitors that have less debt; and

§ exposing Ashland to risks inherent in interest rate fluctuations because some of its borrowings will be at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

In addition, Ashland may not be able to generate sufficient cash flow from its operations to repay its indebtedness when it becomes due and to meet its other cash needs. If Ashland is not able to pay its debts as they become due, Ashland will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring its indebtedness or selling additional debt or equity securities. Ashland may not be able to refinance its debt or sell additional debt or equity securities or its assets on favorable terms, if at all, and if Ashland must sell its assets, it may negatively affect its ability to generate revenues.

The restrictive covenants in Ashland s new credit facilities may affect Ashland s ability to operate its business successfully.

The terms of Ashland s new credit facilities contain various provisions that limit its ability to, among other things: grant liens; incur additional indebtedness, guarantees or other contingent obligations; engage in mergers and consolidations; make sales, transfers and other dispositions 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 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 new 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 new credit facilities would result in an event of default. If an event of default under Ashland s new 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 new credit facilities could proceed against the collateral pledged to them. Ashland has pledged a substantial portion of its assets to the lenders under its new credit facilities.

Ashland may not realize all of the anticipated benefits of the Hercules Transaction.

Ashland s ability to realize the anticipated benefits of the Hercules Transaction will depend, in part, on Ashland s ability to integrate the businesses of Hercules successfully and efficiently with its businesses. The combination of two independent companies is a complex, costly and time-consuming process. As a result, the combined company will be required to devote significant management attention and resources to integrating Ashland s diverse business practices and operations with those of Hercules. The failure of the combined company to meet the challenges involved in integration or otherwise to realize any of the anticipated benefits of the Hercules Transaction could cause an interruption of, or a loss of momentum in, the activities of the combined company and could seriously harm Ashland s results of operations. In addition, the overall integration of the two companies may result in unanticipated problems, expenses, liabilities, competitive responses, loss of customer and other relationships, and diversion of management s attention, and may cause Ashland s stock price to decline.

In addition, even if Ashland s operations are integrated successfully with Hercules operations, the combined company may not realize the full benefits of the Hercules Transaction, including the synergies, cost savings, or sales or growth opportunities that are expected. Such benefits may not be achieved within the anticipated time frame, or at all. Further, because Ashland s businesses differ from Hercules businesses, the results of operations of the combined company may be affected by factors different from those affecting Ashland prior to the Hercules Transaction, and may suffer as a result of the merger. As a result, the realization of the full benefits anticipated from the merger may not be achieved.

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, may negatively impact Ashland s 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. 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.

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 which seek remedies or damages, some of which are for substantial amounts. In addition, as a result of the Hercules Transaction, Ashland acquired Hercules subject to all of its litigation, including asbestos liabilities. While these actions are being contested, their outcome is not predictable. Ashland s business could be materially and adversely affected by financial exposure to these liabilities.

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

Ashland is subject to various U.S. and foreign laws and regulations relating to environmental protection and worker health and safety. These laws and regulations regulate discharges of pollutants into the air and water, the management and disposal of hazardous substances and the cleanup of contaminated properties. The costs of complying with these laws and regulations can be substantial and may increase as applicable requirements and their enforcement become more stringent and new rules are implemented. If Ashland violates the requirements of these laws and regulations, it may be forced to pay substantial fines, to complete additional costly projects or to modify or curtail its operations to limit contaminant emissions.

Ashland is responsible for, and has financial exposure to, substantially all of the environmental and other liabilities of Ashland and substantially all of the environmental and other liabilities of its subsidiaries including Hercules and its former subsidiaries. Ashland has investigated and remediated a number of its current and former properties. Engineering studies, historical experience and other factors are used 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 ultimate costs could exceed its reserves.

Ashland s pension and post-retirement benefit plan obligations are currently underfunded. 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 post-retirement benefit plans. A significant decline in the value of the plan investments 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.

Ashland s customers or markets may migrate to developing countries where it may have an insufficient presence. Also, Ashland may need to shift manufacturing of certain products to lower-cost countries or developing economies to remain competitive in its industry.

Ashland s North American customers are subject to increasing foreign competition from developing economies. If the demand for products manufactured by its North American customers declines, then demand for Ashland s products in North America will also decline, with the potential to negatively impact Ashland s results.

In recent years, new production capacity in the chemical industry has been shifting to countries with developing economies where demand is growing more rapidly and the cost of production is lower. Ashland is investing in such countries and there are certain political and other risks associated with doing business in such countries. Moreover, as Ashland continues to invest in additional overseas facilities, its capital expenditures will increase to reflect the cost of construction of these facilities, which could impact Ashland s cash flow. This additional manufacturing capacity may also make some of Ashland s existing sites redundant, triggering potential write-offs and severance payments. In addition, as Ashland and its competitors shift production to lower-cost locations, worldwide pricing for certain products may decline, negatively impacting Ashland s margins for those products.

Provisions of Ashland s articles of incorporation and by-laws and Kentucky law could deter takeover attempts and adversely affect Ashland s stock price.

Provisions of Ashland s articles of incorporation and by-laws could make acquiring control of Ashland without the support of its Board of Directors difficult for a third party, even if the change of control might be beneficial to Ashland shareholders. Ashland s articles of incorporation and by-laws contain:

§ provisions relating to the classification, nomination and removal of its directors;

§ provisions limiting the right of shareholders to call special meetings of its Board of Directors and shareholders;

§ provisions regulating the ability of its shareholders to bring matters for action at annual meetings of its shareholders; and

§ the authorization given to its Board of Directors to issue and set the terms of preferred stock.

Ashland s articles of incorporation and the laws of Kentucky impose some restrictions on mergers and other business combinations between Ashland and any beneficial owner of 10% or more of the voting power of its outstanding common stock. The existence of these provisions may deprive shareholders of any opportunity to sell their shares at a premium over the prevailing market price for Ashland Common Stock. The potential inability of Ashland shareholders to obtain a control premium could adversely affect the market price for Ashland Common Stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Ashland s corporate headquarters, which is leased, is located in Covington, Kentucky. Principal offices of other major operations are located in Dublin, Ohio (Ashland Distribution and Ashland Water Technologies); Barendrecht, Netherlands (Ashland Performance Materials); Lexington, Kentucky (Valvoline); and Russell, Kentucky (Administrative Services). All of these offices are leased, except for the Russell office and one building in Dublin, Ohio, which are owned. Principal manufacturing, marketing and other materially important physical properties of Ashland and its subsidiaries are described under the appropriate segment under Item 1 in this annual report on Form 10-K. Additional information concerning certain leases may be found in Note I of Notes to Consolidated Financial Statements in this annual report on Form 10-K.

Hercules corporate headquarters and major research center are located in Wilmington, Delaware. Hercules also owns a number of plants and facilities in strategic locations worldwide, as described under Corporate Developments in Item 1 of this annual report on Form 10-K. All of Hercules principal properties are owned by Hercules, except for its corporate headquarters office building in Wilmington, Delaware, its European headquarters office building in Schaffhausen, Switzerland and its Asian headquarters in Shanghai, China, all of which are leased.

ITEM 3. LEGAL PROCEEDINGS

The following is a description of Ashland s material legal proceedings, including legal proceedings related to Hercules.

Ashland 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.

The majority of lawsuits filed involve multiple plaintiffs and multiple defendants, with the number of defendants in many cases exceeding 100. The monetary damages sought in the asbestos-related complaints that have been filed in state or federal courts vary as a result of jurisdictional requirements and practices, though the vast majority of these complaints either do not specify monetary damages sought or merely recite that the monetary damages sought meet or exceed the required jurisdictional minimum in which the complaint was filed. Plaintiffs have asserted specific dollar claims for damages in approximately 5% of the 40,241 active lawsuits pending as of September 30, 2008. In these active lawsuits, approximately 0.7% of the active lawsuits involve claims between $0 and $100,000; approximately 1.9% of the active lawsuits involve claims between $100,000 and $1 million; approximately 1% of the active lawsuits involve claims between $1 million and $5 million; less than 0.1% of the active lawsuits involve claims between $5 million and $10 million; approximately 1% of the active lawsuits involve claims between $10 million and $15 million; and less than .02% of the active lawsuits involve claims between $15 million and $100 million. The variability of requested damages, coupled with the actual experience of resolving claims over an extended period, demonstrates that damages requested in any particular lawsuit or complaint bear little or no relevance to the merits or disposition value of a particular case. Rather, the amount potentially recoverable by a specific plaintiff or group of plaintiffs is determined by other factors such as product identification or lack thereof, the type and severity of the disease alleged, the number and culpability of other defendants, the impact of bankruptcies of other companies that are co-defendants in claims, specific defenses available to certain defendants, other potential causative factors and the specific jurisdiction in which the claim is made.

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

Environmental Proceedings – (1) Under the federal Comprehensive Environmental Response, Compensation and Liability Act (as amended) and similar state laws, Ashland may be subject to joint and several liability for clean-up 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, 2008, Ashland had been named a PRP at 62 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 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 clean-up and administrative oversight and/or long-term monitoring of environmental conditions at the sites. The ultimate costs are not predictable with assurance.

(2) TSCA Audit – On April 30, 2007, in an action initiated by Ashland, Ashland signed a Consent Agreement and Final Order (CAFO) with the USEPA pursuant to which Ashland will conduct a compliance audit in accordance with Section 5 and Section 13 of the TSCA. TSCA regulates activities with respect to manufacturing, importing and exporting chemical substances in the United States. Pursuant to the CAFO, Ashland will report any violations discovered. In addition, the CAFO provides for certain reduced penalties for discovered violations. While it is reasonable to believe the penalties for violations reported could exceed $100,000 in the aggregate, any such penalties should not be material to Ashland. The date for completion of the audit has been extended from May 2009 to July 2009.

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

MTBE Litigation – Ashland is a defendant along with many other companies in approximately 30 cases alleging methyl tertiary-butyl ether (MTBE) contamination in groundwater. Nearly all of these cases have been consolidated in a multi-district litigation in the Southern District of New York for preliminary proceedings. The plaintiffs generally are water providers or governmental authorities and they allege that refiners, manufacturers and sellers of gasoline containing MTBE are liable for introducing a defective product into the stream of commerce. Ashland s involvement in these cases relates to gasoline containing MTBE allegedly produced and sold by Ashland, or one or more of its subsidiaries, in the period prior to the formation of Marathon Ashland Petroleum LLC (MAP). Ashland only distributed MTBE or gasoline containing MTBE in a limited number of states and has been dismissed in a number of cases in which it was established that Ashland did not market MTBE or gasoline containing MTBE in the state or region at issue. The MTBE cases seek both compensatory and punitive damages under a variety of statutory and common law theories. Ashland, along with a number of other defendants who operated refineries, has reached a settlement with the plaintiffs in 21 of the cases in which Ashland is a defendant. The settlement will not result in a material impact to Ashland above amounts already reserved. The potential impact of the unresolved cases and any future similar cases is uncertain.

Hercules Legal Proceedings

Asbestos-Related Litigation - Hercules is a defendant in numerous 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 the Hercules former subsidiaries to a limited industrial market (products claims). Hercules is also a defendant in lawsuits alleging exposure to asbestos at facilities formerly or presently owned or operated by Hercules (premises claims). Claims are received and settled or otherwise resolved on an on-going basis.

The majority of lawsuits filed involve multiple plaintiffs and multiple defendants. The monetary damages sought in the asbestos-related complaints that have been filed in state or federal courts vary as a result of jurisdictional requirements and practices, though the vast majority of these complaints either do not specify monetary damages sought or merely recite that the monetary damages sought meet or exceed the required jurisdictional minimum in which the complaint was filed. As of September 30, 2008, there were approximately 25,563 unresolved claims, of which approximately 895 were premises claims and the rest were products claims. There were also approximately 1,745 unpaid claims which have been settled or are subject to the terms of a settlement agreement. Between January 1, 2008 and September 30, 2008, Hercules received approximately 1,304 new claims. During that same period, Hercules spent a net amount of $20.7 million to resolve and defend asbestos matters, including $15.7 million directly related to settlement payments and $5.0 million for defense costs.

Hercules reached a confidential settlement agreement with many of its solvent excess insurers whereby a significant portion of the costs incurred by Hercules with respect to future asbestos product liability claims will be reimbursed, subject to those claims meeting certain qualifying criteria (the Future Coverage Agreement). That agreement is not expected to result in reimbursement to Hercules unless and until defense costs and settlement payments for qualifying asbestos products claims paid by Hercules subsequent to the effective date of the agreement aggregate to approximately $330 million to $370 million, of which approximately $123 million has been credited as of September 30, 2008. If and when such amounts are paid by Hercules, the insurers obligations pursuant to the terms of the Future Coverage Agreement would be triggered, and the participating insurers would thereafter be required to pay their allocated share of defense costs and settlement payments for asbestos product liability claims that qualify for reimbursement subject to the limits of their liability pursuant to the terms of the Future Coverage Agreement, with Hercules being responsible for the share of such costs and payments that are not reimbursed by such participating insurers, as well as for such costs and payments for those claims that do not qualify for reimbursement under the terms of the agreement.

Environmental Proceedings – (1) As of September 30, 2008, Hercules has 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 41 sites. Hercules becomes aware of sites in which it may be named a PRP through correspondence from the USEPA or other government agencies or from previously named PRPs, who either request information or notify Hercules of its potential liability.

(2) United States of America v. Vertac Chemical Corporation, et al. - This case, a cost-recovery action commenced in 1980 and based upon the CERCLA, as well as other statutes, involves liability for costs incurred by the USEPA in connection with the investigation and remediation of the Vertac Chemical Corporation (Vertac) site in Jacksonville, Arkansas. Following extended litigation and appeals, a final judgment against Hercules for $124.5 million was entered in 2005 by the U.S. District Court for the Eastern District of Arkansas, and ultimately upheld by the appellate courts. Following payment of the judgment, on July 20, 2007, Hercules received a claim from the USEPA seeking reimbursement of approximately $19 million for response costs incurred since June 1, 1998. Hercules agreed to resolve USEPA s claim for those additional response costs, including interest, for $14.5 million. This settlement is subject to public comment and Court approval. Hercules adjusted its accrual to $14.5 million with respect to this matter as of September 30, 2008.

(3) In the Matter of Eastman Company and Hercules Incorporated - On December 23, 2005, USEPA Region III issued a Notice of Violation (NOV) to Hercules and to Eastman Chemical Company (Eastman) alleging various violations of the Clean Air Act, primarily focused on the Act s requirements governing emissions of volatile organic compounds, at a manufacturing facility located in West Elizabeth, Pennsylvania. That facility was sold to Eastman as part of Hercules divestiture of its resins business in May 2001. The USEPA has not specifically made a demand for monetary penalties upon

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Hercules and Eastman. Investigation of this matter is continuing. At this time, Hercules cannot reasonably estimate its liability, if any, with respect to this matter.

(4) Environmental Compliance - 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 Clean Air Act compliance investigation by USEPA and the VADEQ. In April 2008, the results of both investigations were provided to Hercules. The results of both investigations uncovered areas of potential noncompliance with various environmental requirements which are being evaluated. At this time, Hercules cannot reasonably estimate its potential liability, if any, with respect to these matters.

(5) Naval Weapons Industrial Reserve Plant - The Naval Weapons Industrial Reserve Plant in McGregor, Texas (the Site), is a government-owned facility which was operated by various contractors on behalf of the U.S. Department of the Navy (the Navy) from 1942 to 1995. Hercules operated the Site from 1978 to 1995. The U.S. Department of Justice, on behalf of the Navy, has advised Hercules and other former contractors that, pursuant to CERCLA, the Government has incurred costs of over $50 million with respect to certain environmental liabilities which the Government alleges are attributable, at least in part, to Hercules and the other former contractors past operation of the Site. Hercules and the other former contractors have executed a tolling agreement with the Government and have been engaged in discussions with the Government concerning the Site. Based on the investigation undertaken by Hercules to date, Hercules believes that there may be substantial defenses to some or all of the Government s claims. At this time, Hercules cannot reasonably estimate its potential liability, if any, with respect to the Site.

Agent Orange Litigation - Agent Orange is a defoliant that was manufactured by several companies, including Hercules, at the direction of the U.S. Government, and used by the U.S. Government in military operations in both Korea and Vietnam from 1965 to 1970. In 1984, as part of a class action settlement, Hercules and other defendants settled the claims of persons who were in the U.S., New Zealand and Australian Armed Forces who alleged injury due to exposure to Agent Orange. Following that settlement, all claims for alleged injuries due to exposure to Agent Orange by persons who had served in the Armed Forces of those countries were treated as covered by that class action settlement.

On June 9, 2003, the U.S. Supreme Court affirmed the decision of the U.S. Court of Appeals for the Second Circuit in a case captioned Dow Chemical Company, et al. v. Daniel Raymond Stephenson, et al. where plaintiffs Stephenson and Isaacson (in separate but consolidated cases) alleged that they were injured from exposure to Agent Orange and that such injury did not manifest until after exhaustion of the settlement fund created through the 1984 class action settlement. As a result of that decision, the claims of persons who allege injuries due to exposure to Agent Orange and whose injuries first manifest themselves after exhaustion of the settlement fund created through the 1984 class action settlement may no longer be barred by the 1984 class action settlement and such persons may now be able to pursue claims against Hercules and the other former manufacturers of Agent Orange.

Currently, Hercules is a defendant in approximately thirty-one lawsuits (including two purported class actions) where plaintiffs allege that exposure to Agent Orange caused them to sustain various personal injuries. On February 9, 2004, the U.S. District Court for the Eastern District of New York issued a series of rulings, which held that plaintiffs claims against the defendant manufacturers of Agent Orange that were brought in the state courts are properly removable to federal court under the federal officer removal statute and that such claims are subject to dismissal by application of the government contractor defense. The District Court dismissed plaintiffs claims in all of the lawsuits that were before it at that time. Plaintiffs appealed those dismissals to the U.S. Court of Appeals for the Second Circuit. The Court of Appeals affirmed the District Court s dismissal of these actions and also denied the plaintiffs petition for rehearing en banc. On or about October 6, 2008, Plaintiffs in these actions filed Petitions for Writ of Certiorari with the U.S. Supreme Court seeking review of the rulings of the trial court and the U.S. Court of Appeals for the Second

Circuit.

In addition, in January 2004, Hercules was sued in a purported class action filed in the United States District Court for the Eastern District of New York by The Vietnam Association for Victims of Agent Orange/Dioxin and several individuals who claim to represent between two and four million Vietnamese who allege that Agent Orange used by the United States during the Vietnam War caused them or their families to sustain personal injuries. That complaint alleges violations of international law and war crimes, as well as violations of the common law for products liability, negligence and international torts. On motion of the defendants, the District Court dismissed this lawsuit and the Second Circuit Court of Appeals affirmed the dismissal and denied the plaintiffs petition for rehearing en banc. Plaintiffs have filed a Petition for Writ of Certiorari with the U.S. Supreme Court seeking review of the rulings of the trial court and the U.S. Court of Appeals for the Second Circuit.

In addition, in 1999, approximately 17,200 Korean veterans of the Vietnam War filed suit in Seoul, Korea, against The Dow Chemical Company (Dow) and Monsanto Company (Monsanto) for their alleged injuries from exposure to Agent Orange. Following the commencement of those lawsuits, Dow and Monsanto petitioned the court to issue Notices of Pendency to each of the non-defendant manufacturers of Agent Orange, including Hercules, in an attempt to bind those

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companies to factual and legal findings which may be made in the Korean courts if Dow and Monsanto are held liable to plaintiffs and sue those companies for contribution. The District Court dismissed the plaintiffs claims, and the plaintiffs appealed. On January 26, 2006, the intermediate appellate court in Seoul reversed the District Court and awarded damages of $65.2 million plus pre- and post-judgment interest to approximately 6,800 of the approximately 17,200 plaintiffs that filed these lawsuits. Hercules has been informed that Dow and Monsanto have appealed. If Dow and Monsanto are not successful on appeal, it is possible that they might initiate an action seeking contribution from the non-defendant manufacturers of Agent Orange, including Hercules. Further, if the intermediate appellate court s decision is ultimately upheld, it is possible that new lawsuits could be brought in Korea against the Agent Orange manufacturers, including Hercules, by other Korean veterans of the Vietnam War.

Hercules believes that it has substantial meritorious defenses to all of the Agent Orange-related claims described above and those that may yet be brought, and will vigorously defend all actions now pending or that may be brought in the future.

Other Pending Legal Proceedings

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended September 30, 2008.

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 as to current members of Ashland s Executive Committee and other executive officers).

JAMES J. O BRIEN (age 54) 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 54) is Senior Vice President, Chief Financial Officer and Controller of Ashland and has served in such capacities since June 2008 and 2004, respectively. During the past five years, he has also served as Vice President of Ashland and Senior Vice President - Finance & Administration of Ashland Paving And Construction, Inc. (a former subsidiary of Ashland).

DAVID L. HAUSRATH (age 56) 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 and Vice President of Ashland.

ROBERT M. CRAYCRAFT, II (age 39) is Vice President of Ashland and President of Ashland Distribution and has served in such capacities since November 13, 2008. During the past five years, he has also served as Vice President-U.S. Chemicals of Ashland Distribution and Senior Vice President and General Manager-Retail Business;

Vice President-Business Transformation; and Vice President and General Manager-Distributor Sales of Valvoline.

SUSAN B. ESLER (age 47) 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 43) is Vice President of Ashland and President of Global Supply Chain; Environmental, Health and Safety; and Information Technology and has served in such capacities since 2006 and November 13, 2008, respectively. During the past five years, he has also served as President of Ashland Distribution, Vice President and General Manager of the Composite Polymers Division and General Manager-Food Ingredients Division of FMC Corporation.

J. WILLIAM HEITMAN (age 54) is Vice President of Ashland and has served in such capacity since November 10, 2008. He was elected Controller of Ashland on November 19, 2008 effective December 1, 2008. During the past five years, he has also served as Controller of the North American Operations of The Goodyear Tire & Rubber Company and Vice President of Finance and Interim Chief Financial Officer of Ferro Corporation.

SAMUEL J. MITCHELL, JR. (age 47) is Vice President of Ashland and President of Ashland Consumer Markets (Valvoline) and has served in such capacities since 2002.

JOHN E. PANICHELLA (age 49) is Vice President of Ashland and President of Ashland Aqualon Functional Ingredients and has served in such capacities since November 13, 2008. During the past five years, he has also served as Vice President and President-Aqualon Division of Hercules and General Manager-Americas of General Electric Water & Process Technologies.

PAUL C. RAYMOND, III (age 46) is Vice President of Ashland and President of Ashland Hercules Water Technologies and has served in such capacities since November 13, 2008. During the past five years, he has also served as Vice President and President-Paper Technologies and Ventures Division and President-Pulp and Paper Division of Hercules and Vice President and General Manager of Honeywell Electronic Materials.

PETER H. RIJNEVELDSHOEK (age 56) is Vice President of Ashland and President of Ashland Performance Materials and has served in such capacities since 2006 and August 2008, respectively. During the past five years, he has also served as President of Ashland Europe, Senior Vice President of Performance Materials, Vice President of the Europe, Middle East, Asia Pacific and Africa business of Drew Industrial Division and Director of European Shared Business Services.

WALTER H. SOLOMON (age 48) is Vice President and Chief Growth Officer of Ashland and has served in such capacities since 2005. During the past five years, he has also served as Senior Vice President and General Manager-Retail Business of Valvoline.

FRANK L. WATERS* (age 47) is Vice President of Ashland and has served in such capacity since 2002. During the past five years, he has also served as President of Ashland Water Technologies, President of Ashland Performance Materials and President of Ashland Distribution.

*Mr. Waters ceased to be an executive officer of Ashland effective November 13, 2008.

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

For information relating to equity compensation plans required by Item 201(d) of Regulation S-K, see Item 12 in this annual report on Form 10-K.

See Quarterly Financial Information on page F-38 for information relating to market price and dividends of Ashland s Common Stock.

At October 31, 2008, there were approximately 12,700 holders of record of Ashland s Common Stock. Ashland Common Stock is listed on the New York Stock Exchange (ticker symbol ASH) and has trading privileges on NASDAQ and the Chicago and National stock exchanges.

There were no sales of unregistered securities required to be reported under Item 701 of Regulation S-K. Ashland made no purchases of Ashland Common Stock during the fourth quarter of fiscal 2008.

FIVE-YEAR TOTAL RETURN PERFORMANCE GRAPH

The following graph compares Ashland s five-year cumulative total shareholder return with the cumulative total return of the Standard & Poor s 500 index and a peer group of companies. 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 AND PEER GROUP

	2003	2004	2005	2006	2007	2008
Ashland1	100	159	193	227	250	124
S&P 500	100	113	126	140	163	127
Peer Group2	100	176	300	322	403	370

1 Ashland s total return excludes Marathon Ashland Petroleum LLC (MAP) from fiscal 2005 to 2008 and Transportation and Construction from fiscal 2007 to 2008. Ashland s former Petroleum Refining and Marketing operations consisted primarily of its 38% interest in MAP which was transferred on June 30, 2005, along with two other businesses to Marathon Oil Corporation. 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 Petroleum Refining and Marketing peers for fiscal 2002 through 2005 and Transportation and Construction peers for fiscal 2002 through 2006. Ashland s Peer Group five-year cumulative total return index is 341 when the Petroleum Refining and Marketing peer total returns for the three months ended September 30, 2005 and Highway Construction peer total returns for 2007 are excluded.

The peer group consists of the following industry indices:

- Highway Construction Portfolio: 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).

- 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).

- Petroleum Refining and Marketing Portfolio: Standard & Poor s 500 Oil & Gas Refining & Marketing & Transportation (Large-Cap), Standard & Poor s 400 Oil & Gas Refining & Marketing & Transportation (Mid-Cap) (index was discontinued by Standard & Poor s on April 28, 2006), and Standard & Poor s 600 Oil & Gas Refining & Marketing & Transportation (Small-Cap) (index has been in existence from the last quarter of fiscal 2002 forward and initially consisted only of Frontier Oil Corp.; the results for Frontier Oil Corp. have been included for prior periods to give complete information).

As of September 30, 2008, the aforementioned indices consisted of 31 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-39.

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-18.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Quantitative and Qualitative Disclosures about Market Risk on page M-18.

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

As disclosed in Ashland s Current Reports on Forms 8-K and 8-K/A filed August 29, 2008 and September 8, 2008, respectively, Ashland changed its independent registered public accountants effective for the fiscal year ending September 30, 2009. There were no disagreements related to the change in accountants.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures - As of September 30, 2008, 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, 2008.

Internal Control - See Management s Report on Internal Control Over Financial Reporting on page F-2.

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, 2008, 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, 2008. 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 Recommendations for 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 and Ashland Common Stock Ownership of Directors and Executive Officers of Ashland in Ashland s Proxy Statement.

The following table summarizes the equity compensation plans under which Ashland Common Stock may be issued as of September 30, 2008. Except as disclosed in the narrative to the table, all plans were approved by shareholders of Ashland.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,530,564 (1)	$27.42 (2)	3,449,839 (3)
Equity compensation plans not approved by security holders	28,242 (4)	$33.69 (2)	967,477 (5)
Total	1,558,806	$27.43 (2)	4,417,316

(1) This figure includes (a) 303,407 stock options outstanding under the Ashland Inc. 1997 Stock Incentive Plan, (b) 570,817 stock options outstanding under the Amended and Restated Ashland Inc. Incentive Plan (the Amended Plan), and (c) 334,829 restricted stock shares granted under the Amended Plan and deferred. This figure also

includes 118,708 performance share units for the 2007-2009 performance period and 109,723 performance share units for the 2008-2010 performance period, payable in stock issued under the 2006 Ashland Inc. Incentive Plan (the 2006 Plan), estimated assuming target performance is achieved. Also included in the figure are 93,080 shares to be issued under the Deferred Compensation Plan, payable in stock upon termination of employment with Ashland.

(2) This weighted-average exercise price excludes shares of Ashland Common Stock which may be distributed under the deferred compensation plans for employees and the deferred restricted stock and performance share units which may be distributed under the Amended Plan and 2006 Plan as described in footnotes (1) and (4) in this table.

(3) This figure includes 2,871,382 shares available for issuance under the 2006 Plan, 232,441 shares available for issuance under the Deferred Compensation Plan and 346,016 shares available for issuance under the Deferred Compensation Plan for Non-Employee Directors.

(4) This figure includes 1,068 stock options issued pursuant to the Ashland Inc. Stock Option Plan for Employees of Joint Ventures which was not approved by Ashland s shareholders. There are currently no shares reserved for future issuance under this plan. All remaining stock options granted under this plan expired on October 17, 2008. Also included in this figure are 27,174 shares to be issued under the Deferred Compensation Plan for Employees (2005), payable in stock upon termination of employment with Ashland.

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(5) This figure includes 469,017 shares available for issuance under the Deferred Compensation Plan for Employees (2005) and 498,460 shares available for issuance under the Deferred Compensation Plan for Non-Employee Directors (2005). Because these plans are not equity compensation plans as defined by the rules of the New York Stock Exchange, neither plan required approval by Ashland s shareholders.

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, Auditor's Fees, 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 D 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 effective May 17, 2006 (filed as Exhibit 3(i) to Ashland s Form 10-Q for the quarter ended June 30, 2006, 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.

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

4.5 - Form of Series A Junior Subordinated Deferrable Interest Debentures (Filed as Exhibit 4.5 to Hercules Current Report on Form 8-K, dated July 27, 1999 (SEC File No. 001-00496), and incorporated herein by reference).

4.6 - Form of CRESTSSM Unit (filed as Exhibit 4.7 to Hercules Current Report on Form 8-K, dated July 27, 1999 (SEC File No. 001-00496), and incorporated herein by reference).

4.7 - Form of Warrant (filed as Exhibit 4.8 to Hercules Current Report on Form 8-K, dated July 27, 1999 (SEC File No. 001-00496), and incorporated herein by reference).

The following Exhibits 10.1 through 10.22 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).

10.4 - Amended and Restated Ashland Inc. Deferred Compensation Plan for Non-Employee Directors (2005).

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.

10.7 - Hercules Incorporated Amended and Restated Long Term Incentive Compensation Plan (filed as Exhibit 10-K to Hercules Annual Report on Form 10-K, filed March 29, 2000 (SEC File No. 001-00496), and incorporated herein by reference).

10.8 - Amendment 2002-1 to Amended and Restated Long Term Incentive Compensation Plan (filed as Exhibit I, Proxy Statement, dated May 15, 2002 (SEC File No. 001-00496), and incorporated herein by reference).

10.9 - Hercules Incorporated Omnibus Equity Compensation Plan for Non-Employee Directors (filed as Appendix II, Proxy Statement, dated June 20, 2003 (SEC File No. 001-00496), and incorporated herein by reference).

10.10 - Hercules Incorporated 1993 Non-Employee Director Stock Accumulation and Deferred Compensation Plan (filed as Exhibit 4.1, Registration Statement on Form S-8, filed July 16, 1993 (SEC File No. 33-66136), and incorporated herein by reference).

10.11 - Amendment 2002-1 to Non-Employee Director Stock Accumulation Plan (filed as Exhibit II, Proxy Statement, dated May 15, 2002 (SEC File No. 001-00496), and incorporated herein by reference).

10.12 - Ashland Inc. Salary Continuation Plan.

10.13 - Form of Ashland Inc. Executive Employment Contract between Ashland and certain executives of Ashland (filed as Exhibit 10.1 to Ashland s Form 8-K filed on September 28, 2006, and incorporated herein by reference).

10.14 - Employment Agreement between Ashland and John E. Panichella.

10.15 - Employment Agreement between Ashland and Paul C. Raymond, III.

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 - Ashland Inc. 1997 Stock Incentive Plan.

10.18 - Amended and Restated Ashland Inc. Incentive Plan (filed as Exhibit 10.1 to Ashland s Form 10-Q for the quarter ended June 30, 2004, and incorporated herein by reference).

10.19 - 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).

10.20 - Form of Notice granting Stock Appreciation Rights Awards.

10.21 - Form of Notice granting Restricted Stock Awards.

10.22 - Separation Agreement and General Release between Ashland and Gary A. Cappeline effective January 10, 2007 (filed as Exhibit 10.1 to Ashland s Form 10-Q for the quarter ended December 31, 2006, and incorporated herein by reference).

10.23 - Agreement and Plan of Merger dated as of July 10, 2008 among Ashland, Ashland Sub-One, Inc. and Hercules Incorporated (filed as Exhibit 2.1 to Ashland s Form 8-K filed on July 14, 2008, and incorporated herein by reference).

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10.24 - Credit Agreement dated as of November 13, 2008 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 November 19, 2008, and incorporated herein by reference).

10.25 - Interim Credit Agreement dated as of November 13, 2008 among Ashland, Banc of America Bridge LLC, 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 10.2 to Ashland s Form 8-K filed on November 19, 2008, and incorporated herein by reference).

10.26 - Transfer and Administration Agreement dated as of November 13, 2008 among CVG Capital II LLC, Ashland, in its capacity as both initial Originator and initial Servicer, each of YC SUSI Trust and Liberty Street Funding LLC, as Conduit Investors and Uncommitted Investors, Bank of America, National Association, as a Letter of Credit Issuer, a Managing Agent, an Administrator and a Committed Investor and as the Agent, The Bank of Nova Scotia, as 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 10.3 to Ashland s Form 8-K filed on November 19, 2008, and incorporated herein by reference).

10.27 - 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).

11 - Computation of Earnings Per Share (appearing on page F-13 of this annual report on Form 10-K).

12 - Computation of Ratio of Earnings to Fixed Charges.

21 - List of Subsidiaries.

23.1 - Consent of Independent Registered Public Accounting Firm.

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

24 - Power of Attorney, including resolutions of the Board of Directors.

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.

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, Chief Financial Officer and Controller
Date: November 26, 2008

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 26, 2008.

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, Chief Financial Officer 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
* George A. Schaefer, Jr.	Director
* 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 26, 2008

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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, 2008, 2007 and 2006.

BUSINESS OVERVIEW

Ashland profile

Ashland is a diversified, global chemicals company that provides innovative products, services and solutions to a diverse customer base. Ashland is a manufacturer of specialty chemicals, a leading distributor of chemicals and plastics, and a provider of automotive lubricants, car-care products and quick-lube services. Established in 1924 as a regional petroleum refiner, Ashland has recently completed several key acquisitions and divestitures to realign its business operations. After exiting the transportation construction market in August 2006 and the petroleum refining and marketing sector in June 2005 along with acquiring Hercules Incorporated (Hercules) in November 2008, Ashland is now positioned to achieve its vision in becoming a leading, global specialty chemicals company.

Approximately 30% of Ashland s sales and operating revenues (revenues) are generated outside of North America. Revenue by region expressed as a percentage of total consolidated revenue for the years ended September 30, 2008, 2007 and 2006 was as follows:

Sales and Operating Revenues by Geography	2008	2007	2006
North America	71%	72%	79%
Europe	21%	20%	16%
Asia Pacific	5%	5%	3%
Latin America & other	3%	3%	2%
	100%	100%	100%

Business segments

Prior to the acquisition of Hercules in November 2008, Ashland consisted of four commercial divisions: Ashland Performance Materials, Ashland Distribution, Valvoline and Ashland Water Technologies. Performance Materials is a worldwide manufacturer and supplier of specialty chemicals and customized services to the building and construction, packaging and converting, transportation, marine and metal casting industries. Distribution is a distributor of chemicals, plastics, composite materials and environmental services in North America, and thermoplastics in Europe. Valvoline is a marketer, distributor and producer of quality branded automotive and industrial products and services. Water Technologies is a supplier of chemical and non-chemical water treatment solutions for industrial, commercial and institutional facilities, and specialized chemicals for utility water treatment.

Total consolidated revenue for the years ended September 30, 2008, 2007 and 2006 as a percent of revenue by business segment was as follows:

Sales and Operating Revenues by Business Segment	2008	2007	2006
Performance Materials	19%	18%	18%
Distribution	51%	51%	56%

Valvoline	19%	20%	19%
Water Technologies	11%	11%	7%
	100%	100%	100%

M-1

KEY 2008 DEVELOPMENTS

During 2008, the following operational decisions and economic developments had an impact on Ashland s current and future cash flows, results of operations and financial position.

Hercules acquisition

In November 2008, Ashland completed the acquisition of Hercules, a significant step in achieving its objective to create a leading, global specialty chemicals company. As fiscal 2009 commences, the new combined company comprises a core of three specialty chemical businesses: specialty additives and functional ingredients, paper and water technologies, and specialty resins, which will drive Ashland both strategically and financially. This acquisition better positions Ashland to deliver more stable and predictable earnings, generate stronger cash flows and gain access to higher growth markets worldwide. As a result of the transaction, the expanded international presence of Ashland will increase revenue derived outside North America to roughly 35% from approximately 30% in fiscal 2008.

Ashland s new structure, incorporating the former Hercules businesses, is composed of five commercial units: Ashland Hercules Water Technologies, Ashland Aqualon Functional Ingredients (Aqualon), Ashland Performance Materials, Ashland Distribution and Ashland Consumer Markets (Valvoline). The restructured Ashland Hercules Water Technologies business will be a global supplier of functional and process chemicals for the paper industry in addition to water treatment chemicals. Aqualon is a manufacturer and supplier of specialty additives and functional ingredients derived from renewable resources that are designed to manage the properties of water-based systems.

The estimated transaction value of $3.4 billion includes $0.8 billion of debt assumed in the acquisition. As part of the financing arrangement for the transaction, Ashland borrowed $2.3 billion and retained approximately $0.3 billion in existing debt, combining for a projected weighted-average interest rate of approximately 9.5%. For further information on this transaction see the Liquidity discussion within Management s Discussion and Analysis as well as Note Q in the Notes to the Consolidated Financial Statements.

Raw material volatility

Unprecedented volatility in many hydrocarbon and base lube oil markets caused unusually large fluctuations in gross profit margins throughout fiscal 2008. This volatility was highlighted during the 2008 summer, which saw the crude oil market soar to over $145 per barrel from approximately $80 per barrel at the end of fiscal 2007. These significant raw material increases caused tight supply and extreme price increases on core raw material commodities in a very short period of time. The timing delay of implementing price increases on Ashland s products in the market place to recapture gross profit margin from these significant increases caused overall gross profit margin erosion during the year in each of Ashland s businesses.

Working capital and cash flow management

Ashland s commitment to the implementation of its SAP® enterprisewide resource planning (ERP) project was only the first step in efforts to improve working capital and cash flow management. The majority of Ashland s operations had implemented this system by the beginning of fiscal 2008, resulting in real time information which provided greater transparency in cash management and related business decisions. As a result, focus shifted on improving the cash flow metric in 2008 by tying cash flow results directly to management compensation. Ashland s efforts and focus in this area were highly successful in fiscal 2008 as it generated $478 million of cash flows from operations, a $289 million increase from the prior year. Operating segment trade working capital decreased from 15.3% of revenue at September 30, 2007 to 12.3% of revenue at September 30, 2008. Improvements in this area were largely driven by inventory optimization in Ashland Distribution, but also from attention to accounts receivable collection across all business units. Overall, trade working capital provided approximately $200 million in cash flow during 2008.

Cost-structure efficiency program

During 2008, Ashland initiated a cost-structure efficiency program designed to realign its available resources within certain businesses to maximize operating income and long-term growth opportunities. Ashland committed to achieve $65 million in total savings from existing businesses by the end of fiscal 2009. When the program was introduced, the company run-rate target for fiscal 2008 was $14 million. Ashland exceeded this initial target by the end of fiscal 2008, achieving total run-rate savings of $41 million. These cost savings were primarily within Performance Materials and Water Technologies, where run-rate savings of $24 million and $14 million, respectively, were achieved.

MAP settlement

During 2008, Ashland and Marathon agreed to a tax related settlement with respect to four specific tax attributes and deductions that were originally scheduled to be reimbursed periodically at much later points in the future, some with the potential of greater than 20 years or more. The effect of this settlement accelerated Marathon s reimbursement to Ashland for certain of these deductions, resulting in the receipt of $26 million in cash from Marathon representing the present value of the future deductions. As a result of this specific agreement, Ashland recorded a gain within the MAP Transaction caption of the Statement of Consolidated Income of $23 million during 2008.

RESULTS OF OPERATIONS – CONSOLIDATED REVIEW

Ashland s net income amounted to $167 million in 2008, $230 million in 2007 and $407 million in 2006. Income from continuing operations, which excludes results from discontinued operations, amounted to $175 million in 2008, $201 million in 2007 and $183 million in 2006. Net income is primarily affected by results within operating income, net interest and other financing income and discontinued operations. Ashland s operating income amounted to $213 million in 2008, $216 million in 2007 and $170 million in 2006. Operating results in 2008 compared to 2007 declined slightly as operating income decreases in Performance Materials and Water Technologies were offset by an operating income increase in Distribution and income associated with Unallocated and other. Increases in operating income during 2007 compared to 2006 primarily related to Valvoline s record operating income year as Distribution, and to a lesser extent Performance Materials, reported lower operating results. Net interest and other financing income was $28 million in 2008, $46 million in 2007 and $47 million in 2006. The decrease in 2008 compared to prior periods primarily reflects the lower interest rate environment for short-term investment instruments. Ashland s after-tax results from discontinued operations included a gain on the sale of APAC of $110 million in 2006, which was subsequently reduced by $7 million in both 2008 and 2007, a $35 million gain associated with estimated future asbestos liabilities less probable recoveries during 2007 and net income from APAC operations of $115 million in 2006.

A comparative analysis of the Statement of Consolidated Income by caption is provided as follows for the years ended September 30, 2008, 2007 and 2006.

(In millions)	2008	2007	2006	2008 change	2007 change
Sales and operating revenues	$ 8,381	$ 7,785	$ 7,233	$ 596	$ 552

Revenues for 2008 increased 8% from 2007 primarily due to increased pricing of $560 million and $288 million related to a favorable currency exchange as well as $34 million from the acquisition of the pressure-sensitive adhesive business and atmospheric emulsions business of Air Products and Chemicals, Inc. (Air Products) within Performance Materials in June. This increase was partially offset by a $143 million decrease related to declines in both volume and product mix as well as an additional $143 million decrease related to the elimination of a one-month financial reporting lag for foreign operations (reporting lag) during 2007. During 2008, pricing increases were consistently implemented across each of Ashland s businesses to recover significant cost increases occurring within volatile raw material markets. Volume only declined slightly, despite the difficult market conditions that continued to deteriorate the North American economy throughout 2008, particularly in core sectors such as building and construction, coatings, transportation and marine. The favorable currency exchange rate is principally influenced by the U.S. dollar s (USD) performance against the Euro, which weakened by 13% during 2008.

Revenues for 2007 increased 8% from 2006 primarily as a result of Water Technologies purchase of the water treatment business from Degussa AG in May 2006 as revenues associated with these purchased operations were $363 million in 2007, as compared to $82 million in the prior year (2006 included only five months of business activity due to the purchase date). Revenues in 2007 also included an additional $143 million as a result of the elimination of the reporting lag during 2007 as compared to 2006. These increases, along with pricing increases within Valvoline, primarily contributed to the overall increase in revenues.

(In millions)	2008	2007	2006	2008 change	2007 change
Cost of sales and operating expenses	$ 7,056	$ 6,447	$ 6,030	$ 609	$ 417
Gross profit as a percent of sales	16 %	17 %	17 %		

Cost of sales and operating expenses (cost of sales) for 2008 increased 9% compared to 2007, which resulted in an overall 1% decline in gross profit as a percent of sales (gross profit). Raw material price increases were the primary factor

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for this gross profit decline, which represented a $591 million cost increase compared to 2007. Volatile pricing in raw materials, particularly in the crude oil market, which experienced an approximate 75% increase in the cost per barrel of oil during 2008 before peaking at over $145 a barrel, primarily influenced other significant hydrocarbon based raw material increases throughout 2008. Currency exchange rates increased cost of sales $228 million, while the Air Products acquisition added an additional $32 million. These revenue increases were partially offset by a $127 million decrease related to volume declines and product mix as well as a $115 million decline related to the reporting lag elimination during 2007.

Cost of sales for 2007 increased 7% compared to 2006, yet gross profit remained consistent year over year. Cost of sales fluctuations generally track revenue as the increase from 2006 to 2007 primarily reflected year over year raw material cost increases. Gross profit declined in three of Ashland s four business segments over the same period, with the exception being Valvoline due to timely and effective pricing increases. Fiscal 2007 also included an additional $115 million in cost of sales as compared to 2006 as a result of the reporting lag elimination.

(In millions)	2008	2007	2006	2008 change	2007 change
Selling, general and administrative expenses	$ 1,166	$ 1,171	$ 1,077	$ (5)	$ 94
As a % of revenues	14 %	15 %	15 %		

Selling, general and administrative expenses for 2008 decreased slightly compared to 2007 while decreasing one percentage point as a percent of total revenue. Expenses impacting the comparability of 2008 compared to 2007 include charges recorded in 2007 that consisted of $25 million for the voluntary severance offer, $22 million for the elimination of the reporting lag and $8 million related to an expense for certain postretirement plans. These expenses did not occur in 2008. Expenses during 2008 were negatively impacted by $40 million for currency exchange and $11 million for severance charges, related to realignment of certain businesses within Ashland during 2008.

During 2007 selling, general and administrative expenses increased 9%, however remained consistent as a percent of revenue from period to period. The charges of $25 million for the voluntary severance offer, $22 million for the elimination of the reporting lag, $8 million for the postretirement plans and the additional expense related to the Degussa acquisition were the primary increases in expenses year over year. Corporate costs previously allocated to APAC of $41 million were retained within 2006 expenses in accordance with applicable GAAP guidance.

(In millions)	2008	2007	2006	2008 change	2007 change
Equity and other income					
Equity income	$ 23	$ 15	$ 11	$ 8	$ 4
Other income	31	34	33	(3)	1
	$ 54	$ 49	$ 44	$ 5	$ 5

Total equity and other income increased 10% during 2008 and 11% during 2007 compared to the prior period. The increases in 2008 and 2007 primarily relate to improved performance from various foreign joint venture associations.

(In millions)	2008	2007	2006	2008 change	2007 change
Gain (loss) on the MAP Transaction	$ 20	$ (3)	$ (5)	$ 23	$ 2

The $20 million gain in 2008 primarily related to a settlement with Marathon for certain related tax matters associated with the MAP Transaction which resulted in a $23 million gain. This gain was offset by a decrease in the recorded receivable from Marathon for the estimated present value of future tax deductions related primarily to environmental and other postretirement obligations. Ashland recorded a loss on the MAP Transaction of $3 million in 2007 as a result of a decrease in the discounted receivable from Marathon for the estimated present value of future tax deductions. In 2006, a $5 million loss resulted primarily from a $4 million reclassification of certain tax benefits related to previously owned businesses of Ashland. The offsetting benefit was recorded in income taxes as deferred tax benefits. See Note C of Notes to Consolidated Financial Statements for a discussion of the MAP Transaction.

(In millions)	2008	2007	2006	2008 change	2007 change
Net interest and other financing income					
Interest income	$ 40	$ 59	$ 59	$ (19)	$ -
Interest expense	(9)	(10)	(8)	1	(2)
Other financing costs	(3)	(3)	(4)	-	1
	$ 28	$ 46	$ 47	$ (18)	$ (1)

The decrease in interest income to $40 million in 2008 from $59 million in 2007 and 2006 primarily reflects the lower interest rate environment for short-term investment instruments compared to prior periods. Interest expense and other financial costs have remained consistent across all periods.

(In millions)	2008	2007	2006	2008 change	2007 change
Income tax expense	$ 86	$ 58	$ 29	$ 28	$ 29
Effective tax rate	32.9 %	22.3 %	13.6 %		

The overall effective tax rate significantly increased in 2008 from rates in prior periods due to several key factors. Significant volatility in the capital markets as it relates to investments held for life insurance policies resulted in a $9 million tax effect in 2008, which historically has been a tax benefit for Ashland. In addition, during 2007 Ashland recorded a $15 million tax benefit related to dividends held within the employee stock ownership plan compared with a $1 million tax benefit in 2008, primarily due to the special dividend of $10.20 paid on October 25, 2006 as part of the distribution to shareholders of a substantial portion of the APAC divestiture proceeds.

Ashland s income tax expense for 2007 and 2006 included $9 million of tax expense and $16 million of tax benefits, respectively, due to the resolution of domestic and foreign tax matters and the reevaluation of income tax reserves related to tax positions taken in prior years. Also during 2006, $16 million in tax benefits were recorded to adjust the 2005 tax provision to the 2005 tax returns as ultimately filed.

Excluding these identified items, Ashland s effective tax rate would have been 29.9% in 2008, compared to 24.7% in 2007 and 28.8% in 2006. See Note K of Notes to Consolidated Financial Statements for the reconciliation of Ashland s tax provision for the last three years to the 35% U.S. statutory rate.

(In millions)	2008	2007	2006	2008 change	2007 change
Income (loss) from discontinued operations (net of tax)					
APAC					
Income from operations	$ 1	$ 2	$ 115	$ (1)	$ (113)
(Loss) gain on sale of operations	(7)	(7)	110	-	(117)

Asbestos-related litigation reserves	(2)	35	(1)	(37)	36
Electronic Chemicals	-	(1)	-	1	(1)
	$ (8)	$ 29	$ 224	$ (37)	$ (195)

Ashland recorded an after-tax gain on the sale of APAC of $110 million in 2006. During 2008 and 2007, subsequent tax adjustments of $7 million per year reduced the gain on the sale of APAC. Ashland periodically updates the model used for purposes of valuing the asbestos-related litigation reserves, which resulted in a net $2 million and $1 million charge in 2008 and 2006, respectively, and a favorable net $17 million adjustment during 2007. In addition, Ashland reassessed its assumption for a certain asbestos receivable due to improved credit quality, which resulted in a favorable $18 million after-tax adjustment during 2007. Net income from the results of operations of APAC amounted to $1 million, $2 million and $115 million in 2008, 2007 and 2006, respectively.

The following details Ashland s quarterly reported operating income for the years ended September 30, 2008, 2007 and 2006.

(In millions)	2008	2007	2006
Quarterly operating income			
December 31	$46	$58	$46
March 31	52	41	49
June 30	87	91	47
September 30	28	26	28

RESULTS OF OPERATIONS – BUSINESS SEGMENT REVIEW

Segment operating results reflect the methodology adopted in October 2005 for allocating substantially all budgeted corporate expenses to Ashland s operating businesses, with the exception of certain legacy costs or items clearly not associated with the operating divisions. Corporate expenses allocated to Ashland s four operating divisions under this methodology amounted to $88 million in 2008, $84 million in 2007 and $70 million in 2006. Actual corporate expenses incurred throughout the year are recorded within Unallocated and other. In August 2006 the sale of APAC qualified as a discontinued operation. Under generally accepted accounting principles, allocations of general corporate overhead may not be allocated to discontinued operations for financial statement presentation. As a result, the Unallocated and other component of operating income during 2006 reflects $41 million of corporate overhead previously allocated to APAC.

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

(In millions)	2008	2007	2006
Sales and operating revenues			
Performance Materials	$1,621	$1,580	$1,425
Distribution	4,374	4,031	4,070
Valvoline	1,662	1,525	1,409
Water Technologies	893	818	502
Intersegment sales	(169)	(169)	(173)
	$8,381	$7,785	$7,233
Operating income			
Performance Materials	$52	$89	$112
Distribution	51	41	120
Valvoline	83	86	(21)
Water Technologies	10	16	14
Unallocated and other (a)	17	(16)	(55)
	$213	$216	$170
Operating information			
Performance Materials (b)			
Sales per shipping day	$6.4	$6.1	$5.7
Pounds sold per shipping day	4.9	4.9	4.9
Gross profit as a percent of sales	17.0%	20.5%	22.5%
Distribution (b)			
Sales per shipping day	$17.3	$15.9	$16.2

Pounds sold per shipping day	18.8		19.6		20.3	
Gross profit as a percent of sales	7.8	%	7.9	%	9.5	%
Valvoline (b)						
Lubricant sales gallons	169.2		167.1		168.7	
Premium lubricants (percent of U.S. branded volumes)	24.9	%	23.3	%	23.1	%
Gross profit as a percent of sales	23.0	%	24.8	%	19.9	%
Water Technologies (b)						
Sales per shipping day	$3.5		$3.1		$2.0	
Gross profit as a percent of sales	36.7	%	39.2	%	43.7	%

(a) Includes a $25 million charge for costs associated with Ashland s voluntary severance offer in 2007 and corporate costs previously allocated to APAC of $41 million in 2006.

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

During 2008, Ashland s financial performance was hindered by declining demand and significant raw material cost increases, a direct result of continued weakness in the North American economy, where approximately 70% of revenue is derived, and instability in raw material markets. This economic environment created significant downward pressure on the gross profit margin of each business segment, particularly within the Performance Materials, Valvoline and Water Technologies businesses during 2008. Despite the economic weakness and gross profit margin pressure, Distribution was able to keep gross profit as a percent of sales relatively flat compared to 2007. Overall volume results during 2008 for the businesses were mixed, with Water Technologies and Valvoline reporting modest increases compared to 2007 while Distribution declined slightly and Performance Materials levels were flat.

Performance Materials

Performance Materials reported operating income of $52 million during 2008, a 42% decrease from the $89 million reported during 2007. Revenues increased 3% to $1,621 million compared to $1,580 million during the prior period. Increases in currency exchange of $88 million, or 6%, and price of $45 million, or 3%, were the primary factors in the increase in revenue. In addition, the acquisition of Air Products in June 2008 contributed $34 million to 2008 revenues. These increases in revenue were partially offset by volume and product mix decreases of $70 million, or 4%, primarily as a result of weakness in the North American markets for the Composite Polymers and Specialty Polymers and Adhesives business units, and a $56 million decrease related to the reporting lag elimination recorded during 2007. The decrease in volume and product mix caused operating income to decline by $30 million.

Gross profit as a percent of sales during 2008 decreased 3.5 percentage points to 17.0% primarily due to raw material cost increases of $69 million. These raw material cost increases were not fully offset by price increases during 2008, causing gross profit margin and operating income to decline by $24 million. The decreases in gross profit margin related to price, volume and product mix were partially offset by an increase from currency exchange of $16 million. Selling, general and administrative expenses decreased $3 million, or 1%, during 2008 as an $8 million increase in currency exchange was offset by a $7 million decrease in costs recorded from the reporting lag recorded during 2007. Equity and other income increased $5 million during 2008 compared to 2007, primarily due to a $6 million increase in equity income associated with joint ventures.

Performance Materials reported operating income of $89 million for 2007, a 21% decrease compared to the record $112 million for 2006. The gross profit margin decreased to 20.5% from 22.5% in 2006, resulting in an $8 million decrease in operating income. Sales and operating revenues increased 11%, from $1,425 million for 2006 to $1,580 million for 2007, primarily due to price increases, as pounds per shipping day were flat for both periods at 4.9 million pounds. On a comparable twelve month period, when adjusted for the acquisitions of Northwest Coatings and the purchase of third-party ownership interests in a former Japanese joint venture, sales and operating revenues increased 4% while volumes decreased 3%. Selling, general and administrative expenses increased $25 million, or 11% compared to the 2006 period, primarily due to increased international expansion as well as $10 million of additional costs from the previously mentioned acquisitions.

Distribution

Distribution reported operating income of $51 million during 2008, a 24% increase from the $41 million reported during 2007. Revenues increased 9% to $4,374 million compared to $4,031 million in the prior period. Price increases, primarily in certain chemicals and plastics, were the primary factor in revenue growth causing a $446 million, or 11%, increase with currency exchange increases adding an additional $97 million, or 2%. These increases during 2008 were offset by a $154 million decrease in volume, as pounds sold per shipping day decreased 4% to 18.8 million compared to 19.6 million in 2007, causing a decline in the gross profit margin and operating income of $13 million. The reporting lag recorded during 2007 resulted in an additional $46 million decrease in revenue.

Gross profit as a percent of sales during the current period decreased 0.1 percentage point to 7.8%. Despite this decline, actual gross profit margin (in dollars) increased $22 million compared to 2007 as price increases offset raw material cost increases, contributing $34 million to gross profit margin and operating income. Selling, general and administrative expenses increased $12 million, or 4%, during 2008 primarily due to increased charges for incentive compensation of $11 million. The currency exchange increased operating income by $1 million during 2008.

Distribution earned operating income of $41 million for 2007, a 66% decrease from the record $120 million earned for 2006. Sales and operating revenues decreased 1% from $4,070 million for 2006, to $4,031 million for 2007. Pounds sold per shipping day decreased 3% in 2007 to 19.6 million pounds from 20.3 million pounds in 2006, resulting in a $10 million decrease in operating income. Gross profit as a percent of sales declined from 9.5% for 2006 to 7.9% for 2007. Two factors primarily caused this decrease. The first was unusually high margins in the prior period, resulting from hurricane supply disruptions. The second was the limited ability of Distribution to raise prices in a rising commodity cost environment due to demand weakness in the North American manufacturing sector. The decline in gross profit margin lowered operating income by $57 million compared to 2006. Selling, general and administrative expenses increased $13 million, or 5%, comparing the current period to the prior period in part due to a one time $6 million adjustment in foreign postretirement benefit obligations.

Valvoline

Valvoline reported operating income of $83 million during 2008, a 3% decrease compared to the record $86 million reported during 2007. Revenues increased 9% to $1,662 million during 2008 compared to $1,525 million in 2007. Increases in pricing of $76 million, or 5%, and currency exchange of $40 million, or 3%, contributed to the revenue growth. In addition, revenue related to volume increased $49 million as lubricant volume increased 1% to 169.2 million gallons during 2008 compared to 2007, which resulted in an increase in gross profit margin and operating income of $14 million. A change in the product mix sold during 2008 reduced revenue by $28 million compared to 2007.

Gross profit as a percent of sales during 2008 decreased 1.8 percentage points to 23.0%. Despite this decrease, actual gross profit margin (in dollars) increased $4 million from the prior period as currency exchange contributed an increase of $11 million while price increases did not fully offset increases in raw material costs, causing a net $14 million decline in gross profit margin and operating income. The remaining difference was due to fluctuations within product mix, which caused gross profit margin and operating income to decline by $7 million. Selling, general and administrative expenses increased $7 million during the current period primarily due to currency exchange increases of $8 million.

Valvoline reported record operating income of $86 million for 2007, compared to an operating loss of $21 million for 2006. The improvement in operating income primarily reflects gross profit margin recovery, which increased to 24.8% in 2007 from 19.9% in 2006, as a result of stable base-oil costs and the full effect of previous price increases. This increase in gross profit margin during 2007 contributed $97 million to operating income. Sales and operating revenues increased 8% over the 2007 period to $1,525 million, reflecting increased pricing and product mix as volume levels decreased 1% to 167.1 million lubricant gallons. Valvoline Instant Oil Change reported a $13 million increase in operating income compared to the prior year driven by higher levels of customer satisfaction which contributed to an increase in same store sales revenue. Selling, general and administrative expenses decreased $6 million during 2007 primarily due to lower employee benefit costs as well as an unfavorable litigation charge recorded in the prior period.

Water Technologies

Water Technologies reported operating income of $10 million during 2008, a 38% decrease compared to $16 million reported during 2007, as lower gross profit margin and increased selling, general and administrative costs were the primary factors in this decline. Revenues increased 9% to $893 million compared to $818 million during 2007, primarily due to increases of approximately $64 million, or 8%, and $61 million, or 7%, in currency exchange and volume, respectively. These increases were offset by an $8 million, or 1%, decrease in price and a $42 million, or 5%, decrease as a result of the reporting lag recorded in 2007.

Gross profit as a percent of sales decreased 2.5 percentage points to 36.7%. Despite this decrease, actual gross profit margin (in dollars) increased $6 million from 2007 as currency exchange and volume contributed increases of $24 million and $22 million, respectively, to gross profit margin. These increases in gross profit were almost fully offset by cost increases in raw materials and services of $25 million as well as a $15 million decrease related to the reporting lag recorded during 2007. Selling, general and administrative expenses increased $12 million during 2008 primarily due to a $20 million increase in currency exchange and a $12 million decrease from costs associated with the reporting lag recorded during 2007.

Water Technologies earned operating income of $16 million for 2007, compared to $14 million for 2006, which included an $8 million currency hedge gain related to the acquisition of the water treatment business of Degussa AG (E&PS). Sales and operating revenues increased 63% to $818 million in 2007 compared to $502 million in 2006, primarily due to the $363 million in sales and operating revenues contributed by the E&PS business during the entire current year, which had only reported four months in the prior period. The marine and industrial businesses combined revenue increase of 5%, on a comparable twelve month basis, and the improving gross profit margin have been the primary factors in the operating income improvement in 2007, while inclusion of the E&PS business has also contributed to operating income growth. Operating income was also impacted during the current year by an $11 million asset impairment charge on PathGuard® pathogen control equipment that was adjusted to fair value in conjunction with the decision to exit the poultry processing market.

Unallocated and other

Unallocated and other income (costs), consisting of certain legacy costs or items clearly not associated with the operating segments, were $17 million in 2008, ($16) million in 2007 and ($55) million in 2006. These amounts included a $15 million benefit in 2008 for lower direct support costs allocated to each business segment, a $25 million charge for costs associated with Ashland s voluntary severance offer in 2007 and costs previously allocated to APAC of $41 million in 2006

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that were retained in this component of operating income in accordance with applicable GAAP guidance. Ashland s voluntary severance offer was initiated as a result of the APAC divestiture in August 2006. As a result of the divestiture, it was determined that certain identified corporate costs that had previously been allocated to that business needed to be eliminated to maintain Ashland s overall competitiveness. As a means to eliminate those costs, Ashland offered an enhanced early retirement or voluntary severance opportunity to administrative and corporate employees during fiscal year 2007. In total, Ashland accepted voluntary severance offers from 172 employees under the program. As a result, a $25 million pretax charge was recorded for severance, pension and other postretirement benefit costs during fiscal year 2007. The termination dates for employees participating in the program were completed and paid in fiscal year 2008.

In addition to the ongoing costs that typically occur each year related to formerly owned businesses, 2008 included $8 million in expense for joint venture and other costs related to growth opportunities, which was fully offset by an $11 million adjustment from favorable experiences related to Ashland s self-insurance program. Fiscal 2007 included $4 million in reduced expenditures as well as $8 million in income recorded from favorable experiences related to Ashland s self-insurance program. Included in 2006 were $17 million in environmental remediation expenses, income of $11 million from an insurance claim recovery and income of $5 million from the favorable adjustment to the previously estimated withdrawal premium due Oil Insurance Limited (OIL), the energy-industry mutual insurance consortium in which Ashland terminated its participation effective December 31, 2005.

FINANCIAL POSITION

Liquidity

Ashland s cash flows from operating, investing and financing activities, as reflected in the Statements of Consolidated Cash Flows, are summarized as follows.

(In millions)	2008	2007	2006
Cash (used) provided by:			
Operating activities from continuing operations	$478	$189	$145
Investing activities from continuing operations	(418)	(6)	(285)
Financing activities from continuing operations	(70)	(1,016)	(472)
Discontinued operations	(8)	(95)	1,445
Effect of currency exchange rate changes on cash and cash equivalents	7	5	2
Net (decrease) increase in cash and cash equivalents	$(11)	$(923)	$835

Cash flows generated from operating activities from continuing operations, a major source of Ashland s liquidity, amounted to $478 million in 2008, $189 million in 2007 and $145 million in 2006. The increased cash generated during 2008 primarily reflects a $311 million and $302 million cash improvement in operating assets and liabilities as compared to 2007 and 2006, respectively. The cash inflow for the current period was primarily attributable to changes within accounts receivable, inventory and trade and other payables as a result of Ashland s increased focus on working capital management throughout the company. These captions generated $193 million of cash inflow during 2008 compared to cash outflows of $234 million and $92 million from the same captions during 2007 and 2006. During 2008, Ashland paid income taxes of $53 million, compared to $25 million in 2007 and $140 million in 2006. Ashland contributed $25 million to its qualified pension plans in 2008, compared with $58 million in 2007 and $111 million in 2006. Cash receipts for interest income was $40 million in 2008 and $59 million in 2007 and 2006, while cash payments for interest expense amounted to $10 million in 2008, $10 million in 2007 and $9 million in

2006. Cash flows from discontinued operations, consisting primarily of cash flows from APAC, amounted to a cash outflow of $8 million in 2008, $95 million in 2007 and cash inflow of $1,445 million in 2006.

During 2007, Ashland replaced its revolving credit agreement with a new five year revolving credit facility which provides for up to $300 million in borrowings. Up to an additional $100 million in borrowings is available with the consent of one or more of the lenders. The borrowing capacity under this new facility was reduced by $102 million for letters of credit outstanding under the credit agreement at September 30, 2008. The revolving credit agreement contains a covenant limiting the total debt Ashland may incur from all sources as a function of Ashland s stockholders equity. The covenant s terms would have permitted Ashland to borrow $4.7 billion at September 30, 2008 in addition to the actual total debt incurred at that time. Permissible total Ashland debt under the covenant s terms increases (or decreases) by 150% for any increase (or decrease) in stockholders equity.

On November 13, 2008, Ashland completed its acquisition of Hercules, creating a leading specialty chemicals company. The cost to acquire the 112.7 million shares of outstanding Hercules Common Stock at November 13, 2008, paid in cash and Ashland Common Stock, was approximately $2.6 billion, consisting of cash consideration of $2.1 billion and stock consideration, valued as of the original announcement date, of $0.5 billion. Ashland Common Stock issued as part of the merger acquisition was approximately 10.5 million shares. In addition, Ashland assumed debt that had a carrying value of approximately $0.8 billion as of the closing date.

In conjunction with the acquisition of Hercules previously described, Ashland secured $2.6 billion in financing from Bank of America Securities LLC and Scotia Capital (USA) Inc. consisting of a $400 million revolving credit facility, a $400 million term loan A facility, an $850 million term loan B facility, a $200 million accounts receivable securitization facility, and a $750 million bridge loan. The total debt drawn upon the closing of the completed merger was $2.3 billion resulting in ongoing Ashland total debt of approximately $2.6 billion, which included amounts used to fund the extinguishment of certain debt instruments that Hercules held as of the closing date.

As a result of the financing and subsequent debt issued to complete this merger, Standard & Poor s downgraded Ashland s corporate credit rating to BB- and Moody s Investor Services downgraded Ashland s corporate credit rating to Ba2. In addition, Ashland is now subject to cash and other restrictions from various debt covenants. These covenants include certain affirmative covenants such as various internal certifications, maintenance of property and applicable insurance coverage as well as negative covenants that include financial covenant restrictions associated with leverage and fixed charge coverage ratios and total net worth.

At September 30, 2008, working capital (excluding debt due within one year) amounted to $1,823 million, compared to $2,129 million at the end of 2007. Ashland s working capital is affected by its use of the LIFO method of inventory valuation that valued inventories below their replacement costs by $200 million at September 30, 2008 and $155 million at September 30, 2007. Liquid assets (cash, cash equivalents, available-for-sale securities and accounts receivable) amounted to 191% of current liabilities at September 30, 2008, compared to 219% at September 30, 2007. The decrease in both working capital and liquid assets is partially attributable to auction rate securities classified as noncurrent assets in the current year as opposed to being classified as current assets in the prior year.

At September 30, 2008, Ashland held at par value $275 million of student loan auction rate securities, which are variable-rate debt securities and have a long-term maturity with the interest rates being reset through a dutch auction process typically held every 7 or 28 days, for which there was not an active market. Auction rate securities have historically traded at par value and are callable at par value at the option of the issuer. At September 30, 2008, all the student loan instruments held by Ashland were AAA rated and collateralized by student loans which have guarantees by the U.S. government under the Federal Family Education Loan Program.

Until February 2008, the auction rate securities market was highly liquid. Starting mid-February 2008, a substantial number of auctions became largely illiquid as there was not enough demand to sell all of the securities that holders desired to sell at auction. Because the auction rate securities market has failed to achieve equilibrium since mid-February, Ashland determined that there is insufficient observable auction rate securities market information available to determine the fair value of the student loan securities. As a result, Ashland developed various internal valuation models to estimate the fair value of these auction rate securities based on discounted cash flow models and relevant observable market prices. Assumptions used in estimating fair value include credit quality, liquidity, estimates on the probability of each valuation model, and the impact due to extended periods of maximum auction rates. Based on these various internal valuation models, Ashland has recorded a temporary impairment of $32 million related to the student loan securities as of September 30, 2008. Any 25 basis point change in the discount rate or three month adjustment in the duration assumptions would impact the internal valuation model by approximately $2 million.

Ashland believes this adjustment in valuation is necessary to account for the current limited liquidity of these instruments and should be temporary. Ashland believes these securities ultimately will be liquidated primarily due to the quality of the collateral securing most of the instruments as well as based on recent actions being taken to correct the current failed auctions in this marketplace. However, the period of time it could take to ultimately realize the securities par value is currently not determinable and may be longer than twelve months. As a result, Ashland has classified these instruments as long-term assets at September 30, 2008 in Ashland s Consolidated Balance Sheet. As of September 30, 2008 Ashland has the intent and ability to hold the auction rate securities for a sufficient period of time to allow for recovery of the principal amounts invested.

Capital resources

On September 14, 2006 Ashland s Board of Directors authorized the distribution of a substantial portion of the proceeds of the sale of APAC to the Ashland Common Stock shareholders as a one-time special dividend. Each shareholder of record as of October 10, 2006, received $10.20 per share, for a total of $674 million. This amount was accrued as dividends payable in the Consolidated Balance Sheet at September 30, 2006 and was subsequently paid during 2007. Substantially all of the remaining proceeds were directed to be used to repurchase Ashland Common Stock in accordance with the terms authorized by Ashland s Board of Directors. See Note L of Notes to Consolidated Financial Statements for a description of Ashland s share repurchase programs.

Ashland did not repurchase any shares during 2008, but did repurchase 4.7 million shares for $288 million during 2007 and 6.7 million shares for $405 million during 2006. Since July 2005 through September 30, 2007, Ashland has repurchased a total of 13.2 million shares at a cost of $793 million. These repurchases represent approximately 18% of the shares outstanding on June 30, 2005. The stock repurchase actions were consistent with certain representations of intent made to the Internal Revenue Service with respect to the transfer of MAP. At September 30, 2008, 8.4 million common shares are reserved for issuance under stock incentive and deferred compensation plans. As part of the completed merger to acquire all of the outstanding shares of Hercules in November 2008, Ashland issued approximately 10.5 million shares. See Note Q of the Notes to Consolidated Financial Statements for additional details regarding the completed merger.

Property additions (excluding the property additions of the discontinued operations of APAC) averaged $178 million during the last three years and are summarized in the Information by Industry Segment on page F-36. For the past three years, Performance Materials accounted for 30% of Ashland s capital expenditures, while Valvoline accounted for 20%, Distribution accounted for 17% and Water Technologies accounted for 12%. Capital used for acquisitions amounted to $387 million during the last three years, of which $210 million was invested in Performance Materials, $169 million in Water Technologies and $8 million in Valvoline. A summary of the capital employed in Ashland s current operations as of the end of the last three years follows.

(In millions)	2008	2007	2006
Capital employed			
Performance Materials	$795	$682	$505
Distribution	521	672	564
Valvoline	485	501	489
Water Technologies	333	359	322

During 2008, Ashland reduced its total debt by $3 million to $66 million and stockholders equity increased by $48 million to $3,202 million. The increases in stockholders equity resulted from $167 million of net income, $17 million from issuance of common shares under stock incentive and other plans and $4 million of translation gains associated with foreign operations. These increases were offset by a $51 million decrease attributable to an increase in the pension and other postretirement liability, a $20 million decrease associated with unrealized losses on investment securities and regular cash dividends of $69 million. Debt as a percent of capital employed was 2.0% at September 30, 2008 compared to 2.1% at September 30, 2007.

During 2009, Ashland expects total capital expenditures, including those related to the Hercules businesses, to be below the actual capital expenditures of $205 million in 2008. Capital expenditures during 2008 included several significant nonrecurring expenditures, including $40 million for growth initiatives specifically related to China, which included construction of an administration and technology office building, and $10 million for costs associated with the implementation of the ERP system. In 2004, Ashland initiated a multi-year ERP project that is expected to increase efficiency and effectiveness in supply chain, financial, and environmental, health and safety processes. The implementation of the ERP system began in October 2005 in Canada, continued during fiscal 2007 for all U.S. operations, and was successfully launched in our Europe, Middle East, Africa, China and Singapore operations during 2008. As of September 30, 2008, Ashland had more than 90% of global revenue converted and functioning on this one ERP system, which is a significant milestone. The total cost of the project through fiscal 2008 is $144 million, of which $118 million has been capitalized.

On November 20, 2008, the Board of Directors of Ashland declared a quarterly cash dividend of 7.5 cents per share, payable December 15, 2008, to shareholders of record at the close of business on December 1, 2008. This is reduced from the previous quarterly dividend of 27.5 cents per share. In total, the reduction is expected to decrease Ashland s annual cash outflow for dividends by approximately $60 million.

The following table aggregates Ashland s obligations and commitments to make future payments under existing contracts at September 30, 2008. Contractual obligations for which the ultimate settlement of quantities or prices are not fixed and determinable have been excluded.

(In millions)	Total	2009	2010-2011	2012-2013	Later Years
Contractual obligations					
Raw material and service contract purchase obligations (a)	$101	$53	$48	$-	$-
Employee benefit obligations (b)	270	32	46	51	141
Operating lease obligations (c)	215	42	67	49	57
Long-term debt (d)	66	21	4	28	13
Unrecognized tax benefits (e)	79	5			