

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1998

Commission file number 1-2918

ASHLAND INC.
(a Kentucky corporation)

I.R.S. No. 61-0122250
50 E. RiverCenter Boulevard
P. O. Box 391
Covington, Kentucky 41012-0391

Telephone Number: (606) 815-3333

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. [X] Yes [] No

At January 31, 1999, there were 74,364,034 shares of Registrant's Common Stock outstanding. One Right to purchase one-thousandth of a share of Series A Participating Cumulative Preferred Stock accompanies each outstanding share of Registrant's Common Stock.

PART I - FINANCIAL INFORMATION

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(In millions except per share data)	Three months ended December 31	
	1998	1997
REVENUES		
Sales and operating revenues	\$ 1,646	\$ 1,598
Equity income (loss)	(40)	49
Other income	27	27
	1,633	1,674
COSTS AND EXPENSES		
Cost of sales and operating expenses	1,299	1,308
Selling, general and administrative expenses	267	211
Depreciation, depletion and amortization	51	41
	1,617	1,560
OPERATING INCOME	16	114

Interest expense (net of interest income)	(33)	(27)
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(17)	87
Income taxes	6	(35)
	-----	-----
NET INCOME (LOSS)	\$ (11)	\$ 52
	=====	=====
EARNINGS (LOSS) PER SHARE - Note A		
Basic	\$ (.14)	\$.69
	=====	=====
Diluted	\$ (.14)	\$.68
	=====	=====
DIVIDENDS PAID PER COMMON SHARE	\$.275	\$.275
	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	December 31 1998	September 30 1998	December 31 1997
ASSETS			

CURRENT ASSETS			
Cash and cash equivalents	\$ 91	\$ 34	\$ 48
Accounts receivable	1,109	1,129	996
Allowance for doubtful accounts	(21)	(19)	(19)
Inventories - Note A	471	440	449
Deferred income taxes	96	104	99
Other current assets	114	140	85
	-----	-----	-----
	1,860	1,828	1,658
INVESTMENTS AND OTHER ASSETS			
Investment in Marathon Ashland Petroleum LLC (MAP)	1,958	2,102	1,943
Investment in Arch Coal	419	422	413
Cost in excess of net assets of companies acquired	212	207	121
Other noncurrent assets	338	362	374
	-----	-----	-----
	2,927	3,093	2,851
PROPERTY, PLANT AND EQUIPMENT			
Cost	2,472	2,413	2,159
Accumulated depreciation, depletion and amortization	(1,289)	(1,252)	(1,160)
	-----	-----	-----
	1,183	1,161	999
	-----	-----	-----
	\$ 5,970	\$ 6,082	\$ 5,508
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			

CURRENT LIABILITIES			
Debt due within one year	\$ 224	\$ 125	\$ 177
Trade and other payables	1,051	1,199	971
Income taxes	36	37	58
	-----	-----	-----
	1,311	1,361	1,206
NONCURRENT LIABILITIES			
Long-term debt (less current portion)	1,511	1,507	1,345
Employee benefit obligations	458	458	394
Reserves of captive insurance companies	175	165	174
Other long-term liabilities and deferred credits	452	454	333
Commitments and contingencies - Note D			
	-----	-----	-----
	2,596	2,584	2,246
COMMON STOCKHOLDERS' EQUITY			
	-----	-----	-----
	2,063	2,137	2,056
	-----	-----	-----
	\$ 5,970	\$ 6,082	\$ 5,508
	=====	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY

(In millions)	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
BALANCE AT OCTOBER 1, 1997	\$ 75	\$ 605	\$ 1,379	\$ (35)	\$ 2,024
Total comprehensive income (1)			52	(4)	48
Common stock cash dividends			(21)		(21)
Issued common stock under Stock incentive plans		4			4
Acquisitions of other companies		1	1		2
Other changes		(1)			(1)
BALANCE AT DECEMBER 31, 1997	\$ 75	\$ 609	\$ 1,411	\$ (39)	\$ 2,056
BALANCE AT OCTOBER 1, 1998	\$ 76	\$ 602	\$ 1,501	\$ (42)	\$ 2,137
Total comprehensive income (loss) (1)			(11)	(1)	(12)
Common stock cash dividends			(20)		(20)
Issued common stock under Stock incentive plans		5			5
Acquisitions of other companies		7			7
Repurchase of common stock	(1)	(53)			(54)
BALANCE AT DECEMBER 31, 1998	\$ 75	\$ 561	\$ 1,470	\$ (43)	\$ 2,063

(1) Reconciliations of net income (loss) to total comprehensive income (loss) follow.

(In millions)	Three months ended December 31	
	1998	1997
Net income (loss)	\$ (11)	\$ 52
Unrealized translation adjustments	1	(4)
Unrealized gains (losses) on securities	(1)	2
Related tax benefit (expense)	-	(1)
Losses (gains) on securities included in net income	(2)	(2)
Related tax expense (benefit)	1	1
Total comprehensive income (loss)	\$ (12)	\$ 48

At December 31, 1998, accumulated other comprehensive income was a loss of \$43 million comprised of net unrealized translation losses of \$27 million, a minimum pension liability of \$18 million and unrealized gains on securities of \$2 million.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions)	Three months ended December 31	
	1998	1997
CASH FLOWS FROM CONTINUING OPERATIONS		
Net income (loss)	\$ (11)	\$ 52
Expense (income) not affecting cash		
Depreciation, depletion and amortization	51	41
Deferred income taxes	(13)	10
Equity income from affiliates	40	(49)
Distributions from equity affiliates	106	64
Other items	-	(6)
Change in operating assets and liabilities (1)	(100)	(153)
	73	(41)
CASH FLOWS FROM FINANCING		
Proceeds from issuance of capital stock	3	2
Repayment of long-term debt	(21)	(13)
Repurchase of capital stock	(54)	-
Increase in short-term debt	109	126
Dividends paid	(20)	(21)
	17	94
CASH FLOWS FROM INVESTMENT		
Additions to property, plant and equipment	(48)	(52)
Purchase of leased assets associated with the formation of MAP	-	(228)
Purchase of operations - net of cash acquired (2)	(8)	(22)
Investment purchases (3)	(42)	(103)
Investment sales and maturities (3)	64	199
Other - net	1	29
	(33)	(177)
CASH PROVIDED (USED) BY CONTINUING OPERATIONS		
Cash used by discontinued operations	-	(78)
	57	(124)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	57	(202)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		
	34	250
CASH AND CASH EQUIVALENTS - END OF PERIOD		
	\$ 91	\$ 48

- (1) Excludes changes resulting from operations acquired or sold.
(2) Amounts exclude acquisitions through the issuance of common stock, which amounted to \$7 million in both 1998 and 1997.
(3) Represents primarily investment transactions of captive insurance companies.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

 ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

INTERIM FINANCIAL REPORTING

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations, but are subject to any year-end audit adjustments which may be necessary. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 1998. Results of operations for the three months ended December 31, 1998, are not necessarily indicative of results to be expected for the year ending September 30, 1999.

INVENTORIES

(In millions)	December 31 1998	September 30 1998	December 31 1997
Chemicals	\$ 376	\$ 352	\$ 381
Petroleum products	53	48	51
Construction materials	41	39	27
Other products	48	49	44
Supplies	9	9	10
Excess of replacement costs over LIFO carrying values	(56)	(57)	(64)
	\$ 471	\$ 440	\$ 449
	=====	=====	=====

EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (EPS).

(In millions except per share data)	Three months ended December 31	
	1998	1997
NUMERATOR		
Numerator for basic and diluted EPS - Net income (loss)	\$ (11)	\$ 52
	=====	=====
DENOMINATOR		
Denominator for basic EPS - Weighted average common shares outstanding	75	75
Common shares issuable upon exercise of stock options	-	1
	-----	-----
Denominator for diluted EPS - Adjusted weighted average shares and assumed conversions	75	76
	=====	=====
BASIC EARNINGS (LOSS) PER SHARE	\$ (.14)	\$.69
	=====	=====
DILUTED EARNINGS (LOSS) PER SHARE	\$ (.14)	\$.68
	=====	=====

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - UNUSUAL ITEMS

During the quarter ended December 31, 1998, MAP recorded a pretax charge of \$244 million (Ashland's share amounted to \$93 million, or \$57 million after tax) to adjust its inventory market valuation reserve. The reserve reflects the excess of the LIFO cost of MAP's crude oil and refined product inventories over their net realizable values. During the quarter ended December 31, 1997, Ashland recorded a pretax gain of \$14 million (\$6 million after tax) on the sale of its 23% interest in Melamine Chemicals, Inc. The following table shows the effects of unusual items on Ashland's operating income, net income (loss) and diluted earnings (loss) per share for the three months ended December 31, 1998, and 1997.

	Operating income		Net income (loss)	
	1998	1997	1998	1997
(In millions except per share data)				
Income before unusual items	\$ 109	\$ 100	\$ 46	\$ 46
MAP inventory valuation adjustments	(93)	-	(57)	-
Ashland Chemical gain on sale of Melamine Chemicals	-	14	-	6
Income as reported	\$ 16	\$ 114	\$ (11)	\$ 52
Diluted earnings per share before unusual items			\$.62	\$.60
Impact of unusual items			(.76)	.08
Diluted earnings (loss) per share as reported			\$ (.14)	\$.68

NOTE C - UNCONSOLIDATED AFFILIATES

Ashland is required by Rule 3-09 of Regulation S-X to file separate financial statements for its two significant unconsolidated affiliates, Marathon Ashland Petroleum LLC (MAP) and Arch Coal, Inc. Such financial statements for the year ended December 31, 1998, will be filed by means of a Form 10-K/A on or before March 31, 1999. Unaudited income statement information for these companies is shown below.

Since MAP commenced operations on January 1, 1998, comparative information for the quarter ended December 31, 1997, is not presented. MAP's results for the quarter ended December 31, 1998, included adjustments to MAP's inventory market valuation reserve. See Note B for the impact of these adjustments on MAP's and Ashland's results. MAP is organized as a limited liability company (LLC) that has elected to be taxed as a partnership. Therefore, the parents are responsible for income taxes applicable to their share of MAP's taxable income. The net income reflected below for MAP does not include any provision for income taxes which will be incurred by MAP's parents.

(In millions)	Three months ended December 31	
	1998	1997
MAP		
Sales and operating revenues	\$ 4,712	
Loss from operations	(91)	
Net loss	(88)	
Ashland's equity loss	(40)	
ARCH COAL		
Sales and operating revenues	\$ 394	\$ 329
Income from operations	14	30
Net income	-	21
Ashland's equity income (loss)	(1)	11

NOTE D - LITIGATION, CLAIMS AND CONTINGENCIES

Ashland is subject to various federal, state and local environmental laws and regulations that require remediation efforts at multiple locations, including current operating facilities, operating facilities conveyed to MAP, previously owned or operated facilities, and Superfund or other waste sites. For information regarding environmental capital expenditures and reserves, see the "Miscellaneous - Environmental Matters" section of Ashland's Form 10-K.

Environmental reserves are subject to considerable uncertainties that affect Ashland's ability to estimate its share of the ultimate costs of required remediation efforts. 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.

Ashland is a defendant in a series of cases involving more than 600 former workers at the Lockheed aircraft manufacturing facility in Burbank, California. The plaintiffs allege personal injury resulting from exposure to chemicals sold to Lockheed by Ashland, and inadequate labeling of such chemicals. The cases are being tried in the Superior Court of the State of California for the County of Los Angeles. To date, five trials involving approximately 130 plaintiffs have resulted in total verdicts adverse to Ashland, after taking into consideration a reduction of the punitive damages award in the fifth trial ordered by the trial judge, of approximately \$80 million (approximately \$75 million of which is punitive damages). The damage awards have been appealed. Ashland continues to believe, upon advice of counsel, that there is a substantial probability that the punitive damage awards will be reversed or reduced substantially.

In addition to these matters, Ashland and its subsidiaries are parties to numerous other claims and lawsuits, some of which are also for substantial amounts. While these actions are being contested, the outcome of individual matters is not predictable with assurance.

Ashland does not believe that any liability resulting from any of the above matters, after taking into consideration its insurance coverage and amounts already provided for, will have a material adverse effect on its consolidated financial position, cash flows or liquidity. However, such matters could have a material effect on results of operations in a particular quarter or fiscal year as they develop or as new issues are identified.

NOTE E - ACQUISITIONS

During the three months ended December 31, 1998, APAC acquired two relatively small construction businesses, one of which included the issuance of \$7 million in Ashland common stock. These acquisitions were accounted for as purchases and did not have a significant effect on Ashland's consolidated financial statements.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
INFORMATION BY INDUSTRY SEGMENT

(In millions except as noted)	Three months ended December 31	
	1998	1997
REVENUES		
Sales and operating revenues		
Ashland Chemical	\$ 990	\$ 1,014
APAC	428	337
Valvoline	234	254
Intersegment sales		
Ashland Chemical	(5)	(4)
Valvoline	(1)	(3)
	-----	-----
	1,646	1,598
Equity income (loss)		
Ashland Chemical	1	2
Refining and Marketing	(40)	36
Arch Coal	(1)	11
	-----	-----
	(40)	49
Other income		
Ashland Chemical	7	21
APAC	2	1
Valvoline	2	3
Refining and Marketing	9	-
Corporate	7	2
	-----	-----
	27	27
	-----	-----
	\$ 1,633	\$ 1,674
	=====	=====
OPERATING INCOME		
Ashland Chemical	\$ 41	\$ 53
APAC	26	19
Valvoline	11	11
Refining and Marketing (1)	52	36
Inventory valuation adjustments (2)	(93)	-
Arch Coal	(1)	11
Corporate	(20)	(16)
	-----	-----
	\$ 16	\$ 114
	=====	=====
OPERATING INFORMATION		
APAC		
Construction backlog at December 31 (millions)	\$ 770	\$ 651
Hot mix asphalt production (million tons)	6.8	5.3
Aggregate production (million tons)	5.2	4.6
Valvoline lubricant sales (thousand barrels per day)	15.8	15.5
Refining and Marketing (3)		
Refined products sold (thousand barrels per day)	1,238.8	
Crude oil refined (thousand barrels per day)	862.1	
Arch Coal (3)		
Tons sold (millions)	26.5	12.8
Tons produced (millions)	24.8	10.8

- (1) Effective January 1, 1998, includes Ashland's equity income from MAP, amortization of Ashland's excess investment in MAP, and certain retained refining and marketing activities.
- (2) Represents Ashland's share of changes in MAP's inventory market valuation reserve. The reserve reflects the excess of the LIFO cost of MAP's crude oil and refined product inventories over their net realizable values.
- (3) Amounts represent 100% of the volumes of MAP, or Arch Coal. MAP commenced operations January 1, 1998.

RESULTS OF OPERATIONS

Ashland recorded a net loss of \$11 million for the quarter ended December 31, 1998, compared to net income of \$52 million for the quarter ended December 31, 1997. Excluding unusual items described in Note B to the Condensed Consolidated Financial Statements, net income amounted to \$46 million for both periods. Improvements in operating income for Refining and Marketing, APAC and Ashland Chemical were offset by a decline in operating results for Arch Coal, increased corporate expenses and higher interest expense.

ASHLAND CHEMICAL

Ashland Chemical reported operating income of \$41 million for the quarter ended December 31, 1998. Results for last year's quarter amounted to \$39 million, excluding a \$14 million pretax gain on the sale of Ashland's 23% interest in Melamine Chemicals. The improvement reflected record results from the Specialty Chemicals Group, with record quarters for both the Composite Polymers and Specialty Polymers & Adhesives divisions. The increase was partially offset by a decline in Electronic Chemicals, reflecting the lingering effects of the Asian crisis on the microelectronics industry. However, Electronic Chemicals rebounded nicely from the September 1998 quarter, reflecting the emerging recovery in that industry. The Petrochemicals Group also showed improvement compared to the December 1997 quarter, as the effects of a strong maleic anhydride market more than offset the effects of a weak methanol market.

APAC

For the first quarter of fiscal 1999, APAC's construction operations reported record December quarter operating income of \$26 million, a 35% improvement over the \$19 million reported for the December quarter last year. Operating income increased from all geographic regions as asphalt production reached record first quarter levels. Net revenue (total revenue less subcontract work) increased 27%, while production of hot mix asphalt was up 27% and crushed aggregate was up 12% from the December 1997 quarter. In addition, asphalt plant profits benefited from a 12% decrease in liquid asphalt costs. The construction backlog at December 31, 1998, amounted to \$770 million, the best December level in APAC history, and represented an 18% improvement over the level of December 1997. In keeping with Ashland's strategy to grow higher return businesses, APAC completed two acquisitions in the December 1998 quarter and has since closed another. These acquisitions strengthen APAC's market-leading position within its core operating area in the southeastern and midwestern United States.

VALVOLINE

Valvoline reported operating income of \$11 million for the quarter ended December 31, 1998, essentially even with the December 1997 quarter. Results from the core lubricants business remained strong and Valvoline Instant Oil Change had a record December quarter, achieving higher daily car counts and lower operating expenses. Valvoline International declined primarily due to lower results from its European and Latin American operations. Looking forward, Eagle One, the automotive appearance-product marketer Valvoline acquired last February, succeeded in placing its products with all of Valvoline's major retail accounts and is now well-positioned for growth in the coming spring and summer selling season. Additionally, Valvoline's new premium Synpower automotive chemicals continue to gain momentum in the marketplace.

REFINING AND MARKETING

Operating income from Refining and Marketing (excluding \$93 million in unfavorable inventory market valuation adjustments) amounted to \$52 million for the quarter ended December 31, 1998, compared to \$36 million for the quarter ended December 31, 1997. Results for the current year include Ashland's 38% share of MAP's earnings, amortization of Ashland's excess investment in MAP, and results of certain retained refining and marketing activities. Results for the prior year's quarter represent the operating income of the former Ashland Petroleum and SuperAmerica divisions. MAP was formed January 1, 1998, when Ashland combined its refining and marketing operations with those of the USX-Marathon Group. The increase in operating income includes substantial efficiency improvements resulting from the combined operations of MAP. In the year since it was formed, MAP has captured approximately \$150 million in annual, repeatable, pretax savings and established itself as an industry leader in earnings per barrel of crude oil throughput. An additional \$100 million in efficiencies are targeted for calendar 1999. During 1998, MAP was able to overcome significant decreases in refining crack spreads through the realization of operating efficiencies, a strong performance by its asphalt and retail operations, and lower energy costs.

ARCH COAL

Ashland recorded an operating loss of \$1 million from its investment in Arch Coal for the quarter ended December 31, 1998, compared to operating income of \$11 million for the quarter ended December 31, 1997. The decline was due to delays in obtaining a new surface-mining permit at West Virginia's Dal-Tex mine, inadequate rail service and higher-than-expected operating costs at Colorado's West Elk mine, and bitterly cold weather that hindered both equipment and rail performance of Western operations. During the quarter, Arch continued its program of divesting non-strategic assets and recorded an after-tax gain of \$4.6 million from the sale of an idle coal dock in West Virginia. That gain was partially offset by an after-tax charge of \$2.4 million associated with Arch's routine, periodic review of reclamation accruals.

As it previously announced, Arch expects continued earnings weakness during calendar 1999. The delayed start of development work on the new permit area at Dal-Tex will lead to a tough 1999 even if there is a favorable outcome on the pending injunction hearing relating to the issued permits. Rail service at West Elk may limit coal shipments again in 1999. Two small operations - the Conant Mine in southern Illinois and Arch of Wyoming in the Hanna Basin - face deteriorating markets for their products. Finally, lower-than-expected price escalations in sales contracts and the re-opening and renegotiation of several large contracts with a large customer will hurt profitability.

CORPORATE

Corporate expenses amounted to \$20 million in the quarter ended December 31, 1998, compared to \$16 million for the quarter ended December 31, 1997. The increase reflects transition costs associated with the restructuring of corporate general and administrative functions and the relocation of corporate headquarters to Covington, Ky., in the Cincinnati metropolitan area.

INTEREST EXPENSE (NET OF INTEREST INCOME)

For the three months ended December 31, 1998, interest expense (net of interest income) totaled \$33 million, compared to \$27 million for the December 1997 quarter. The increase reflects increased debt levels resulting primarily from \$254 million in purchases of leased assets in December 1997 and January 1998 associated with the formation of MAP and from acquisitions during 1998.

FINANCIAL POSITION

LIQUIDITY

Ashland's financial position has enabled it to obtain capital for its financing needs and to maintain investment grade ratings on its senior debt of Baa2 from Moody's and BBB from Standard & Poor's. Ashland has a revolving credit agreement which expires on February 9, 2000, providing for up to \$320 million in borrowings, none of which was in use at December 31, 1998. Under a shelf registration, Ashland can also issue an additional \$220 million in medium-term notes should future opportunities or needs arise. Furthermore, Ashland has access to various uncommitted lines of credit and commercial paper markets, under which \$193 million of short-term borrowings were outstanding at December 31, 1998.

Cash flows from continuing operations, a major source of Ashland's liquidity, amounted to \$73 million for the quarter ended December 31, 1998, compared to a deficit of \$41 million for the quarter ended December 31, 1997. The increase reflects a higher level of cash distributions from MAP, compared to cash generated from Ashland's former Refining and Marketing operations in the prior year's quarter, and less of an increase in working capital requirements. Cash flows from continuing operations exceeded Ashland's capital requirements for net property additions and dividends by \$6 million for the December 1998 quarter.

Operating working capital (accounts receivable and inventories, less trade and other payables) at December 31, 1998, was \$508 million, compared to \$351 million at September 30, 1998, and \$455 million at December 31, 1997. Liquid assets (cash, cash equivalents and accounts receivable) amounted to 90% of current liabilities at December 31, 1998, compared to 84% at September 30, 1998, and 85% at December 31, 1997. Ashland's working capital is affected by its use of the LIFO method of inventory valuation, which valued inventories \$56 million below their replacement costs at December 31, 1998.

CAPITAL RESOURCES

For the three months ended December 31, 1998, property additions amounted to \$48 million, compared to \$52 million for the same period last year. Property additions and cash dividends for the remainder of fiscal 1999 are estimated at \$150 million and \$60 million. On August 7, 1998, Ashland's Board of Directors authorized the company to repurchase up to 4 million shares of its common stock in the open market. Through December 31, 1998, 2 million shares had been repurchased at a cost of \$97 million. On January 28, 1999, Ashland's Board increased the authorization, from 1.6 million remaining shares under the previous authorization, back up to 4 million additional shares. The timing and exact number of shares to be repurchased will be dependent on market conditions. Ashland anticipates meeting its remaining 1999 capital requirements for property additions, debt repayments and dividends primarily from internally generated funds. However, external financing may be necessary to fund the remainder of these requirements, as well as common stock repurchases and acquisitions.

At December 31, 1998, Ashland's debt level amounted to \$1.7 billion, compared to \$1.6 billion at September 30, 1998. Debt as a percent of capital employed amounted to 46% at December 31, 1998, compared to 43% at September 30, 1998. During the quarter ended December 31, 1998, Ashland liquidated \$200 million of its interest rate swap agreements, which had converted fixed-rate debt to floating rates at September 30, 1998. As a result, Ashland's exposure to short-term interest rate fluctuations for the remainder of 1999 will be limited to \$39 million in floating-rate debt outstanding at December 31, 1998, the remaining \$25 million floating-rate swap agreement, and any short-term notes and commercial paper outstanding.

ENVIRONMENTAL MATTERS

Federal, state and local laws and regulations relating to the protection of the environment have resulted in higher operating costs and capital investments by the industries in which Ashland operates. Because of the continuing trends toward greater environmental awareness and ever increasing regulations, Ashland believes that expenditures for environmental compliance will continue to have a significant effect on its businesses. Although it cannot accurately predict how such trends will affect future operations and earnings, Ashland believes the nature and significance of its ongoing compliance costs will be comparable to those of its competitors. For information on certain specific environmental proceedings and investigations, see the "Legal Proceedings" section of this Form 10-Q. For information regarding environmental capital expenditures and reserves, see the "Miscellaneous - Environmental Matters" section of Ashland's Form 10-K.

Environmental reserves are subject to considerable uncertainties that affect Ashland's ability to estimate its share of the ultimate costs of required remediation efforts. 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.

Ashland does not believe that any liability resulting from environmental matters, after taking into consideration its insurance coverage and amounts already provided for, will have a material adverse effect on its consolidated financial position, cash flows or liquidity. However, such matters could have a material effect on results of operations in a particular quarter or fiscal year as they develop or as new issues are identified.

YEAR 2000 READINESS

Ashland, like most other companies, is faced with the Year 2000 issue and began developing plans in 1994 to address the possible exposures. Project teams are responsible for coordinating the assessment, remediation and testing of the necessary modifications to Ashland's computer applications, including both internal information systems and embedded systems, as well as assessing the Year 2000 readiness of its major vendors and developing contingency plans. The team's progress is regularly monitored by Ashland's senior management and periodically reported to the Audit Committee of Ashland's Board of Directors.

Ashland has completed the assessment phase related to its internal information systems, and is resolving identified issues through system modifications or replacement. Although testing will continue, Ashland believes that about 90% of its significant systems are currently Year 2000 compliant, and that the remainder will be compliant by April 1999.

Ashland is also assessing the embedded systems that operate such items as its manufacturing systems, laboratory processes and security systems. Ashland expects to complete this assessment by April 1999, and remediate or replace non-compliant embedded systems as necessary by June 1999. The quality of the responses received from the manufacturers of such equipment, the estimated effect of the individual system on Ashland, and the ability of Ashland to perform meaningful tests will determine whether independent testing of embedded systems will be conducted.

YEAR 2000 READINESS (continued)

Formal communications have been initiated with major vendors to assess the potential exposure to Ashland from their failure to remediate their own Year 2000 issues. A failure by any of these vendors could become a significant challenge to Ashland's ability to operate its facilities at affected locations. Vendors contacted include Ashland's suppliers, financial institutions and companies providing utilities (electric, telephone and water). Alternate providers of products and services will be established, if deemed necessary. Although Ashland has no means of ensuring the Year 2000 readiness of such vendors, it will continue to gather information and monitor their compliance. Based on the representations provided by these vendors to date, Ashland has no reason to believe that these vendors are not addressing their Year 2000 issues adequately.

Ashland is also developing contingency plans related to the Year 2000 issue, addressing various scenarios and alternatives. Among other things, such plans will likely include replacing electronic applications with manual processes, identifying alternate vendors, adjusting staffing requirements, and increasing raw material inventory levels, as deemed necessary. Pilot programs have been established within Ashland. Contingency plans are expected to be completed by June 1999, and will be regularly updated as current issues develop or new issues are identified.

Although a full assessment has not yet been completed, Ashland estimates that its fiscal 1999 costs related to Year 2000 issues will not exceed \$15 million, and will be minimal thereafter. Such amount is based on various assumptions, including the expected availability and costs of internal and external resources and the complexity of the necessary changes. Such estimate does not include any costs of new systems for which the principal justification is improved business functionality, rather than Year 2000 compliance. Since Ashland's Year 2000 compliance program was initiated several years ago and has been integrated with other system enhancements, Ashland's total costs of remediating Year 2000 issues are not readily discernible.

Ashland believes it has an effective program to resolve significant Year 2000 issues in a timely manner. However, certain phases of that program have not yet been completed and some exposures are outside Ashland's direct control. If Ashland is unsuccessful in identifying or remediating Year 2000 issues in its significant systems, is affected by major vendors or customers not being Year 2000 compliant, or is affected by general economic disruptions resulting from Year 2000 issues, its consolidated financial position or results of operations could be materially adversely affected.

MAP and Arch Coal also have prepared their own programs to deal with Year 2000 issues. Arch Coal's program is outlined in the Management's Discussion and Analysis section of its Quarterly Report on Form 10-Q for the quarter ended September 30, 1998. MAP's program is covered in the Management's Discussion and Analysis section for the Marathon Group in USX Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998. Both of these documents are on file with the Securities and Exchange Commission.

FORWARD LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, with respect to Ashland's operating performance. Estimates as to operating performance are based upon a number of assumptions, including (among others) prices, supply and demand, market conditions and operating efficiencies. Although Ashland believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations reflected herein will be achieved. This forward-looking information may prove to be inaccurate, and actual results may differ significantly from those anticipated. Other factors and risks affecting Ashland are contained in Ashland's Form 10-K for the fiscal year ended September 30, 1998.

ITEM 1. LEGAL PROCEEDINGS

ENVIRONMENTAL PROCEEDINGS - As of December 31, 1998, Ashland had been identified as a "potentially responsible party" ("PRP") under Superfund or similar state laws for potential joint and several liability for clean-up costs in connection with alleged releases of hazardous substances in connection with 90 waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by the United States Environmental Protection Agency ("EPA") 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. Ashland carefully monitors the investigatory and remedial activity at many of these sites. Based on its experience with site remediation, its familiarity with current environmental laws and regulations, its analysis of the specific hazardous substances at issue, the existence of other financially viable PRPs and its current estimates of investigatory, clean-up and monitoring costs at each site, Ashland believes that its liability at these sites, either individually or in the aggregate, after taking into account its insurance coverage and established reserves, will not have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity. However, such matters could have a material effect on results of operations in a particular quarter or fiscal year as they develop or as new issues are identified. Estimated costs for these matters are recognized in accordance with generally accepted accounting principles governing the likelihood that costs will be incurred and Ashland's ability to reasonably estimate future costs.

LOCKHEED LITIGATION - Ashland is a defendant in a series of cases involving more than 600 former workers at the Lockheed aircraft manufacturing facility in Burbank, California. The plaintiffs allege personal injuries resulting from exposure to chemicals sold to Lockheed by Ashland, and inadequate labeling of such chemicals. The cases are being tried in the Superior Court of the State of California for the County of Los Angeles. To date, five trials involving approximately 130 plaintiffs have resulted in total verdicts adverse to Ashland, after taking into consideration a reduction of the punitive damages award in the fifth trial ordered by the trial judge, of approximately \$80 million (approximately \$75 million of which is punitive damages). The damage awards have been appealed. Ashland continues to believe, upon advice of counsel, that there is a substantial probability that the punitive damage awards will be reversed or substantially further reduced, and that, after taking into account probable recoveries under insurance policies, these cases will not have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity.

In addition, Ashland filed an action in Kentucky against approximately 44 insurance carriers to confirm coverage for liabilities under the Lockheed cases. One of the insurance carriers in turn filed an action in California seeking to deny insurance coverage for liabilities in these cases.

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

- (a) Ashland's Annual Meeting of Shareholders was held on January 28, 1999, at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky at 10:30 a.m.
- (b) At its Annual Meeting, Ashland's shareholders elected four directors (Frank C. Carlucci, James B. Farley, Dr. Bernadine P. Healy and W. L. Rouse, Jr.) to serve a three-year term and one director (Dr. Ernest H. Drew) to serve a two-year term.

		Votes	
		Affirmative	Withheld
		-----	-----
- -	Frank C. Carlucci	65,050,666	1,041,083
- -	Dr. Ernest H. Drew	65,158,866	932,883
- -	James B. Farley	65,158,552	933,197
- -	Dr. Bernadine P. Healy	65,119,591	972,158
- -	W. L. Rouse, Jr.	65,146,413	945,336

Directors who continued in office: Samuel C. Butler, Paul W. Chellgren, Ralph E. Gomory, Mannie L. Jackson, Patrick F. Noonan, Jane C. Pfeiffer and Michael D. Rose.

- (c) At its Annual Meeting, Ashland's shareholders ratified the appointment of Ernst & Young LLP as independent auditors for fiscal year 1999 by a vote of 65,141,972 affirmative, to 636,796 negative and 312,981 abstention votes.
- (d) The results of voting on a shareholder proposal to spin-off Ashland Chemical, APAC and Valvoline as three separate companies were 55,896,017 negative, to 5,510,041 affirmative, 751,875 abstention votes and 3,933,816 broker non-votes.
- (e) The results of voting on a shareholder proposal to distribute Arch Coal, Inc. stock to Ashland shareholders were 55,813,273 negative, to 5,469,551 affirmative, 875,109 abstention votes and 3,933,816 broker non-votes.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.2 Bylaws of Ashland, as amended to January 28, 1999
- 10.1 Form of Ashland Inc. Executive Employment Agreement between Ashland and certain executives of Ashland
- 10.2 Ashland Inc. 1995 Performance Unit Plan, as amended to January 27, 1999
- 27 Financial Data Schedule

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements 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)

Date February 11, 1999

/s/ Kenneth L. Aulen

Kenneth L. Aulen
Administrative Vice President and
Controller
(Chief Accounting Officer)

Date February 11, 1999

/s/ David L. Hausrath

David L. Hausrath
Vice President and General Counsel

BY-LAWS
OF
ASHLAND INC.

ARTICLE I

OFFICES

The principal office of the Corporation in the Commonwealth of Kentucky shall be at 50 E. RiverCenter Boulevard, City of Covington, County of Kenton. The Corporation may also have offices at other places either within or without the Commonwealth of Kentucky as may be useful in the business of the Corporation.

ARTICLE II

MEETINGS OF SHAREHOLDERS

SECTION 1. Annual Meetings. The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at the principal office of the Corporation on the last Thursday of January, annually, at the hour of 10:30 a.m., or at such other place (within or without the Commonwealth of Kentucky), date and hour as shall be designated in the notice thereof.

SECTION 2. Annual Meeting Business. To be properly brought before an annual meeting, business must be (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors of the Corporation (the "Board"); (ii) otherwise properly brought before the meeting by or at the direction of the Board; or (iii) otherwise properly brought before the meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given written notice thereof, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation, not later than ninety days in advance of such meeting (provided that if the annual meeting of shareholders is held earlier than the last Thursday in January, such notice must be given within ten days after the first public disclosure, which may include any public filing with the Securities and Exchange Commission, of the date of the annual meeting). Any such notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and in the event that such business includes a proposal to amend either the articles of incorporation or By-laws of the Corporation, the language of the proposed amendment; (ii) the name and address of the shareholder proposing such business; (iii) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business; (iv) any material interest of the shareholder in such business; and (v) a representation as to whether or not the shareholder will solicit proxies in support of the proposal. No business shall be conducted at an annual meeting of shareholders except in accordance with this paragraph and the chairman of any annual meeting of shareholders may refuse to permit any business to be brought before an annual meeting which fails to comply with the foregoing procedures or, in the case of a shareholder proposal, if the shareholder fails to comply with the representations set forth in the notice.

SECTION 3. Special Meetings. A special meeting of the shareholders may be called by a majority of the members of the Board, the Chairman of the Board or the President, at such place (within or without the Commonwealth of Kentucky), date and hour as shall be designated in the notice thereof.

A special meeting of the shareholders shall be called by the Secretary on the written request of the holders of not less than one-third of all the shares entitled to vote at such meeting. Such request shall set forth: (i) the action proposed to be taken at such meeting and the reasons for the action; (ii) the name and address of each of such holders who intends to propose action be taken at such meeting; (iii) a representation that each is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at such meeting to propose the action specified in the request; (iv) any material interest of any shareholder in such action; and (v) in the event that any proposed action consists of or includes a proposal to amend either the articles of incorporation or the By-laws of the Corporation, the language of the proposed amendment. The Secretary shall determine the place (within or without the Commonwealth of Kentucky), date and hour of such meeting. The Secretary may refuse to call a special meeting unless the request is made in compliance with the foregoing procedure.

SECTION 4. Notice of Meetings. Notice stating the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each shareholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting by any form of notice permitted by Kentucky law. Except as otherwise expressly required by law, notice of any adjourned meeting of the shareholders need not be given if the date, hour and place thereof are announced at the meeting at which the adjournment is taken, unless the adjournment is for more than 120 days or, unless after the adjournment a new record date is fixed for the adjourned meeting.

SECTION 5. Record of Shareholders. It shall be the duty of the officer or agent of the Corporation who shall have charge of its stock transfer books to prepare and make a complete record of the shareholders entitled to vote at any meeting of shareholders or adjournment thereof, arranged by voting group (and within each voting group by class or series), and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such record shall be produced at the time and place of the meeting and shall be open to the inspection of any shareholder entitled to vote at such meeting or any adjournment thereof during the whole time of such meeting or adjournment for the purposes thereof.

SECTION 6. Fixing Date for Determination of Shareholders of Record. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of shares or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be less than ten days before the date of such meeting, nor more than seventy days prior to any other action. A determination of shareholders entitled to notice of or to vote at a meeting of the shareholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting if the meeting is adjourned to a date 120 days or less after the date fixed for the original meeting. The Board shall fix a new record date if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

SECTION 7. Quorum. At each meeting of the shareholders or adjournment thereof, except as otherwise expressly required by law, these By-laws or the articles of incorporation, shareholders holding a majority of the shares of the Corporation issued and outstanding and entitled to be voted thereat shall be present in person or by proxy to constitute a quorum for the transaction of business. The shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

SECTION 8. Organization. At each meeting of the shareholders, one of the following shall act as chairman of the meeting and preside thereat, in the following order of precedence:

- (a) the Chairman of the Board;
- (b) the President; or

(c) any other officer of the Corporation designated by the Board or the executive committee of the Board to act as chairman of such meeting and to preside thereat if the Chairman of the Board and the President shall be absent from such meeting.

The Secretary or, if the Secretary shall be absent from such meeting, the person (who shall be an Assistant Secretary of the Corporation, if one of such officers shall be present thereat) whom the chairman of such meeting shall appoint, shall act as secretary of such meeting and keep the minutes thereof.

SECTION 9. Order of Business. The chairman of any meeting of shareholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Unless and to the extent determined by the Board or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

SECTION 10. Voting. Except as otherwise expressly required by law, these By-laws, or the articles of incorporation, each shareholder entitled to vote shall, at each meeting of the shareholders, have one vote (except that at each election for directors each such shareholder shall have the right to cast as many votes in the aggregate as the shareholder shall be entitled to vote under the articles of incorporation multiplied by the number of directors to be elected at such election; and each shareholder may cast the whole number of votes for one candidate, or distribute such votes among two or more candidates), in person or by proxy, for each share of the Corporation held by the shareholder and registered in the shareholder's name on the books of the Corporation:

(a) on the date fixed pursuant to the provisions of these By-laws as the record date for the determination of shareholders who shall be entitled to receive notice of and to vote at such meeting, or

(b) if no record date shall have been so fixed, then at the close of business on the day on which notice of such meeting shall be given.

Any vote of shares of the Corporation may be given at any meeting of the shareholders by the shareholders entitled thereto in person or by proxy appointed by the shareholder. The attendance at any meeting of a shareholder shall not have the effect of revoking a previously given proxy unless the shareholder shall give the Secretary written notice of the revocation.

At all meetings of the shareholders each matter, except as otherwise expressly required by law, these By-laws or the articles of incorporation, shall be approved if the votes cast in favor of such matter exceed the votes cast opposing such matter.

Except as otherwise expressly required by law, the vote at any meeting of the shareholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot, each ballot shall be signed by the shareholder voting, or by the shareholder's proxy, if there be such proxy, and shall state the number of shares voted. Except as otherwise expressly required by law, the vote at any meeting of the shareholders on any question need not be by ballot, unless so directed by the chairman of the meeting.

ARTICLE III

BOARD OF DIRECTORS

SECTION 1. General Powers. The business and affairs of the Corporation shall be managed under the direction of the Board.

SECTION 2. Number and Term of Office. Except as otherwise provided by law, the number of directors which shall constitute the Board shall be fixed from time to time by a resolution adopted by a majority of the Board; provided, however, that a vote of the shareholders is required to increase or decrease by more than 30% the number of directors from that number last fixed by the shareholders. So long as the Board shall consist of nine or more members, the directors shall be classified with respect to the time for which they shall severally hold office, by dividing them into three classes, as nearly equal in number as possible.

At each annual meeting, successors to the class of directors whose term then expires shall be elected to serve for a term expiring at the annual meeting of shareholders held in the third year following the year of their election and until their successors shall have been elected and qualified, provided, that the successor to a director whose term expires at

such annual meeting because the director was elected to fill a vacancy on the Board may, if so specified by the Board, be elected to serve for a term expiring at the annual meeting of shareholders held in the first or second year following the year of the director's election and until the director's successor shall have been elected and qualified. The Board shall increase or decrease the number of directors in one or more classes as may be appropriate whenever it increases or decreases the number of directors in order to ensure that the three classes remain as nearly equal in number as possible. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

SECTION 3. Nomination. Nominations for the election of directors may be made by the Board or by any shareholder entitled to vote for the election of directors. Any shareholder entitled to vote for the election of directors at a meeting may nominate a person or persons for election as directors only if written notice of such shareholder's intent to make such nomination is given, either by personal delivery or by United States mail, postage prepaid, to the Secretary, not later than (i) with respect to an election to be held at an annual meeting of shareholders, ninety days in advance of such meeting (provided that if the annual meeting of shareholders is held earlier than the last Thursday in January, such notice must be given within ten days after the first public disclosure, which may include any public filing with the Securities and Exchange Commission, of the date of the annual meeting) and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a shareholder of record of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated by the Board; (e) the consent of each nominee to serve as a director of the Corporation if so elected; and (f) a representation as to whether or not the shareholder will solicit proxies in support of the shareholder's nominee(s). The chairman of any meeting of shareholders to elect directors and the Board may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure or if the shareholder fails to comply with the representations set forth in the notice.

SECTION 4. Election. Except as otherwise expressly provided in the articles of incorporation, at each meeting of the shareholders for the election of directors at which a quorum is present, the persons receiving the greatest number of votes, up to the number of directors to be elected, shall be the directors.

SECTION 5. Resignation, Removal and Vacancies. Any director may resign at any time by giving written notice of such resignation to the Chairman of the Board, the President or the Secretary. Any such resignation shall take effect at the time specified therein, or, if the time when it shall become effective shall not be specified therein, then it shall take effect when accepted by action of the Board. Except as aforesaid, the acceptance of such resignation shall not be necessary to make it effective.

Any or all directors may be removed at a meeting of the shareholders called expressly for that purpose (i) in the case of a removal of a director for cause, by a vote of the holders of a majority of the voting power of the then outstanding voting stock of the Corporation, voting together as a single voting group, or (ii) in the case of a removal of a director without cause, by a vote of the holders of at least 80% of the voting power of the then outstanding voting stock of the Corporation, voting together as a single voting group. If less than all the directors are to be removed, no one of the directors may be removed if the votes cast against the director's removal would be sufficient to elect the director if then cumulatively voted at an election of the entire Board or, if there be classes of directors, at an election of the class of directors of which that director is a part. For purposes of this Section, "cause" shall mean the willful and continuous failure of a director to substantially perform such director's duties to the Corporation (other than any failure resulting from incapacity due to physical or mental illness) or the willful engaging by a director in gross misconduct materially and demonstrably injurious to the Corporation. As used in these By-laws, "voting stock" shall mean shares of capital stock of the Corporation entitled to vote generally in the election of directors.

Any vacancy occurring on the Board may be filled by a majority of the directors then in office, though less than a quorum, and the director elected to fill such vacancy shall hold office until the next annual meeting of shareholders at which directors are elected and until the director's successor is elected and qualified.

SECTION 6. Meetings.

(A) Annual Meetings. As soon as practicable after each annual election of directors, the Board shall meet for the purpose of organization and the transaction of other business.

(B) Regular Meetings. Regular meetings of the Board shall be held at such dates, times and places as the Board shall from time to time determine.

(C) Special Meetings. Special meetings of the Board shall be held whenever called by the Chairman of the Board, the President or upon the written request of a majority of the members of the whole Board filed with the Secretary. Any and all business may be transacted at a special meeting which may be transacted at a regular meeting of the Board.

(D) Place of Meeting. The Board may hold its meetings at such place or places within or without the Commonwealth of Kentucky as the Board may from time to time by resolution determine or as shall be designated in the respective notices or waiver of notices thereof.

(E) Notice of Meetings. Notices of regular meetings of the Board or of

any adjourned meeting need not be given.

Notices of special meetings of the Board, or of any meeting of any committee of the Board which has not been fixed in advance as to hour and place by such committee, shall be sent by the Secretary to each director, or member of such committee, by any form of notice permitted by Kentucky law at the director's residence or usual place of business at least two days before the day on which such meeting is to be held. Such notice shall include the date, hour and place of such meeting, but any such notice need not specify the business to be transacted at, or the purpose of, any such meeting. Notice of any such meeting need not be given to any director or member of any committee, however, if waived by the director in writing, whether before or after such meeting shall be held, or if the director shall be present at such meeting, unless the director at the beginning of the meeting (or promptly upon such director's arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

(F) Quorum and Manner of Acting. A majority of the number of directors fixed by or in the manner provided in these By-laws or in the articles of incorporation shall be present at any meeting of the Board in order to constitute a quorum for the transaction of business at such meeting, and the vote of a majority of those directors shall be necessary for the passage of any resolution or act of the Board, except as otherwise expressly required by law, these By-laws or the articles of incorporation. The directors present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

(G) Action by Consent. Any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and such writings are filed with the minutes of the proceedings of the Board or committee.

(H) Presence at a Meeting. Any or all directors may participate in any meeting of the Board or any committee thereof, or conduct the meeting through the use of, any means of communication by which all persons participating may simultaneously hear and speak to each other during the meeting. Any director participating in a meeting by such means shall be deemed to be present in person at the meeting for all purposes.

SECTION 7. Compensation. The Board may, from time to time, fix such amount per annum and such fees to be paid by the Corporation to Directors for attendance at meetings of the Board or of any committee, or both. The Board may likewise provide that the Corporation shall reimburse each director or member of a committee for any expenses incurred by the director on account of the director's attendance at any such meeting. Nothing contained in this Section shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 8. Committees. The Board may, by resolution adopted by a majority of the Board, designate committees, each committee to consist of two or more directors and to have such duties and functions as shall be provided in such resolution. The Board shall have the power to change the members of any such committee at any time, to fill vacancies and to discharge any such committee, either with or without cause, at any time. The Board may establish an executive committee in accordance with and subject to the restrictions set out in the statutes of the Commonwealth of Kentucky.

ARTICLE IV

OFFICERS

SECTION 1. Officers. The officers of the Corporation shall be determined by the Board. The officers of the Corporation may include:

- (a) a Chairman of the Board;
- (b) a President;
- (c) one or more Executive Vice Presidents;
- (d) one or more Senior Vice Presidents;
- (e) one or more Administrative Vice Presidents;
- (f) one or more Vice Presidents;
- (g) a Secretary and one or more Assistant Secretaries;
- (h) a Treasurer and one or more Assistant Treasurers;
- (i) a Controller and one or more Assistant Controllers; and
- (j) an Auditor and one or more Assistant Auditors.

In addition, the Board may elect such other officers as it deems necessary or appropriate and such other officers shall have such powers, authority, and duties as may be delegated or assigned to such officer, from time to time, by the Board, the Chairman of the Board, or the President.

The Board shall designate which of the officers shall be executive officers of the Corporation.

SECTION 2. Election and Appointment and Term of Office. Each officer shall be elected by the Board at its annual meeting and hold office until the next annual meeting of the Board and until the officer's successor is elected or until the officer's earlier death, resignation or removal in the manner hereinafter provided. If additional officers are elected by the Board during the year, each of them shall hold office until the next annual meeting of the Board at which officers are regularly elected and until the officer's successor is elected or appointed or until the officer's earlier death, resignation or removal in the manner hereinafter provided.

In addition to the foregoing, the Chairman of the Board, by written designation filed with the Secretary, may appoint one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers, Assistant Controllers and Assistant Auditors of the Corporation. If appointed during the year, each of them shall hold office until the next annual meeting of the Board at which officers are regularly elected and until the officer's successor is elected or appointed or until the officer's earlier death, resignation or removal in the manner hereinafter provided. Subject to the authority of the Board, the Chairman of the Board shall also have authority to fix the salary of such officer.

SECTION 3. Resignation, Removal and Vacancies. Any officer may resign at any time by giving written notice to the Chairman of the Board, the President or the Secretary, and such resignation shall be effective when

the notice is delivered, unless the notice specifies a later effective date. All officers and agents elected or appointed shall be subject to removal at any time by the Board with or without cause. All appointed officers may be removed at any time by the Chairman of the Board acting jointly with the President or any Executive or Senior Vice President, by written designation filed with the Secretary. A vacancy in any office may be filled for the unexpired portion of the term in the same manner as provided for election or appointment to such office.

SECTION 4. Duties and Functions.

(A) Chairman of the Board. The Chairman of the Board, if present, shall preside at all meetings of the shareholders and the Board. If designated by Board resolution, the Chairman of the Board shall be Chief Executive Officer of the Corporation, and if so designated, shall be vested with executive control and management of the business and affairs of the Corporation and have the direction of all other officers, agents and employees. The Chairman of the Board shall perform all such other duties as are incident to the office or as may be properly required of the Chairman by the Board, subject in all matters to the control of the Board.

(B) The President. The President, in the absence of the Chairman of the Board, shall preside at all meetings of the shareholders and the Board. If designated by Board resolution, the President shall be Chief Executive Officer of the Corporation, and if so designated, shall be vested with executive control and management of the business and affairs of the Corporation and have the direction of all other officers, agents and employees. The President shall have such powers, authority and duties as may be delegated or assigned to the President from time to time by the Board or the Chairman of the Board.

(C) Vice Presidents. The Executive Vice Presidents, Senior Vice Presidents, Administrative Vice Presidents and Vice Presidents shall have such powers, authority and duties as may be delegated or assigned to them from time to time by the Board, the Chairman of the Board or the President.

(D) Secretary. The Secretary shall attend to the giving and serving of all notices required by law or these By-laws, shall be the custodian of the corporate seal and shall affix and attest the same to all papers requiring it; shall have responsibility for preparing minutes of the meetings of the Board and shareholders; shall have responsibility for authenticating records of the Corporation; and shall in general perform all the duties incident to the office of the Secretary, subject in all matters to the control of the Board.

(E) Treasurer. The Treasurer shall have custody and control of the funds and securities of the Corporation and shall perform all such other duties as are incident to the office of the Treasurer or that may be properly required of the Treasurer by the Board, the Chairman of the Board or the President.

(F) Controller. The Controller shall maintain adequate records of all assets, liabilities and transactions of the Corporation; shall see that adequate audits thereof are currently and regularly made; shall have general supervision of the preparation of the Corporation's balance sheets, income accounts and other financial statements or records; and shall perform such other duties as shall, from time to time, be assigned to him, by the Board, the Chairman of the Board or the President. These duties and powers shall extend to all subsidiary corporations and, so far as the Board, the Chairman of the Board or the President may deem practicable, to all affiliated corporations.

(G) Auditor. The Auditor shall review the accounting, financial and related operations of the Corporation and shall be responsible for measuring the effectiveness of various controls established for the Corporation. The Auditor's duties shall include, without limitation, the appraisal of procedures, verifying the extent of compliance with formal controls and the prevention and detection of fraud or dishonesty and such other duties as shall, from time to time, be assigned to the Auditor by the Board, the Chairman of the Board or the President. These duties and powers shall extend to all subsidiary corporations and, so far as the Board, the Chairman of the Board or the President may deem practicable, to all affiliated corporations.

ARTICLE V

BOOKS AND RECORDS

The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its shareholders, the Board and the committees of the Board.

ARTICLE VI

CONTRACTS, CHECKS, AND DEPOSITS

SECTION 1. Contracts and Agreements. The Board may authorize any officer or agent to enter into any contract or agreement or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or limited to specific instances.

SECTION 2. Checks, Drafts, Orders, Etc. All checks, drafts, or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or agent of the Corporation and in such manner as shall from time to time be prescribed by the Board in a duly authorized resolution.

SECTION 3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories in such manner as shall from time to time be prescribed by the Board in a duly authorized resolution.

ARTICLE VII

BORROWINGS

SECTION 1. Borrowing Authority. The Chairman of the Board, the President, an Executive Vice President, the Vice President supervising the law function, the Treasurer and any other officer, employee, or agent of the Corporation designated by the Board (collectively, "Designated Officers")

shall, subject to Section 3 of this Article, have the power, acting jointly with any officer designated by the Board as the Chief Financial Officer or the Treasurer (collectively, the "Financial Officers"), to authorize the establishment of borrowing facilities, the borrowing of money, the issuance of debt obligations, or the guaranteeing of obligations of others on behalf of the Corporation for borrowed money or similar obligations. Any individual acting as the approving Financial Officer may not act as one of the approving Designated Officers on the same authorization.

SECTION 2. Delegation of Authority. Any Financial Officer acting jointly with any Designated Officer may delegate the authority to establish borrowing facilities or to borrow money or to issue debt obligations or to guarantee the obligations of others on behalf of the Corporation for borrowed money or similar obligations or any combination of the foregoing to any person(s) on behalf of the Corporation, provided each obligation to be incurred under each such authority does not exceed the equivalent of Fifty Million United States Dollars (U.S. \$50,000,000). No such delegated authority may be redelegated. Any individual acting as the approving Financial Officer may not act as one of the approving Designated Officers on the same authorization.

SECTION 3. Limitation of Authority. The finance committee of the Board, or a committee of the Board to which such authority has been delegated, shall, subject to the last sentence of this Section 3, retain authority for and, in its sole discretion, shall authorize (a) any establishment of borrowing facilities, borrowing of money or issuance of debt obligations by the Corporation which exceeds the equivalent of Fifty Million United States Dollars (U.S. \$50,000,000) and which has a maturity of more than one year from the effective date of the issuance or borrowing and (b) any guarantee of any debt obligation of non-affiliated entities by the Corporation which guaranty is for an amount exceeding the equivalent of Fifty Million United States Dollars (U.S. \$50,000,000) and which underlying obligation has a maturity of more than one year from the effective date of the issuance or borrowing. The foregoing limitations shall not apply, however, to those borrowings, debt issuances, or guaranties of obligations for borrowed money or similar obligations made or delivered, under or in connection with a borrowing facility or program previously approved by the finance committee of the Board, or a committee of the Board to which such authority has been delegated, or to such types of transactions with or on behalf of affiliated entities.

ARTICLE VIII

SHARES AND THEIR TRANSFER

SECTION 1. Certificates for Shares. The shares of the Corporation may be represented by certificates or may be uncertificated. Certificates representing shares of the Corporation shall be in such form as the Board shall prescribe. Such certificates shall be in the name of the Corporation and signed by the Chairman of the Board, the President or a Vice President and by the Secretary or an Assistant Secretary and shall be sealed with the corporate seal or contain a facsimile thereof. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may nevertheless be issued by the Corporation with the same effect as if the person were such officer at the date of issue. Where any such certificate is manually countersigned by a transfer agent or registrar (other than the Corporation itself or an employee of the Corporation), any of the other signatures on the certificate may be a facsimile.

SECTION 2. Record. The Corporation shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its shareholders, as required by applicable law. Except as otherwise expressly required by law, the person in whose name shares stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

SECTION 3. Transfer of Shares. Transfers of shares of the Corporation shall be made only on the books of the Corporation by the registered shareholder thereof, or by the registered shareholder's attorney thereunto duly authorized by written power of attorney duly executed and filed with the Secretary or with a transfer agent appointed as provided in Section 4 of this Article, and on the surrender of any certificate or certificates for such shares properly endorsed.

SECTION 4. Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of shares of the Corporation. The Board may appoint or authorize any officer or officers to appoint one or more transfer agents and one or more registrars and may require all certificates for shares to bear the signature or signatures of any of them.

ARTICLE IX

FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of October in each year.

ARTICLE X

INDEMNIFICATION

SECTION 1. Every person who is or was an officer or employee of the Corporation or of any other corporation or entity in which that person served as a director, officer or employee at the request of the Corporation (hereinafter collectively referred to as a "Covered Person"), shall be indemnified by the Corporation against any and all reasonable costs and expenses (including but not limited to attorney's fees) and any liabilities (including but not limited to judgments, fines, penalties and reasonable

settlements) that may be paid by or imposed against that Covered Person in connection with or resulting from any pending, threatened or completed claim, action, suit or proceeding (whether brought by or in the right of the Corporation or such other corporation or entity or otherwise), and whether, civil, criminal, administrative, investigative or legislative (including any appeal relating thereto), in which the Covered Person may be involved, as a party or witness or otherwise, by reason of the Covered Person's being or having been an officer or employee of the Corporation or a director, officer or employee of such other corporation or entity, or by reasons of any action taken or not taken in such capacity, whether or not the Covered Person continues to be such at the time such liability or expense shall have been paid or imposed, if the Covered Person:

(a) has been successful on the merits or otherwise with respect to such claim, action, suit or proceeding; or (b) acted in good faith, in what the Covered Person reasonably believed to be the best interests of the

Corporation or such other corporation or entity, as the case may be, and in addition, in any criminal action or proceeding, had no reasonable cause to believe that the Covered Person's conduct was unlawful.

As used in this Article, the terms "expense" and "liability" shall include, but not be limited to, counsel fees and disbursements and amounts of judgments, fines or penalties against, and reasonable amounts paid in settlement by, a Covered Person. The termination of any claim, action, suit or proceeding by judgment, settlement (whether with or without court approval), conviction or upon a plea of guilty or nolo contendere, or its equivalent, shall not create a presumption that a Covered Person did not meet the standards of conduct set forth in paragraph (b) of this Section 1.

SECTION 2. Indemnification under paragraph (b) of Section 1 shall be made unless it is determined by any of the following that the Covered Person has not met the standard of conduct set forth in paragraph (b) of Section 1:

(a) the Board, acting by a quorum consisting of directors who were not parties to (or who are determined to have been successful with respect to) the claim, action, suit or proceeding;

(b) a committee of the Board established pursuant to Article III Section 8 of the By-laws consisting of directors who were not parties to (or who are determined to have been successful with respect to) the claim, action, suit or proceeding;

(c) any officer or group of officers of the Corporation who, by resolution adopted by the Board, has been given authority to make such determinations; or

(d) either of the following selected by the Board if a disinterested committee of the Board (as described in paragraph (b) of this Section 2) cannot be obtained or by the person(s) designated in paragraphs (a), (b) or (c) of this Section 2:

(1) independent legal counsel (who may be the regular counsel of the Corporation) who has delivered to the Corporation a written determination; or

(2) an arbitrator or a panel of arbitrators (which panel may include directors, officers, employees or agents of the Corporation) who has delivered to the Corporation a written determination.

SECTION 3. Expenses incurred with respect to any claim, action, suit or proceeding of the character described in Section 1 of this Article shall be advanced to a Covered Person by the Corporation prior to the final disposition thereof, but the Covered Person shall be obligated to repay such advances if it is ultimately determined that the Covered Person is not entitled to indemnification. As a condition to advancing expenses hereunder, the Corporation may require the Covered Person to sign a written instrument acknowledging such obligation to repay any advances hereunder if it is ultimately determined the Covered Person is not entitled to indemnity.

Notwithstanding the preceding paragraph, the Corporation may refuse to advance expenses or may discontinue advancing expenses to a Covered Person if such advancement is determined by the Corporation, in its sole and exclusive discretion, not to be in the best interest of the Corporation.

SECTION 4. Notwithstanding anything in this Article to the contrary, no person shall be indemnified in respect of any claim, action, suit or proceeding initiated by such person or such person's personal or legal representative, or which involved the voluntary solicitation or intervention of such person or such person's personal or legal representative (other than an action to enforce indemnification rights hereunder or an action initiated with the approval of a majority of the Board).

SECTION 5. The rights of indemnification provided in this Article shall be in addition to any other rights to which any Covered Person may otherwise be entitled to by contract, vote of shareholders or disinterested directors, other corporate action or otherwise; and in the event of any such Covered Person's death, such rights shall extend to the Covered Person's heirs and legal representatives.

ARTICLE XI

AMENDMENTS

Any By-law may be adopted, repealed, altered or amended by the Board at any regular or special meeting thereof. The shareholders of the Corporation shall have the power to amend, alter or repeal any By-law only to the extent and in the manner provided in the articles of incorporation of the Corporation.

Name of employee
Address of employee

Dear:

Ashland Inc. considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interest of the Company and its shareholders. In this regard, the Company recognizes that, as is the case with many publicly-held corporations, the possibility of a Change in Control of the Company does exist and that such possibility, and the uncertainty and questions which a Change in Control of the Company may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders. In addition, difficulties in attracting and retaining new senior management personnel may be experienced. Accordingly, on the basis of the recommendation of the Personnel and Compensation Committee of the Board, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of certain members of the Company's management, including you, to their assigned duties without distraction in the face of the potentially disruptive circumstances arising from the possibility of a Change in Control of the Company.

In order to encourage you to remain in the employ of the Company, this Agreement sets forth those benefits which the Company will provide to you in the event your employment with the Company (1) is terminated without Cause during the term of this Agreement, or (2) you resign for Good Reason following a Change in Control of the Company under the circumstances described below.

SECTION A. DEFINITIONS

1. "Agreement" shall mean this letter agreement.

2. "Board" shall mean the Company's Board of Directors.

3. "Cause" shall occur hereunder only upon (A) the willful and continued failure by you substantially to perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties, (B) the willful engaging by you in gross misconduct materially and demonstrably injurious to the Company after a written demand to cease such misconduct is delivered to you by the Board, or (C) your conviction of or the entering of a plea of nolo contendere to the commission of a felony involving moral turpitude. For purposes of this paragraph, no act, or failure to act, on your part shall be considered "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for the purpose, among others, (after at least 20 days prior notice to you and an opportunity for you, together with your counsel, to be heard before the Board), of finding that (i) in the good faith opinion of the Board you failed to perform your duties or engaged in misconduct as set forth above in subparagraph (A) or (B) of this paragraph, and that you did not correct such failure or cease such misconduct after being requested to do so by the Board, or (ii) as set forth in subparagraph (C) of this paragraph, you have been convicted of or have entered a plea of nolo contendere to the commission of a felony involving moral turpitude.

4. "Change in Control of the Company" shall be deemed to have occurred if (i) there shall be consummated (A) any consolidation, merger, or share exchange of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (B) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company, or (ii) the shareholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company, or (iii) any Person, other than the Company or a Subsidiary thereof or any employee benefit plan sponsored by the Company or a Subsidiary thereof, shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 15% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing in special circumstances) having the right to vote in the election of directors, as a result of a tender or exchange offer, open market purchases, privately-negotiated purchases or otherwise, or (iv) at any time during a period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's shareholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

5. "COBRA" shall mean the Consolidated Omnibus Budget

Reconciliation Act, as amended.

6. "Common Stock" shall mean the common stock, par value \$1.00 per share, of the Company.

7. "Company" shall mean Ashland Inc. and any successor to its business and/or assets which executes and delivers the agreement provided for in Section F, paragraph 1 hereof or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

8. "Competitive Activity" shall have the meaning as set forth in Section C, paragraph 2.

9. "Competitive Operation" shall have the meaning as set forth in Section C, paragraph 2.

10. "Confidential Information" shall mean information relating to the Company's, its divisions' and Subsidiaries' and their successors' business practices and business interests, including, but not limited to, customer and supplier lists, business forecasts, business and strategic plans, financial and sales information, information relating to products, process, equipment, operations, marketing programs, research, or product development, engineering records, computer systems and software, personnel records or legal records.

11. "Date Of Termination" shall mean: (A) if this Agreement is terminated for Disability, thirty (30) days after the Notice of Termination is given by the Company to you (provided that you shall not have returned to the performance of your duties on a full-time basis during such thirty (30) day period), (B) if your employment is terminated for Good Reason by you, the date specified in the Notice of Termination, and (C) if your employment is terminated for any other reason, the date on which a Notice of Termination is received by you unless a later date is specified.

12. "Disability" shall occur when: if, as a result of your incapacity due to physical or mental illness, you shall have been absent from your duties with the Company for six (6) consecutive months and shall not have returned to full-time performance of your duties within thirty (30) days after written notice is given to you by the Company.

13. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

14. "Excise Tax" shall have the meaning as set forth in Section E.

15. "Good Reason" shall mean:

(a) without your express written consent, the assignment to you after a Change in Control of the Company, of any duties inconsistent with, or a significant diminution of, your positions, duties, responsibilities or status with the Company immediately prior to a Change in Control of the Company, or a diminution in your titles or offices as in effect immediately prior to a Change in Control of the Company or any removal of you from, or any failure to reelect you to, any of such positions;

(b) a reduction by the Company in your base salary in effect immediately prior to a Change in Control of the Company or a failure by the Company to increase (within fifteen months of your last increase in base salary) your base salary after a Change in Control of the Company in an amount which is substantially similar, on a percentage basis, to the average percentage increase in base salary for all corporate officers of the Company during the preceding twelve (12) months;

(c) the failure by the Company to continue in effect any thrift, stock ownership, pension, life insurance, health, dental and accident or disability plan in which you are participating or are eligible to participate at the time of a Change in Control of the Company (or plans providing you with substantially similar benefits), except as otherwise required by the terms of such plans as in effect at the time of any Change in Control of the Company, or the taking of any action by the Company which would adversely affect your participation in or materially reduce your benefits under any of such plans or deprive you of any material fringe benefits enjoyed by you at the time of the Change in Control of the Company or the failure by the Company to provide you with the number of paid vacation days to which you are entitled in accordance with the vacation policies of the Company in effect at the time of a Change in Control of the Company, unless a comparable plan is substituted therefor;

(d) the failure by the Company to continue in effect any incentive plan or arrangement (including without limitation, the Company's Incentive Compensation plan, annual bonus and contingent bonus arrangements and credits and the right to receive performance awards and similar incentive compensation benefits) in which you are participating at the time of a Change in Control of the Company (or to substitute and continue other plans or arrangements providing you with substantially similar benefits), except as otherwise required by the terms of such plans as in effect at the time of any Change in Control of the Company;

(e) the failure by the Company to continue in effect any plan or arrangement to receive securities of the Company (including, without limitation, any plan or arrangement to receive and exercise stock options, stock appreciation rights, restricted stock or grants thereof or to acquire stock or other securities of the Company) in which you are participating at the time of a Change in Control of the Company (or to substitute and continue

plans or arrangements providing you with substantially similar benefits), except as otherwise required by the terms of such plans as in effect at the time of any Change in Control of the Company, or the taking of any action by the Company which would adversely affect your participation in or materially reduce your benefits under any such plan;

(f) the relocation of the Company's principal executive offices to a location outside the Covington, Kentucky area, or the Company's requiring you to be based anywhere other than at your current location or at the location of the Company's principal executive or divisional offices, except for required travel on the Company's business to an extent substantially consistent with your present business travel obligations, or, in the event you consent to any such relocation of the Company's principal executive or divisional offices, the failure by the Company to pay (or reimburse you for) all reasonable moving expenses incurred by you relating to a change of your principal residence in connection with such relocation and to indemnify you against any loss (defined as the difference between the actual sale price of such residence and the greater of (a) your aggregate investment in such residence, or (b) the fair market value of such residence as determined by Relocation Properties Management LLC or other real estate appraiser reasonably satisfactory to both you and the Company) realized in the sale of your principal residence in connection with any such change of residence;

(g) any breach by the Company of any material provision of this Agreement; or

(h) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company.

16. "Gross-up Payment" shall have the meaning as set forth in Section E.

17. "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated.

18. "Payment" shall have the meaning as set forth in Section E.

19. "Person" shall have the meaning as set forth in the Sections 13(d) and 14(d)(2) of the Exchange Act.

20. "Qualifying Termination" shall mean the termination of your employment after a Change in Control of the Company while this Agreement is in effect, unless such termination is (a) by reason of your death or Disability, (b) by the Company for Cause, or (c) by you other than for Good Reason.

21. "Salary Continuation Period" shall have the meaning set forth in Section C, paragraph 1.

22. "Subsidiary" shall mean any corporation of which more than 20% of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether or not at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by the Company, by the Company and one or more other Subsidiaries, or by one or more other Subsidiaries.

SECTION B. TERM AND BENEFITS.

This Agreement shall be in effect for two years from the date you accept this Agreement and will be automatically renewed for successive two (2) year periods unless at least thirty (30) days advance written notice is given by either party to the other party hereto prior to the commencement of the next succeeding two (2) year period regarding the termination of this Agreement by the Company. During the term of employment hereunder, you agree to devote your full business time and attention to the business and affairs of the Company and to use your best efforts, skills and abilities to promote its interests.

In the event of your retirement, at your election or in accordance with the Company's generally applicable retirement policies, as in effect from time to time, this Agreement shall automatically terminate, without additional notice to you, as of the effective date of your retirement. Notwithstanding the first sentence of this paragraph and the first sentence of this Section B, if a Change in Control of the Company should occur while you are still an employee of the Company and while this Agreement is in effect, then this Agreement shall continue in effect from the date of such Change in Control of the Company for a period of two years. Prior to a Change in Control of the Company, your employment may be terminated by the Company for Cause at any time pursuant to a Notice of Termination. In such event, you shall not be entitled to the benefits provided hereunder. No benefits shall be payable hereunder unless your employment is terminated without Cause or there shall have been a Change in Control of the Company and your employment by the Company shall thereafter terminate in accordance with Section D hereof.

SECTION C. TERMINATION PRIOR TO CHANGE IN CONTROL.

1. Compensation Prior to a Change in Control. If you are terminated by the Company without Cause during the term of this Agreement and prior to a Change in Control of the Company, you shall be entitled to

receive:

(a) payment of your highest salary during the prior two year fiscal years preceding the fiscal year in which your Date of Termination occurs for a period of two (2) years after your Date of Termination ("Salary Continuation Period");

(b) continuation of your and your eligible dependents' existing participation at regular employee rates, in effect from time to time, in all of the Company's medical, dental and group life plans or programs in which you were participating immediately prior to your Date of Termination during the Salary Continuation Period, after which time you and your eligible dependents will be eligible for coverage under COBRA. In the event that your continued participation in any such plan or program is for whatever reason impossible, the Company shall arrange upon comparable terms to provide you with benefits substantially equivalent on an after tax basis to those which you and your eligible dependents are, or become, entitled to receive under such plans and programs;

(c) if and when payments are made, payment in cash of any pro-rata portion (up through your Date Of Termination) of any amounts you would have received under the Company's performance unit/share plans, incentive compensation plan and any other similar executive compensation plan in which you were a participant immediately prior to your Date of Termination; and

(d) outplacement services historically offered to displaced employees by the Company under substantially the same terms and fee structure as is consistent with an employee in your position.

However, in the event that your employment with the Company is terminated during the term of this Agreement and prior to a Change in Control of the Company and such termination is not a termination without Cause (including, without limitation, termination by reason of your voluntary termination, retirement, death, or Disability), or if your employment is terminated for Cause during the term of this Agreement, you shall not be entitled to receive any benefits under this Agreement.

2. Competitive Activity. In consideration of the foregoing, you agree that if your employment is terminated during the term of this Agreement and prior to a Change in Control of the Company, then during a period ending six (6) months following your Date of Termination you shall not engage in any Competitive Activity; provided, you shall not be subject to the foregoing obligation if the Company breaches a material provision of this Agreement. If you engage in any Competitive Activity during that period, the Company shall be entitled to recover any benefits paid to you under this Agreement. For purposes of this Agreement, "Competitive Activity" shall mean your participation, without the written consent of the General Counsel of the Company, in the management of any business operation of any enterprise if such operation (a "Competitive Operation") engages in substantial and direct competition with any business operation actively conducted by the Company or its divisions and Subsidiaries on your Date of Termination. For purposes of this paragraph, a business operation shall be considered a Competitive Operation if such business sells a competitive product or service which constitutes (i) 15% of that business's total sales or (ii) 15% of the total sales of any individual subsidiary or division of that business and, in either event, the Company's sales of a similar product or service constitutes (i) 15% of the total sales of the Company or (ii) 15% of the total sales of any individual Subsidiary or division of the Company. Competitive Activity shall not include (i) the mere ownership of securities in any enterprise, or (ii) participation in the management of any enterprise or any business operation thereof, other than in connection with a Competitive Operation of such enterprise.

3. Release. In exchange for the benefits herein, you completely release the Company to the fullest extent permitted by law from all claims you may have against the Company on your Date of Termination except claims related to (a) claims for benefits to which you are entitled under this Agreement and (b) any applicable worker's compensation or unemployment compensation laws.

SECTION D. TERMINATION FOLLOWING CHANGE IN CONTROL.

1. Qualifying Termination. If your termination is a Qualifying Termination, you shall be entitled to receive the payments and benefits provided in this Section.

2. Notice of Termination. Except as provided in Section F, paragraph 1, any termination of your employment following a Change in Control of the Company shall be communicated by written Notice of Termination to the other party hereto. No termination shall be effective without such Notice of Termination.

3. Compensation Upon Termination After a Change in Control.

(a) If your termination is a Qualifying Termination, then the Company shall pay to you as severance pay (and without regard to the provisions of any benefit or incentive plan), in a lump sum cash payment on the fifth (5th) day following your Date of Termination, an amount equal to three (3) times the highest of your annual compensation (including annual incentive compensation and performance share/unit payments) paid or payable in respect of the prior three (3) fiscal years preceding the fiscal year in which your Date of Termination occurs or, if greater, the prior three (3) fiscal years preceding the fiscal year in which the Change in Control of the Company occurs.

(b) If your termination is a Qualifying Termination, the Company shall, in addition to the payments required by the preceding

paragraph:

(i) provide for continuation of your and your eligible dependents' participation at regular employee rates, in effect from time to time, in all of the Company's medical, dental and group life plans or programs in which you were participating immediately prior to your Date of Termination for a period of two years from your Date of Termination, after which time you and your eligible dependents will be eligible for coverage under COBRA. In the event that your continued participation in any such plan or program is for whatever reason impossible, the Company shall arrange upon comparable terms to provide you with benefits substantially equivalent on an after tax basis to those which you and your eligible dependents are, or become, entitled to receive under such plans and programs;

(ii) provide for full payment in cash of any performance unit/share awards in existence on your Date of Termination less any amounts paid to you under the applicable performance unit/share plan upon a Change in Control of the Company pursuant to the provisions of such plan;

(iii) provide for payment in cash of any incentive compensation (a) for the fiscal year during which the Change in Control of the Company occurred and any prior fiscal years for which you have not yet received payment, and (b) payment of incentive compensation for the fiscal year in which your Date of Termination occurs calculated as the greater of (x) the highest incentive compensation amount you were awarded in the last (3) three fiscal years preceding the fiscal year in which your Date of Termination occurs and (y) 125% of your gross base salary (gross base salary to be calculated as of the day prior to the date the Change in Control of the Company occurs or, if greater, your Date of Termination);

(iv) provide those benefits or compensation under any compensation plan, arrangement or agreement not in existence as of the date hereof but which may be established by the Company prior to your Date of Termination at such time as payments are made thereunder to the same extent as if you had been a full-time employee on the date such payments would otherwise have been made or benefits vested;

(v) if requested by you, purchase your principal residence in accordance with the provisions of Relocation Properties Management LLC that have historically applied in the case of transfers of the Company's employees; provided, however, that the purchase price of your residence shall be deemed to be the greater of (a) your aggregate investment in such residence, or (b) the then current fair market value of such residence;

(vi) for one (1) year after your Date of Termination, provide and pay for outplacement services, by a firm reasonably acceptable to you, that have historically been offered to displaced employees generally by the Company under substantially the same terms and fee structure as is consistent with an employee in your then current position (or, if higher, your position immediately prior to the Change in Control of the Company);

(vii) for one (1) year after your Date of Termination, provide and pay for financial planning services, by a firm reasonably acceptable to you, that have historically been offered to you under substantially the same terms and fee structure as is consistent with an employee in your then current position (or, if higher, your position immediately prior to the Change in Control of the Company);

(viii) pay to you an amount equal to the value of all unused, earned and accrued vacation as of your Date of Termination pursuant to the Company's policies in effect immediately prior to the Change in Control of the Company; and

(ix) provide for the immediate vesting of all stock options held by you, as of your Date of Termination, under any Company stock option plan and all such options shall be exercisable for the remaining terms of the options.

(c) Unless otherwise provided in this Agreement or in the applicable compensation or stock option plan or program, all payments shall be made to you within thirty (30) days after your Date of Termination. These benefits are in addition to all accrued and vested benefits to which you are entitled to under any of the Company's plans and arrangements, including but not limited to, the accrued vested benefits to which you are eligible for and entitled to receive under any of the Company's qualified and non-qualified benefit or retirement plans, or any successor plans in effect on your Date of Termination hereunder.

(d) You shall not be required to mitigate the amount of any payment provided for in this Section by seeking other employment

or otherwise, nor shall the amount of any payment provided for in this Section be reduced by any compensation earned by you as the result of employment by another employer after your Date of Termination, or otherwise. Except as provided herein, the Company shall have no right to set off against any amount owing hereunder any claim which it may have against you.

SECTION E. ADDITIONAL PAYMENTS BY THE COMPANY.

Notwithstanding anything to the contrary in this Agreement, in the event that any payment or distribution by the Company to or for your benefit, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest or penalties, are hereinafter collectively referred to as the "Excise Tax"), the Company shall pay to you an additional payment (a "Gross-up Payment") in an amount such that after payment by you of all taxes (including any interest or penalties imposed with respect to such taxes), including any income, employment and Excise Tax imposed on any Gross-up Payment, you retain an amount of the Gross-up Payment equal to the Excise Tax imposed upon the Payments. You and the Company shall make an initial determination as to whether a Gross-up Payment is required and the amount of any such Gross-up Payment. If you and the Company can not agree on whether a Gross-up Payment is required or the amount thereof, then an independent nationally recognized accounting firm, appointed by you, shall determine the amount of the Gross-up Payment. The Company shall pay all expenses which you may incur in determining the Gross-up Payment. You shall notify the Company in writing of any claim by the Internal Revenue Service which, if successful, would require the Company to make a Gross-up Payment (or a Gross-up Payment in excess of that, if any, initially determined by the Company and you) within ten days of the receipt of such claim. The Company shall notify you in writing at least ten days prior to the due date of any response required with respect to such claim if it plans to contest the claim. If the Company decides to contest such claim, you shall cooperate fully with the Company in such action; provided, however, the Company shall bear and pay directly or indirectly all costs and expenses (including additional interest and penalties) incurred in connection with such action and shall indemnify and hold you harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of the Company's action. If, as a result of the Company's action with respect to a claim, you receive a refund of any amount paid by the Company with respect to such claim, you shall promptly pay such refund to the Company. If the Company fails to timely notify you whether it will contest such claim or the Company determines not to contest such claim, then the Company shall immediately pay to you the portion of such claim, if any, which it has not previously paid to you.

SECTION F. MISCELLANEOUS

1. Assumption of Agreement. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, share exchange or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to you, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of a material provision of this Agreement and shall entitle you to compensation in the same amount and on the same terms as you would be entitled pursuant to Section D, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed your Date of Termination without a Notice of Termination being given.

2. Confidentiality. All Confidential Information which you acquire or have acquired in connection with or as a result of the performance of services for the Company, whether under this Agreement or prior to the effective date of this Agreement, shall be kept secret and confidential by you unless (a) the Company otherwise consents, (b) the Company breaches any material provision of this Agreement, or (c) you are legally required to disclose such Confidential Information by a court of competent jurisdiction. This covenant of confidentiality shall extend beyond the term of this Agreement and shall survive the termination of this Agreement for any reason. If you breach this covenant of confidentiality, the Company shall be entitled to recover from any benefits paid to you under this Agreement its damages resulting from such breach.

3. Employment. You agree to be bound by the terms and conditions of this Agreement and to remain in the employ of the Company during any period following any public announcement by any person of any proposed transaction or transactions which, if effected, would result in a Change in Control of the Company until a Change in Control of the Company has taken place. However, nothing contained in this Agreement shall impair or interfere in any way with the right of the Company to terminate your employment for Cause prior to a Change in Control of the Company.

4. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled exclusively by arbitration in accordance with the Center for Public Resources' Model ADR Procedures and Practices, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Notwithstanding the foregoing, the Company shall not be restricted from seeking equitable relief, including injunctive relief as set forth in paragraph 5 of this Section, in the appropriate forum. Any cost of arbitration will be paid by the Company. In the event of a dispute over the existence of Good Reason or Cause after a Change in Control of the Company, the Company shall continue to pay your salary, bonuses and plan benefits pending resolution of the dispute. If you prevail in the

arbitration, the remaining amounts due to you under this Agreement are to be immediately paid to you.

5. Injunctive Relief. You acknowledge and agree that the remedy of the Company at law for any breach of the covenants and agreements contained in paragraph 2 of this Section and in Section C, paragraph 2 will be inadequate, and that the Company will be entitled to injunctive relief against any such breach or any threatened, imminent, probable or possible breach. You represent and agree that such injunctive relief shall not prohibit you from earning a livelihood acceptable to you.

6. Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the General Counsel of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

7. Indemnification. The Company will indemnify you to the fullest extent permitted by the laws of the Commonwealth of Kentucky and the existing By-laws of the Company, in respect of all your services rendered to the Company and its divisions and Subsidiaries prior to your Date of Termination. You shall be entitled to the protection of any insurance policies the Company now or hereafter maintains generally for the benefit of its directors, officers and employees (but only to the extent of the coverage afforded by the existing provisions of such policies) to protect against all costs, charges and expenses whatsoever incurred or sustained by you in connection with any action, suit or proceeding to which you may be made a party by reason of your being or having been a director, officer or employee of the Company or any of its divisions or Subsidiaries during your employment therewith.

8. Further Assurances. Each party hereto agrees to furnish and execute such additional forms and documents, and to take such further action, as shall be reasonably and customarily required in connection with the performance of this Agreement or the payment of benefits hereunder.

9. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by you and such officer(s) as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

10. Termination of other Agreements. Upon execution by both parties, this Agreement shall terminate all prior employment and severance agreements between you and the Company and its divisions or Subsidiaries.

11. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

12. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

13. Legal Fees And Expenses. Any other provision of this Agreement notwithstanding, the Company shall pay all legal fees and expenses which you may incur as a result of the Company's unsuccessful contesting of the validity, enforceability or your interpretation of, or determinations under, any part of this Agreement.

14. Governing Law. This Agreement shall be governed in all respects by the laws of the Commonwealth of Kentucky.

15. Agreement Binding on Successors. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amounts would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee, or other designee or, if there be no such designee, to your estate.

16. Headings. All Headings are inserted for convenience only and shall not affect any construction or interpretation of this Agreement.

If this Agreement correctly sets forth our agreement on the subject matter hereof, please sign and return to the Company the enclosed copy of this Agreement which will then constitute our agreement on this matter.

Sincerely,

ASHLAND INC.

By: _____

ACCEPTED this _____

day of _____, 19____.

Employee

ASHLAND INC.
1995 PERFORMANCE UNIT PLAN
(As amended January 27, 1999)

1. PURPOSE

The purpose of this Ashland Inc. 1995 Performance Unit Plan (the "Plan") is to further the long-term profitable growth of Ashland by offering a long-term incentive in addition to current compensation to eligible employees who will be largely responsible for such growth to the benefit of the Ashland shareholders. It is expected that this plan will encourage such employees to remain with Ashland and will also encourage qualified persons to seek and accept employment with Ashland.

2. DEFINITIONS

Terms not otherwise defined herein shall have the following meanings:

(a) "Ashland" means Ashland Inc., its divisions and subsidiaries.

(b) "Board" means the Board of Directors of Ashland Inc.

(c) "Change in Control" shall be deemed to occur (1) upon the approval of the shareholders of Ashland (or if such approval is not required, upon the approval of the Board) of (A) any consolidation or merger of Ashland in which Ashland is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property other than a merger in which the holders of Common Stock immediately prior to the merger will have the same proportionate ownership of Common Stock of the surviving corporation immediately after the merger, (B) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of Ashland or (C) adoption of any plan or proposal for the liquidation or dissolution of Ashland, (2) when any "person" (as defined in Section 3(a)(9) or 13(d) of the Exchange Act), other than Ashland Inc. or any subsidiary or employee benefit plan or trust maintained by Ashland Inc. or any of its subsidiaries, shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 15% of the Common Stock outstanding at the time, without the approval of the Board, or (3) if at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by Ashland's shareholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

(d) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(e) "Committee" means the Personnel and Compensation Committee of the Board.

(f) "Common Stock" means the common stock, \$1.00 par value, of Ashland Inc.

(g) "Employee" means an employee selected for participation in the Plan as set forth in Section 5.

(h) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(i) "Fair Market Value" means, as of any specified date (or, if a weekend or holiday, the next preceding business day), the closing price of a share of Common Stock, as reported on the Composite Tape for New York Stock Exchange issues.

(j) "Participant" means any Employee who receives a Performance Unit Award under the Plan for a Performance Period.

(k) "Performance Goals" mean performance goals as may be established in writing by the Committee which may be based on earnings, stock price, return on equity, return on investment, total return to shareholders, economic value added, debt rating or achievement of business or operational goals, such as drilling or exploration targets or profit per barrel. Such goals may be absolute in their terms or measured against or in relationship to other companies comparably or otherwise situated. Such performance goals may be particular to an Employee or the division, department, branch, line of business, subsidiary or other unit in which the Employee works and/or may be based on the performance of Ashland generally.

(l) "Performance Period" means the period of time designated by the Committee applicable to a Performance Unit Award during which the Performance Goals shall be measured.

(m) "Performance Unit Award" means an award made pursuant to the provisions of this Plan, the payment of which is contingent upon attainment of Performance Goals.

3. SHARES: ADJUSTMENTS IN THE EVENT OF CHANGES IN CAPITALIZATION

(a) Shares Authorized for Issuance. There shall be reserved for issuance under the Plan 2,200,000 shares of Common Stock, subject to adjustment pursuant to subsection (b) below. Such shares shall be

authorized but unissued shares of Common Stock.

(b) Adjustments in Certain Events. In the event of any change in the outstanding Common Stock by reason of any stock split, share dividend, recapitalization, merger, consolidation, reorganization, combination, or exchange or reclassification of shares, split-up, split-off, spin-off, liquidation or other similar change in capitalization, or any distribution to common shareholders other than cash dividends, the number or kind of shares that may be issued under the Plan shall be automatically adjusted to that the proportionate interest of the Employees shall be maintained as before the occurrence of such event.

4. ADMINISTRATION

Subject to the express provisions of this Plan, the Committee shall have full authority to construe, interpret and administer this Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, to make Performance Unit Awards, to determine the terms, provisions and conditions of the respective Performance Unit Awards (which need not be identical) and to make all other determinations necessary or advisable for the Plan's administration. Decisions of the Committee shall be final, conclusive and binding upon all parties.

5. ELIGIBILITY

Performance Unit Awards may be made only to regular, full-time, salaried employees of Ashland as selected by the Committee. Any Employee may receive one or more Performance Unit Awards as the Committee shall from time to time determine, and such determinations may be different as to different Employees and may vary as to different awards. Nothing contained in this Plan shall be construed to limit the right of Ashland to grant other forms of incentive compensation otherwise than under this Plan. The Plan or the receipt of a Performance Unit Award shall not confer on any individual any right to continue in the employ of Ashland or interfere in any way with the right of Ashland to terminate his or her employment at any time, with or without cause, despite the fact that such termination may have an adverse impact on the Participant's receipt of payment of a Performance Unit Award.

6. PERFORMANCE UNIT AWARDS

(a) The Performance Goals and Performance Period applicable to a Performance Unit Award shall be set forth in writing by the Committee no later than 120 days after the commencement of the Performance Period and shall be communicated to the Employee. The Committee shall have the discretion to later revise the Performance Goals solely for the purpose of reducing or eliminating the amount of compensation otherwise payable upon attainment of the Performance Goals; provided that the Performance Goals and the amounts payable upon attainment of the Performance Goals may be adjusted during any Performance Period to reflect promotions, transfers or other changes in an Employee's employment so long as such changes are consistent with the Performance Goals established for other Employees in the same or similar positions.

(b) In making a Performance Unit Award, the Committee may take into account an Employee's responsibility level, performance, cash compensation level, incentive compensation awards and such other considerations as it deems appropriate. Each Performance Unit Award shall be established in dollars or shares of Common Stock, or a combination of both, as determined by the Committee, and shall be based on the Employee's base salary on the date of the Performance Unit Award. The original amount of any Performance Unit Award shall not exceed 400% of the Employee's then annual base salary; the amount paid out upon meeting the Performance Goals shall not exceed the amount of such Performance Unit Award; and the total amount of all Performance Unit Awards for a Performance Period shall not exceed 2% of shareholders' equity as shown in Ashland's Annual Report to Shareholders at the end of the fiscal year next preceding the commencement of such Performance Period. In determining the amount of any Performance Unit Award made, in whole or in part, in shares of Common Stock, the value thereof shall be based on the Fair Market Value on the first day of the Performance Period or on such other date as the Board shall determine.

(c) A Performance Unit Award shall terminate for all purposes if the Employee does not remain continuously employed and in good standing with Ashland until payment of such Performance Unit Award. An Employee (or his or her beneficiaries or estate) whose employment was terminated because of death, disability or retirement will receive a pro rata portion of the payment of his or her award based upon the portion of the Performance Period during which he or she was so employed so long as the Performance Goals are subsequently achieved.

(d) Payment with respect to Performance Unit Awards will be made to Employees on a date or dates fixed by the Committee. The amount of such payment shall be determined by the Committee and shall be based on the original amount of such Performance Unit Award adjusted to reflect the attainment of the Performance Goals during the Performance Period. Payment may be made in one or more installments and may be made wholly in cash, wholly in shares of Common Stock or partly in cash and partly in such shares, all at the discretion of the Committee.

In addition, Employees may be offered the opportunity to defer the receipt of payment of a Performance Unit Award. Common Stock may be granted (i) as a bonus for deferral, or (ii) as a bonus for retaining for a specified period of time, Common Stock received in payment of a Performance Unit Award, all under such terms as may be established by the Committee from time to time. Notwithstanding, in no event shall the value of the Common Stock granted as a bonus for deferral or retention exceed 20% of the value of the Performance Unit Award so deferred or retained. Any and all payments made under the Plan shall be subject to the applicable federal, state or local taxes required by law to be withheld.

If payment of a Performance Unit Award established in dollars is to be made in shares of Common Stock or partly in such shares, the number of shares of Common Stock to be delivered to an Employee on any payment date shall be determined by dividing (x) the amount payable by (y) the Fair Market Value on the date the Board approves the Committee's decision to pay the Performance Unit Award or on such other date as the Board shall determine.

If payment of a Performance Unit Award established in shares of Common Stock is to be made in cash or partly in cash, the amount of cash to be paid to an Employee on any payment date shall be determined by multiplying (x) the number of shares of Common Stock to be paid in cash on such payment date with respect to such Performance Unit Award, by (y) the Fair Market Value on the date the Board approves the Committee's decision to pay the Performance Unit Award or on such other date as the Board shall determine. Any payment may be subject to such restrictions and conditions as the Committee may determine.

7. NONTRANSFERABILITY AND NO SHAREHOLDER RIGHTS

The right to receive payment of a Performance Unit Award shall not be assigned or transferred in whole or in part, either directly or by operation of law or otherwise (except by will or the laws of descent and distribution) including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or any other manner. The holder of a Performance Unit Award payable in whole or in part in shares of Common Stock shall have none of the rights of a shareholder with respect to such award until shares of Common Stock shall have been registered in the name of the person or persons receiving payment of such award on the transfer books of Ashland upon such payment.

8. CHANGE IN CONTROL

Upon a Change in Control, in order to maintain a Participant's rights under the Plan, there shall be an acceleration of any Performance Period relating to any Performance Unit Award, and payment of any Performance Unit Award shall be made in cash as soon as practicable after such Change in Control based upon achievement of the Performance Goals applicable to such award up to the date of the Change in Control. If such Performance Unit Award was established in shares of Common Stock, the amount of cash to be paid to an Employee with respect to the Performance Unit Award shall be determined by multiplying (x) the number of shares of Common Stock relating to such Performance Unit Award, by (y) the Fair Market Value on the date of the Change in Control. Further, Ashland's obligation with respect to such Performance Unit Award shall be assumed, or new obligations substituted therefor, by the acquiring or surviving corporation after such Change in Control. In addition, prior to the date of such Change in Control, the Committee, in its sole judgment may make adjustment to any Performance Unit Award as may be appropriate to reflect such Change in Control.

9. GOVERNING LAW

The provisions of this Plan shall be interpreted and construed in accordance with the laws of the Commonwealth of Kentucky.

10. AMENDMENT AND TERMINATION

The Plan shall be submitted to the shareholders for approval and adoption on January 26, 1995 or such other date fixed for the next meeting of shareholders or any adjournment or postponement thereof. Upon shareholder approval, the Plan will become effective as of October 1, 1994. Unless terminated sooner by the Committee, to the extent necessary to ensure that Performance Unit Award payments be deductible under the Code, this Plan shall terminate on, and no Performance Unit Awards shall be granted after, the first meeting of shareholders occurring in calendar year 2000. Termination of the Plan shall not affect any awards made hereunder which are outstanding on the date of termination and such awards shall continue to be subject to the terms of the Plan notwithstanding its termination. The Committee may amend, alter or terminate this Plan at any time without the prior approval of the Board; provided, however, that the Committee may not, without approval by the Board and the shareholders:

(i) increase the amount of securities that may be issued under the Plan (except as provided in Section 3(b));

(ii) materially modify the requirements as to eligibility for participation in the Plan; or

(iii) otherwise materially increase the benefits accruing the Employees under the Plan.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION
 EXTRACTED FROM ASHLAND INC.'S 1ST QUARTER 10-Q AND IS
 QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH 10-Q.

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	3-MOS SEP-30-1999	DEC-31-1998
		91
	0	
	1,109	
	21	
	471	
	1,860	2,472
	1,289	
	5,970	
	1,311	1,511
		75
	0	
		0
		1,988
5,970		
		1,646
	1,633	1,350
	1,350	
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	33	
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