

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

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: (859) 815-3333

Securities Registered Pursuant to Section 12(b):

| Title of each class | Name of each exchange on which registered |
|--|--|
| Common Stock, par value \$1.00 per share | New York Stock Exchange and Chicago Stock Exchange |
| Rights to Purchase Series A Participating Cumulative Preferred Stock | New York Stock Exchange and Chicago Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(G): NONE

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

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

At October 31, 2002, based on the New York Stock Exchange closing price, the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$1,780,870,376. In determining this amount, the Registrant has assumed that its directors and executive officers are affiliates. Such assumption shall not be deemed conclusive for any other purpose.

At October 31, 2002, there were 68,242,197 shares of Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Annual Report to Shareholders for the fiscal year ended September 30, 2002 are incorporated by reference into Parts I, II and IV.

Portions of Registrant's definitive Proxy Statement for its January 30, 2003 Annual Meeting of Shareholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

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

Ashland's businesses are grouped into five industry segments: APAC, Ashland Distribution, Ashland Specialty Chemical, Valvoline and Refining and Marketing. Financial information about these segments for the three fiscal years ended September 30, 2002 is set forth on pages 60 and 61 of Ashland's Annual Report to Shareholders for the fiscal year ended September 30, 2002 ("Annual Report").

APAC performs asphalt and concrete contract construction work, including highway paving and repair, excavation and grading, and bridge construction, and produces asphaltic and ready-mix concrete, crushed stone and other aggregate in the southern and midwestern United States.

Ashland Distribution distributes industrial chemicals and solvents, plastics, composite materials and fine ingredients in North America and plastics in Europe. Ashland Distribution also provides environmental and energy management services. Ashland Specialty Chemical manufactures composites, adhesives, and casting binder chemicals for use in the transportation and construction industries. Ashland Specialty Chemical also manufactures water treatment chemicals for use in the general industrial and merchant marine markets. In addition, Ashland Specialty Chemical manufactures high purity chemicals and provides services to the microelectronics industry.

Valvoline is a producer and marketer of premium packaged motor oil and automotive chemicals, including appearance products, antifreeze, filters, rust preventives and coolants. In addition, Valvoline is engaged in the "fast oil change" business through outlets operating under the Valvoline Instant Oil Change(R) name.

Marathon Ashland Petroleum LLC ("MAP"), a joint venture with Marathon Oil Company, operates seven refineries with a total crude oil refining capacity of 935,000 barrels per day. Refined products are distributed through a network of independent and company-owned outlets in the Midwest, the upper Great Plains and the southeastern United States. Marathon Oil Company holds a 62% interest in MAP, and Ashland holds a 38% interest in MAP. Ashland accounts for its investment in MAP using the equity method.

At September 30, 2002, Ashland and its consolidated subsidiaries had approximately 24,300 employees (excluding contract employees).

APAC

The APAC group of companies is the nation's largest asphalt and concrete paving company and is a major supplier of construction materials. APAC performs construction work, such as paving, repairing and resurfacing highways, streets, airports, residential and commercial developments, sidewalks and driveways, and grading and base work. In addition, it performs a number of construction services such as excavation and related activities in the construction of bridges and structures, drainage facilities and underground utilities. APAC conducts its business through 25 market focused business units operating in 14 southern and midwestern states. Distinguished by their local identities, these business units provide construction services, technologies and materials throughout the regions in which they operate. These market focused business units are supported by management and administrative staff in Atlanta, Georgia.

To deliver its services and products, APAC utilizes extensive aggregate-producing properties and construction equipment. It currently has 36 permanent operating quarry locations, 61 other aggregate production facilities, 67 ready-mix concrete plants, 242 hot-mix asphalt plants and a fleet of over 16,500 mobile equipment units, including heavy construction equipment and transportation-related equipment. In certain market areas, APAC is vertically integrated with asphalt, aggregate and ready-mix operations, all complementing one another.

Raw aggregate generally consists of sand, gravel, granite, limestone and sandstone. About 30% of the raw aggregate produced by APAC is used in APAC's own contract construction work and the production of various processed construction materials. The remainder is sold to third parties. APAC also purchases substantial quantities of raw aggregate from other producers whose proximity to the job site renders it economically attractive. Most other raw materials, such as liquid asphalt, portland cement and reinforcing steel, are purchased from third parties.

Approximately 79% of APAC's sales and operating revenues are construction revenues, with the remaining 21% coming from sales of construction materials. Approximately 83% of APAC's construction revenues are derived

directly from highway and other public sector sources, with the remaining 17% coming from industrial and commercial customers and private developers.

Climate and weather significantly affect revenues and margins in the construction business. Due to its location, APAC tends to enjoy a relatively long construction season. Most of APAC's operating income is generated during the construction period of May to October.

Total backlog at September 30, 2002 was \$1,691 million (including APAC's \$130 million proportionate share of work related to an unconsolidated equity joint venture), compared to \$1,629 million at September 30, 2001. APAC includes a construction project in its backlog when a contract is awarded or a firm letter of commitment is obtained and funding is in place. The backlog at September 30, 2002 is considered firm, and a major portion is expected to be completed during fiscal 2003.

ASHLAND DISTRIBUTION

Ashland Distribution Company ("Ashland Distribution") distributes chemicals, plastics, reinforcements and resins, and fine ingredients in North America and plastics in Europe. Suppliers include many of the nation's leading chemical manufacturers and a growing number of offshore producers. Ashland Distribution specializes in providing mixed truckloads and less-than-truckload quantities to customers in a wide range of industries. Deliveries are facilitated through a network of owned or leased facilities including approximately 70 locations in North America and 25 locations in 18 foreign countries. Ashland Distribution operates in the following major market segments:

CHEMICALS - Ashland Distribution distributes specialty and industrial chemicals, additives and solvents to industrial users through distribution centers in the United States, Canada, Mexico and Puerto Rico, as well as some export operations. Markets served include the paint and coatings, inks, adhesives, polymer, rubber, industrial and institutional compounding, automotive, appliance and paper industries.

PLASTICS - Ashland Distribution sells a broad range of branded thermoplastic resins to injection molders, extruders, blow molders, and rotational molders in the plastics industry through distribution locations in the United States, Canada, Mexico and Puerto Rico. It also provides plastic material transfer and packaging services and less-than-truckload quantities of packaged thermoplastics. Additionally, Ashland Distribution markets a broad range of thermoplastics to processors in Europe via distribution centers located in Belgium, England, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Spain and Sweden.

COMPOSITES - Ashland Distribution supplies mixed truckload and less-than-truckload quantities of polyester thermosetting resins, fiberglass and other specialty reinforcements, catalysts and allied products to customers in the reinforced plastics and cultured marble industries through distribution facilities located throughout North America.

INGREDIENTS - Ashland Distribution markets food-grade and nutritional additives and ingredients to customers in North America. It also distributes cosmetic and pharmaceutical specialty chemicals.

SERVICES - Ashland Distribution also provides energy and environmental management services. Energy services include customized management of energy purchasing, supply and transportation. Environmental services, working in cooperation with chemical waste service companies, provide customers with chemical waste collection, disposal and recycling services.

ASHLAND SPECIALTY CHEMICAL

Ashland Specialty Chemical Company ("Ashland Specialty Chemical") manufactures composites, adhesives, and casting binder chemicals for use in the transportation and construction industries. Ashland Specialty Chemical also manufactures water treatment chemicals for use in the general industrial and merchant marine markets. In addition, it manufactures high purity chemicals and provides services to the microelectronics industry. Ashland Specialty Chemical owns and operates 33 manufacturing facilities and participates in 14 manufacturing joint ventures in 18 countries. Ashland Specialty Chemical is comprised of the following business units:

COMPOSITE POLYMERS - This business unit manufactures and sells a broad range of chemical-resistant, fire-retardant, general-purpose and high-performance marine grades of unsaturated polyester and vinyl ester resins and gelcoats for the reinforced plastics industry. Key markets include the transportation, construction and marine industries. This business unit has manufacturing plants in Jacksonville and Fort Smith, Arkansas; Los Angeles, California; Bartow, Florida; McMinnville, Oregon; Philadelphia, Pennsylvania; Johnson Creek, Wisconsin; Kelowna, British Columbia, Canada; Kunshan, China; Porvoo and Lahti, Finland; Sauveterre, France; Miszewo, Poland; Benicarlo, Spain; and, through separate joint ventures has manufacturing plants in Sao Paulo, Brazil, and Jeddah, Saudi Arabia. In addition, this business unit also manufactures products through other Ashland Specialty Chemical facilities located in Neville Island, Pennsylvania, and Mississauga, Ontario, Canada. Effective September 2002, the former Petrochemicals business unit became a group within the Composite Polymers business unit. The

Petrochemical business manufactures maleic anhydride at Neal, West Virginia and also markets maleic anhydride in North America.

CASTING SOLUTIONS (FORMERLY FOUNDRY PRODUCTS) - This business unit manufactures and sells foundry chemicals worldwide, including sand-binding resin systems, refractory coatings, release agents, engineered sand additives and riser sleeves. This business unit serves the global metal casting industry from 24 manufacturing locations in 18 countries. This business unit changed its name to Casting Solutions business unit in 2002.

DREW INDUSTRIAL - This business unit supplies specialized chemicals and consulting services for the treatment of boiler water, cooling water, steam, fuel and waste streams. It also supplies process chemicals and technical services to the pulp and paper and mining industries and additives to manufacturers of latex and paint. It conducts operations throughout North America, Europe and the Far East through subsidiaries, joint venture companies and distributors. This business unit has manufacturing plants in Kearny, New Jersey; Houston, Texas; Sydney and Perth, Australia; Singapore; Ajax, Ontario, Canada; Somercotes, England; and Auckland, New Zealand.

ELECTRONIC CHEMICALS - This business unit manufactures and sells a variety of ultrapure chemicals for the worldwide semiconductor industry through various manufacturing locations and also custom blends and packages ultrapure liquid chemicals to customer specifications. This business unit operates manufacturing plants in Pueblo, Colorado; Easton, Pennsylvania; Dallas, Texas; Pyongtaek-Shi, Kyonggi-Do, Korea; Milan, Italy; and through a joint venture with Union Petrochemical Corporation, an ultrapure-process chemicals manufacturing facility in Taiwan. In addition, it enters into long-term agreements to provide complete on-site chemical management services, including purchasing, warehousing and delivering chemicals for in-plant use of high purity chemicals at major facilities of large consumers. This business unit's Fab Services business provides full-service equipment parts-cleaning, refurbishment and management services to the semiconductor manufacturing industry from facilities in Chandler and Tempe, Arizona; and Austin and Carrollton, Texas.

SPECIALTY POLYMERS & ADHESIVES - This business unit manufactures and sells specialty phenolic resins for paper impregnation and friction material bonding; acrylic polymers for pressure-sensitive adhesives; emulsion polymer isocyanate adhesives for structural wood bonding; polyurethane and epoxy structural adhesives for bonding fiberglass reinforced plastics, composites, thermoplastics and metals in automotive, recreational, and industrial applications; induction bonding systems for thermoplastic materials; elastomeric polymer adhesives and butyl rubber roofing tapes for commercial roofing applications; and vapor-curing, high-performance urethane coatings systems. It has manufacturing plants in Calumet City, Illinois; Norwood and Totowa, New Jersey; Ashland and Columbus, Ohio; White City, Oregon; and Kidderminster, England.

DREW MARINE - This business unit supplies specialty chemicals for water and fuel treatment and general maintenance, as well as sealing products, welding and refrigerant products and fire fighting and safety services to the world's merchant marine fleet. It also provides shipboard technical service for vessels serving ports throughout the world.

OTHER MATTERS

For information on Ashland Distribution and Ashland Specialty Chemical and federal, state and local statutes and regulations governing releases into, or protection of, the environment, see "Item 1. Business - Miscellaneous - Environmental Matters" and "Item 3. Legal Proceedings - Environmental Proceedings" in this Form 10-K.

VALVOLINE

The Valvoline Company, a division of Ashland, is a marketer of premium-branded automotive and commercial oils, automotive chemicals, automotive appearance products and automotive services, with sales in more than 140 countries. The Valvoline(R) trademark was federally registered in 1873 and is the oldest trademark for a lubricating oil in the United States. Valvoline is comprised of the following business units:

NORTH AMERICAN: DO IT YOURSELF ("DIY") & DO IT FOR ME ("DIFM") - In the United States and Canada, Valvoline markets its array of premium automotive lubricants and chemicals to the U.S. private passenger car and light truck market through two large business units based on the consumer segments of the market, "Do-It-Yourself" and "Do-It-For-Me." These two business units market Valvoline(R) motor oil, one of the top selling brands in the United States; synthetic SynPower(R) automobile chemicals for "under-the-hood" use; Eagle One(R) automotive appearance products; Zerex(R) antifreeze; and Pyroil(R) automotive chemicals. The DIY business unit sells the Valvoline family of brands to consumers who perform their own auto maintenance, through retail auto parts stores, mass merchandisers, and warehouse distributors and their affiliated jobber stores such as NAPA and Carquest. The DIFM business unit sells Valvoline products to consumers who use auto service businesses, such as car dealers and

quick lubes, through a network of independent distributors and five company-owned and operated "direct market" operations.

The domestic Commercial and Specialty Products Group, operated within the DIFM business unit, has a strategic alliance with Cummins Engine Company, Inc. to distribute heavy-duty lubricants to the commercial market.

This business unit also markets R-12, an automotive refrigerant that was phased out of production in 1995. R-12 is being replaced in the market by a new generation of refrigerants. Valvoline expects to deplete its inventory of R-12 in fiscal 2003.

EAGLE ONE - Eagle One is a brand of premium automobile appearance chemicals for "above-the-hood" applications. Products include waxes, polishes and wheel cleaners. Managed by Valvoline as a separate business unit, Eagle One markets its products through Valvoline's DIY and DIFM business units in North America and through the Valvoline International business unit. During fiscal 2002, Eagle One successfully introduced Wax-As-U-Dry automobile wax. Wax-As-U-Dry is a first-of-its-kind product designed to be applied to the automobile during the hand-drying process following the washing of the automobile.

VALVOLINE INTERNATIONAL - Valvoline International markets Valvoline branded products and Eagle One automotive appearance products through company-owned affiliates or business units in Australia, Austria, Belgium, Brazil, Denmark, Finland, Germany, Great Britain, Italy, the Netherlands, Poland, South Africa, Sweden and Switzerland. TECTYL(R) rust preventives are marketed in Europe. Licensees and distributors market certain products in other parts of Europe, Mexico, Central and South America, the Far East, the Middle East and certain African countries. Joint ventures have been established in China, Ecuador, India, Thailand and Venezuela. Packaging and blending plants and distribution centers in Australia, Canada, the Netherlands and the United States supply international customers.

VALVOLINE INSTANT OIL CHANGE(R) ("VIOC") - VIOC is one of the largest competitors in the expanding U.S. "fast oil change" service business, providing Valvoline with a significant share of the installed segment of the passenger car and light truck motor oil market. As of September 30, 2002, 363 company-owned and 335 franchised service centers were operating in 40 states.

VIOC has continued its customer service innovation through its upgraded and enhanced Maximum Vehicle Performance program ("MVP"). MVP is a computer-based program that maintains system-wide service records on all customer vehicles. MVP also contains a database on all car models, which allows employees to make service recommendations based on a vehicle owner's manual recommendations.

REFINING AND MARKETING

Refining and Marketing operations are conducted by MAP and its subsidiaries, including its wholly-owned subsidiaries, Speedway SuperAmerica LLC and Marathon Ashland Pipe Line LLC. Marathon Oil Company ("Marathon") holds a 62% interest in MAP and Ashland holds a 38% interest in MAP.

REFINING

MAP owns and operates seven refineries with an aggregate refining capacity of 935,000 barrels of crude oil per calendar day (1 barrel = 42 United States gallons). The table below sets forth the location and daily crude oil throughput capacity (measured in barrels) of each of MAP's refineries as of September 30, 2002:

| | |
|-------------------------------|---------|
| Garyville, Louisiana..... | 232,000 |
| Catlettsburg, Kentucky..... | 222,000 |
| Robinson, Illinois..... | 192,000 |
| Detroit, Michigan..... | 74,000 |
| Canton, Ohio..... | 73,000 |
| Texas City, Texas..... | 72,000 |
| St. Paul Park, Minnesota..... | 70,000 |
| | ----- |
| Total | 935,000 |
| | ===== |

MAP's refineries include crude oil atmospheric and vacuum distillation, fluid catalytic cracking, catalytic reforming, desulfurization and sulfur recovery units. The refineries have the capability to process a wide variety of crude oils and to produce typical refinery products, including reformulated gasoline ("RFG"). In addition to typical refinery products, the Catlettsburg refinery, an ISO-9000 certified facility, manufactures lubricating oils and a wide range of petrochemicals. For the twelve months ended September 30, 2002, 74% of MAP's production of

lubricating oils was purchased by Valvoline and 39% of MAP's production of petrochemicals was purchased by Ashland Distribution.

MAP also produces a wide range of asphalt products, petroleum pitch (primarily used in the graphite electrode, clay target and refractory industries), aromatics, aliphatic hydrocarbons, cumene, base lube oil, slack wax and polymer grade propylene.

The table below sets forth MAP's refinery total input and refinery production by product group for the twelve months ended September 30, 2002, 2001 and 2000. Refinery total inputs include crude oil and other feedstocks.

| | Twelve Months Ended September 30 | | |
|---|----------------------------------|---------|---------|
| | 2002 | 2001 | 2000 |
| | ---- | ---- | ---- |
| Refinery Input (in thousands of barrels per day) | 1,080.9 | 1,051.0 | 1,033.4 |
| ----- | | | |
| Refined Product Yields (in thousands of barrels per day) | | | |
| Gasoline..... | 594.0 | 560.5 | 559.0 |
| Distillates..... | 292.9 | 278.7 | 271.5 |
| Propane..... | 21.7 | 21.2 | 21.0 |
| Feedstocks & Special Products..... | 83.5 | 69.9 | 68.9 |
| Heavy Fuel Oils..... | 21.3 | 44.7 | 41.2 |
| Asphalt..... | 73.3 | 74.5 | 73.3 |
| | ----- | ----- | ----- |
| Total..... | 1,086.7 | 1,049.5 | 1,034.9 |
| | ===== | ===== | ===== |

Planned maintenance activities requiring temporary shutdown of certain refinery operating units are periodically performed at each refinery. MAP had a major turnaround at the St. Paul Park refinery in the twelve months ended September 30, 2002.

The Garyville, Louisiana coker unit project achieved mechanical completion in October 2001 and was operating at full production by mid-December 2001. To supply this new unit, MAP entered into a multi-year contract with P.M.I. Comercio Internacional, S.A. de C.V., an affiliate of Petroleos Mexicanos, to purchase approximately 90,000 barrels per day of heavy Mayan crude oil. The contract was increased to approximately 100,000 barrels per day in July 2002.

At its Catlettsburg, Kentucky refinery, MAP has initiated a multi-year integrated investment program to upgrade product yield realizations and reduce fixed and variable manufacturing expenses. This program involves the expansion, conversion and retirement of certain refinery processing units which, in addition to improving profitability, will reduce the refinery's total gasoline pool sulfur below 30 parts per million, thereby eliminating the need for low sulfur gasoline compliance investments at the refinery. The project is expected to be completed in late 2003.

MARKETING

MAP's principal marketing areas for gasoline and distillates include the Midwest, the upper Great Plains and the southeastern United States. Gasoline and distillates are sold in 21 states. Gasoline is sold at wholesale primarily to independent marketers, jobbers and chain retailers who resell these products through several thousand retail outlets. MAP also supplies approximately 3,800 jobber-dealer, open-dealer and lessee-dealer locations using the Marathon(R) and Ashland(R) brand names.

Gasoline, distillates and aviation products are also sold to utilities, railroads, river towing companies, commercial fleet operators, airlines and governmental agencies. About half of MAP's propane is sold into the home heating markets and the balance is purchased by industrial consumers. Propylene, cumene, aromatics, aliphatics, and sulfur are marketed to customers in the chemical industry. Base lube oils and slack wax are sold throughout the United States. Pitch is also sold domestically, but approximately 10% of pitch products are exported into growing markets in Canada, Mexico, India, and South America.

MAP markets asphalt through owned and leased terminals located throughout the Midwest and Southeast. The MAP customer base includes approximately 900 asphalt paving contractors, government entities (states, counties, cities and townships) and asphalt roofing shingle manufacturers.

Retail sales of gasoline and diesel fuel are made through MAP's wholly-owned subsidiary, Speedway SuperAmerica LLC ("SSA"). As of September 30, 2002, SSA had 2,063 retail outlets in 13 states in the Midwest and Southeast which sell petroleum products and convenience store merchandise primarily under the brand names Speedway(R) and SuperAmerica(R). The retail locations sell a variety of food, merchandise, cigarettes, candy and beverages. Several locations also have on-premises brand-name restaurants such as Subway(R) and Taco Bell(R).

During the twelve months ended September 30, 2002, 57% of SSA's revenues (excluding excise taxes) were derived from the sale of gasoline and diesel fuel, and the remainder were derived from the sale of merchandise.

Pilot Travel Centers LLC ("PTC"), a joint venture with Pilot Corporation ("Pilot"), is the largest operator of travel centers in the United States with approximately 230 locations in 35 states. The travel centers offer diesel fuel, gasoline and a variety of other services associated with such locations, including on-premises brand-name restaurants. Pilot and MAP each own a 50% interest in PTC.

The table below shows the volume of MAP's consolidated refined product sales for the twelve months ended September 30, 2002, 2001 and 2000.

Twelve Months Ended September 30

| | 2002 | 2001 | 2000 |
|--|---------|---------|---------|
| | ---- | ---- | ---- |
| Refined Product Sales (in thousands of barrels per day) | | | |
| ----- | | | |
| Gasoline..... | 774.3 | 741.0 | 752.1 |
| Distillates..... | 345.7 | 349.6 | 351.2 |
| Propane..... | 22.7 | 21.5 | 21.6 |
| Feedstocks & Special Products | 80.3 | 68.1 | 67.6 |
| Heavy Fuel Oils..... | 22.0 | 46.3 | 40.9 |
| Asphalt..... | 76.2 | 75.8 | 75.1 |
| | ----- | ----- | ----- |
| Total..... | 1,321.2 | 1,302.3 | 1,308.5 |
| | ===== | ===== | ===== |
| Matching Buy/Sell Volumes included in above..... | 69.3 | 43.7 | 41.4 |

MAP sells RFG in parts of its marketing territory, primarily Chicago, Illinois; Louisville, Kentucky; Northern Kentucky; and Milwaukee, Wisconsin. MAP also markets low-vapor-pressure gasolines in nine states.

SUPPLY AND TRANSPORTATION

The crude oil processed in MAP's refineries is obtained from negotiated contract and spot purchases or exchanges. For the twelve months ended September 30, 2002, MAP's negotiated contract and spot purchases for refinery input of crude oil produced in the U.S. averaged 454,800 barrels per day, including an average of 46,900 net barrels per day acquired from Marathon. For the twelve months ended September 30, 2002, MAP's foreign crude oil requirements were met largely through purchases from various foreign national oil companies, producing companies and traders. Purchases of foreign crude oil represented 51% of MAP's crude oil requirements for the twelve months ended September 30, 2002.

MAP's ownership or interest in domestic pipeline systems in its refining and marketing areas is significant. MAP owns, leases or has an ownership interest in 7,160 miles of pipelines in 12 states. This network transports crude oil and refined products to and from terminals, refineries and other pipelines. It includes 10 miles of crude oil gathering lines, 3,410 miles of crude oil trunk lines and 3,740 miles of refined product lines.

MAP has a 46.7% ownership interest in LOOP LLC ("LOOP"), which is the owner and operator of the only U.S. deepwater port facility capable of receiving crude oil from very large crude carriers. Ashland has retained a 4% ownership interest in LOOP. MAP also owns a 49.9% ownership interest in LOCAP INC. ("LOCAP"), which is the owner and operator of a crude oil pipeline connecting LOOP to the Capline system. Ashland has retained an 8.6% ownership interest in LOCAP. In addition, MAP has a 37.2% ownership interest in the Capline system. These port and pipeline systems provide MAP with access to common carrier transportation from the Louisiana Gulf Coast to Patoka, Illinois. At Patoka, the Capline system connects with other common carrier pipelines owned by MAP that provide transportation to MAP's refineries in Illinois, Kentucky, Michigan, Minnesota and Ohio.

Ohio River Pipe Line LLC ("ORPL"), a subsidiary of MAP, is building a pipeline from Kenova, West Virginia to Columbus, Ohio. ORPL is a common carrier pipeline company and the pipeline will be an interstate common carrier pipeline. The pipeline is currently known as Cardinal Products Pipe Line and is expected to initially move about 50,000 barrels per day of refined petroleum into the central Ohio region. ORPL has secured all of the rights-

of-way required to build the pipeline, and the final permits required to build the pipeline have been approved. Construction on the pipeline began in August 2002, with start-up of the pipeline expected in the first half of 2003.

MAP has been designated operator of the Centennial Pipeline, owned jointly by Panhandle Eastern Pipe Line Company, a subsidiary of CMS Energy Corporation, MAP, and TE Products Pipe Line Company, Limited Partnership. The new pipeline system, which connects the Gulf Coast refiners with the Midwest market, has the initial capacity to transport approximately 210,000 barrels per day of refined petroleum products and began deliveries of refined products in April 2002.

MAP also has a 33.3% ownership interest in Minnesota Pipe Line Company, which operates a crude oil pipeline in Minnesota. Minnesota Pipe Line Company provides MAP with access to crude oil common carrier transportation from Clearbrook, Minnesota, to Cottage Grove, Minnesota, which is in the vicinity of MAP's St. Paul Park, Minnesota refinery.

MAP's marine transportation operations include towboats and barges that transport refined products on the Ohio, Mississippi and Illinois rivers, their tributaries and the Intracoastal Waterway. MAP also leases and owns railcars in various sizes and capacities for movement and storage of petroleum products and a large number of tractors, tank trailers and general service trucks.

In addition, MAP owns and operates 88 terminal facilities from which it sells a wide range of petroleum products. These facilities are supplied by a combination of barges, pipeline, truck and/or rail.

OTHER MATTERS

For information on MAP and federal, state and local statutes and regulations governing releases into the environment or protection of the environment, see "Item 1. Business - Miscellaneous - Environmental Matters" in this Form 10-K.

MISCELLANEOUS

ENVIRONMENTAL MATTERS

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

Federal, state and local laws and regulations relating to the protection of the environment have a significant impact on how Ashland conducts its businesses. New laws are being enacted and regulations are being adopted by various regulatory agencies on a continuing basis, and the costs of compliance with these new rules cannot be estimated until the manner in which they will be implemented has been more accurately defined. In addition, most foreign countries in which Ashland conducts business have laws dealing with similar matters.

At September 30, 2002, Ashland's reserves for environmental remediation amounted to \$169 million, reflecting Ashland's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Ashland regularly adjusts its reserves as environmental remediation continues. None of the remediation locations is individually material to Ashland as its largest reserve for any site is less than \$10 million. As a result, Ashland's exposure to adverse developments with respect to any individual site is not expected to be material, and these sites are in various stages of ongoing remediation. Although environmental remediation could have a material effect on results of operations if a series of adverse developments occurs in a particular quarter or fiscal year, Ashland believes that the chance of such developments occurring in the same quarter or fiscal year is remote.

In connection with the formation of MAP, Marathon and Ashland each retained responsibility for certain environmental costs arising out of their respective prior ownership and operation of the facilities transferred to MAP.

In certain situations, various threshold provisions apply, eliminating or reducing the financial responsibility of the contributing party until certain levels of expenditure have been reached. In other situations, sunset provisions gradually diminish the level of financial responsibility of the contributing party over time.

AIR - The Clean Air Act (the "CAA") imposes stringent limits on air emissions, establishes a federally mandated operating permit program, and allows for civil and criminal enforcement actions. Additionally, it establishes air quality attainment deadlines and control requirements based on the severity of air pollution in a given geographical area. Various state clean air acts implement, complement and, in some instances, add to the requirements of the federal CAA. The requirements of the CAA and its state counterparts have a significant impact on the daily operation of Ashland's businesses and, in many cases, on product formulation and other long-term business decisions. Ashland's businesses maintain numerous permits pursuant to these clean air laws and have implemented systems to oversee ongoing compliance efforts.

In July 1997, the United States Environmental Protection Agency ("EPA") promulgated revisions to the National Ambient Air Quality Standards ("NAAQS") for ground level ozone and particulate matter. As written, the revisions could have a significant effect on certain of Ashland's chemical manufacturing and distribution businesses, and on MAP. In 2001, the U.S. Supreme Court upheld the EPA's authority to set NAAQS without considering the costs related to compliance. In early 2002, the Washington, D.C. District Court of Appeals upheld EPA's proposed revisions to the NAAQS. EPA has begun to implement the new ozone and particulate matters standards, which could result in areas of the country, where Ashland and MAP conduct operations, being designated as not in compliance with the NAAQS. Until these revisions have been more fully implemented, it is not currently possible to estimate any potential financial impact that the revised standards may have on Ashland's or MAP's operations.

WATER - Ashland's businesses maintain numerous discharge permits, as the National Pollutant Discharge Elimination System of the Clean Water Act ("CWA") and state programs require, and have implemented systems to oversee their compliance efforts. In addition, several of MAP's operations, in particular its barge and terminal facilities, are regulated under the Oil Pollution Act of 1990.

SOLID WASTE - Ashland's businesses are subject to the Resource Conservation and Recovery Act ("RCRA"), which establishes standards for the management of solid and hazardous wastes. Besides affecting current waste disposal practices, RCRA also addresses the environmental effects of certain past waste disposal operations, the recycling of wastes and the storage of regulated substances in underground tanks.

REMEDIATION - Ashland currently operates, and in the past has operated, various facilities where, during the normal course of business releases of hazardous substances have occurred. Federal and state laws, including but not limited to RCRA and various remediation laws, require that contamination caused by such releases be assessed and, if necessary, remediated to meet applicable standards. MAP operates, and in the past has operated, certain retail outlets where, during the normal course of business releases of petroleum products from underground storage tanks have occurred. Federal and state laws require that contamination caused by such releases at these sites be assessed and, if necessary, remediated to meet applicable standards.

RESEARCH

Ashland conducts a program of research and development to invent and improve products and processes and to improve environmental controls for its existing facilities. It maintains its research facilities in Dublin, Ohio; Lexington, Kentucky; and Atlanta, Georgia. Research and development costs are expensed as they are incurred and totaled \$38 million in fiscal 2002 (\$36 million in 2001 and \$33 million in 2000).

COMPETITION

In all its operations, Ashland is subject to intense competition both from companies in the industries in which it operates and from products of companies in other industries.

The majority of the business for which APAC competes is obtained by competitive bidding. There are a substantial number of competitors in the markets in which APAC operates and, as a result, all of APAC's goods and services are marketed under highly competitive conditions. Factors which influence APAC's competitiveness are price, reputation for quality, the availability of aggregate materials, machinery and equipment, knowledge of local markets and conditions and estimating abilities.

Each of Ashland Distribution's businesses, except for the plastics distribution businesses, compete with national, regional and local companies throughout North America. The plastics distribution businesses compete in both North America and Europe. Competition in these businesses is based primarily on price and reliability of supply. Ashland Specialty Chemical's businesses compete globally in selected niche markets, largely on the basis of technology and service. The number of competitors in the specialty chemical business varies from product to product, and it is not

practical to identify such competitors because of the broad range of products and markets served by those products. However, many of Ashland Specialty Chemical's businesses hold proprietary technology, and Ashland believes it has a leading or strong market position in most of its specialty chemical products. Ashland Specialty Chemical's petrochemicals business is largely a commodities business, with pricing and quality being the most important factors.

Valvoline competes in the highly competitive lubricants business principally through product and service quality, distribution capability, a focused "master" brand strategy, advertising and sales promotion. Some of the major brands of motor oils and lubricants Valvoline competes with internationally are Havoline(R), Castrol(R), Pennzoil(R) and Quaker State(R). The highly competitive consumer products car care business is primarily composed of maintenance chemicals, appearance products and tire cleaners. Valvoline competes primarily in this market through specific product performance benefits, distribution capability and advertising and sales promotion. In the highly competitive "fast oil change" business, Valvoline competes with other leading independent fast lube chains on a national, regional or local basis, as well as automobile dealers and service stations. Valvoline's brand recognition, service offering and increasing market presence in the U.S. "fast oil change" market, as well as quality of service, speed, location, convenience and sales promotion, are important competitive factors.

MAP competes with a large number of companies to acquire crude oil for refinery processing and in the distribution and marketing of a full array of petroleum products. MAP believes it ranks among the top ten U.S. petroleum companies on the basis of crude oil refining capacity as of September 30, 2002. MAP competes in four distinct markets for the sale of refined products - wholesale, spot, branded and retail distribution. MAP believes it competes with approximately 40 companies in the wholesale distribution of petroleum products to private brand marketers and large commercial and industrial consumers; approximately 80 companies in the sale of petroleum products in the spot market; approximately 10 refiner/marketers in the supply of branded petroleum products to dealers and jobbers; and approximately 600 petroleum product retailers in the retail sale of petroleum products. MAP also competes in the convenience store industry through SSA's retail outlets and in the travel center industry through their ownership in PTC. The retail outlets offer consumers gasoline, diesel fuel (at selected locations) and a variety of food, merchandise, cigarettes, candy and beverages.

FORWARD-LOOKING STATEMENTS

This Form 10-K and the documents incorporated by reference contain 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, including various information within the "Capital Resources," "Application of Critical Accounting Policies," "Derivative Instruments" and "Outlook" sections in Management's Discussion and Analysis in Ashland's Annual Report. Words such as "anticipates," "believes," "estimates," "expects," "is likely," "predicts," and variations of such words and similar expressions are intended to identify such forward-looking statements. Although Ashland believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such statements will be achieved. Important factors which could cause actual results to differ materially from those contained in such statements are discussed under "Risks and Uncertainties" in Note A of Notes to Consolidated Financial Statements in Ashland's Annual Report. For a discussion of other factors and risks affecting Ashland's revenues and operations see "Item 1. Business - Miscellaneous - Marketing Conditions" below.

MARKETING CONDITIONS

Domestic and international political, legislative, regulatory and legal changes may adversely affect Ashland's results of operations. Political actions may include changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries, including military conflict, embargoes, internal instability or actions or reactions of the U.S. government in anticipation of, or in response to, such actions. Profitability of MAP depends largely on the margin between the cost of crude oil and other feedstocks refined and the selling prices of refined products. MAP is a purchaser of crude oil in order to satisfy its refinery throughput requirements. As a result, MAP's overall profitability could be adversely affected by increases in crude oil and other feedstock prices that are not recovered in the market place through higher prices. Reference should be made to the Refining and Marketing section of the Management's Discussion and Analysis section in Ashland's Annual Report for a discussion of the impact of crude oil costs on MAP's operating performance. While Ashland maintains reserves for anticipated liabilities and carries various levels of insurance, Ashland could be affected by civil, criminal, regulatory or administrative proceedings and claims relating to asbestos, environmental remediation and other matters.

Ashland's operations are subject to various U.S. and foreign laws and regulations relating to environmental protection and worker health and safety. These laws and regulations regulate discharges of pollutants into the air and water, the management and disposal of hazardous substances, and the cleanup of contaminated properties. The costs

of complying with these laws and regulations can be substantial and may increase as applicable requirements become more stringent and new rules are implemented. If violation of these laws and regulations occur, Ashland may be forced to pay substantial fines, to complete additional costly projects, or to modify or curtail its operations to limit contaminant emissions.

The profitability of Ashland's businesses are particularly susceptible to downturns in the economy, particularly downturns in the segments of the U.S. economy related to the purchase and sale of durable goods, including housing, construction, automotive, marine and semiconductor. Both overall demand for Ashland's products and its profit margins may decline as a direct result of an economic recession, inflation, changes in the prices of hydrocarbons and other raw materials (e.g., crude oil and petroleum and chemical products), consumer confidence, interest rates or governmental fiscal policies. In addition, Ashland's profitability may experience significant changes as a result of variations in sales, changes in product mix or pricing competition.

In addition, changes in climate and weather can significantly affect the performance of several of Ashland's operations. Extreme variations from normal climatic conditions could have a significant effect on the operating results of APAC's construction operations. In particular, unfavorable weather conditions will delay the completion of construction projects, and may require the use of additional resources. In addition, most of the refined products sold by MAP are seasonal in nature, and thus demand for those products may decline due to significant changes in prevailing climate and weather conditions. MAP's production or distribution operations are also subject to disruption by extreme weather conditions such as floods, frozen rivers or hurricanes.

ITEM 2. PROPERTIES

Ashland's corporate headquarters, which is leased, is located in Covington, Kentucky. Principal offices of other major operations are located in Atlanta, Georgia (APAC); Dublin, Ohio (Ashland Distribution and Ashland Specialty Chemical); Lexington, Kentucky (Valvoline); and Russell, Kentucky (Administrative Services). All of these offices are leased, except for the Russell office, which is owned. Principal manufacturing, marketing and other materially important physical properties of Ashland and its subsidiaries are described under the appropriate segment under Item 1 in this Form 10-K. Additional information concerning certain leases may be found in Note F of Notes to Consolidated Financial Statements in Ashland's Annual Report.

ITEM 3. LEGAL PROCEEDINGS

ENVIRONMENTAL PROCEEDINGS - As of September 30, 2002, Ashland has 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 associated with 97 waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by the 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. The ultimate costs are not predictable with assurance and could be material. However, based on its experience with site remediation, 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 does not believe that any liability at these sites, either individually or in the aggregate, will have a material adverse effect on Ashland's consolidated financial position, cash flows or liquidity. For information regarding environmental matters and Ashland's reserves for environmental remediation, see "Management's Discussion and Analysis - Application of Critical Accounting Policies - Environmental Remediation" and Note M of Notes to Consolidated Financial Statements in Ashland's Annual Report and "Item 1. Business - Miscellaneous - Environmental Matters" in this Form 10-K.

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

A summary of asbestos claims activity follows. Because claims are frequently filed and settled in large groups, the amount and timing of settlements, and the number of open claims, can fluctuate significantly from period to period. Over the last 17 years, Riley has been dismissed as a defendant in 55% of the resolved claims.

| | 2002 | 2001 | 2000 |
|--------------------------------------|------|------|------|
| | ---- | ---- | ---- |
| (In thousands) | | | |
| Open claims - beginning of year..... | 167 | 118 | 93 |
| New claims filed..... | 45 | 52 | 37 |
| Claims settled..... | (15) | (2) | (9) |
| Claims dismissed..... | (37) | (1) | (3) |
| | ---- | ---- | ---- |
| Open claims - end of year..... | 160 | 167 | 118 |
| | ==== | ==== | ==== |

Amounts spent on litigation defense and claim settlements totaled \$38 million in 2002, \$15 million in 2001 and \$11 million in 2000. Insurance provides reimbursements for most of these costs, and coverage-in-place agreements exist with the insurance carriers that provide substantially all of the coverage that is currently being accessed. The amounts not recoverable are generally due from insurers that are insolvent, rather than as a result of uninsured claims or the exhaustion of the insurance coverage.

In previous years, Ashland recognized a net reserve for the estimated litigation defense and claim settlement costs to settle open claims that would not be recovered from insolvent insurance carriers. However, the reserve and related receivable are now presented on a gross basis in Ashland's consolidated balance sheet at September 30, 2001, to conform to the 2002 presentation. This change did not result from an increase in expected asbestos exposure, and had no effect on net income or stockholders' equity. Under this presentation, the reserve for asbestos claims amounted to \$202 million at September 30, 2002, and \$199 million at September 30, 2001. Such reserve reflects the estimated costs on an undiscounted basis that will be incurred over an extended period to resolve open claims. In addition, the receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to \$196 million at September 30, 2002, and \$178 million at September 30, 2001.

The reserve for asbestos claims is based on assumptions and estimates derived from currently known facts. However, projecting future events, such as the average cost of resolving the open claims, is subject to numerous variables that are extremely difficult to predict. These variables include the type and severity of the disease alleged by each claimant, dismissal rates, future costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards.

Ashland believes that insurance will cover the majority of the costs that will be incurred on open and future asbestos claims. Equitas Limited ("Equitas") and other London companies currently provide about 59% of the insurance coverage, and this percentage could decline over time to around 44% if higher layers of coverage provided by other carriers have to be accessed. The remaining 41% of the coverage is currently provided by five companies, all of which are rated A or higher by A. M. Best Company. Depending upon the level of costs that are ultimately incurred, the non-London coverage could ultimately expand to about 25 insurance companies or groups. Companies or groups that provide about 90% of this coverage are also rated A or higher.

Ashland has not recognized a reserve for future asbestos claims that may be asserted. Although additional claim filings are expected, Ashland does not have sufficient information to make a reasonable estimate of the number of new claims that might be filed. Furthermore, any predictions about the other variables discussed previously are subject to even greater uncertainty as the projection period lengthens. Ashland has retained the services of professional advisors to assist management in the estimation of projected liabilities and probable insurance recoveries for future asbestos claims. Results of that effort are expected to be available during the quarter ending March 31, 2003.

Although coverage limits are resolved in the coverage-in-place agreement with Equitas and the other London companies, there is a disagreement with these companies over the timing of recoveries. Depending upon the assumptions made with respect to the projected payments to settle future claims, an unfavorable resolution of this disagreement could materially affect the present value of additional insurance recoveries from those companies. Until such time as this disagreement is resolved, Ashland will use the less favorable interpretation of this agreement in estimating such insurance recoveries.

SHAREHOLDER DERIVATIVE LITIGATION - On August 16, 2002, Central Laborers' Pension Fund, derivatively as a shareholder of Ashland, instituted an action in the Circuit Court of Kentucky in Kenton County against Ashland's then-serving Board of Directors. On motion of Ashland and

the other defendants, the case was removed to the

United States District Court, Eastern District of Kentucky, Covington Division. Plaintiff has moved to remand the case to the state court. The action is purportedly filed on behalf of Ashland, and asserts the following causes of action against the Directors: breach of fiduciary duty, abuse of control, gross mismanagement, and waste of corporate assets. The suit also names Paul W. Chellgren, the then-serving Chief Executive Officer and Chairman of the Board, and James R. Boyd, former Senior Vice President and Group Operating Officer, as individual defendants, and it seeks to recover an unstated sum from them individually alleging unjust enrichment from various transactions completed during their tenure with Ashland. The suit further seeks an unspecified sum from Mr. Chellgren individually based upon alleged usurpation of corporate opportunities. The suit also names Mr. J. Marvin Quin, Ashland's Chief Financial Officer, as well as three former employees of Ashland's wholly-owned subsidiary, APAC, as individual defendants and alleges that they participated in the preparation and filing of false financial statements during fiscal years 1999 - 2001. The suit further names Ernst & Young LLP ("E&Y"), as a defendant, alleging professional accounting malpractice and negligence in the conduct of its audit of Ashland's 1999 and 2000 financial statements, respectively, as well as alleging that E&Y aided and abetted the individual defendants in their alleged breach of duties. The complaint seeks to recover, jointly and severally, from defendants an unstated sum of compensatory and punitive damages. The complaint seeks equitable and/or injunctive relief to avoid continuing harm from alleged ongoing illegal acts, and seeks a disgorgement of defendants' alleged insider-trading gains, in addition to the reasonable cost and expenses incurred in bringing the complaint, including attorneys' and experts' fees.

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended September 30, 2002.

ITEM X. EXECUTIVE OFFICERS OF ASHLAND

The following is a list of Ashland's executive officers, their ages and their positions and offices during the last five years (listed alphabetically after the Chief Executive Officer as to other Senior Vice Presidents, Administrative Vice Presidents and other executive officers).

JAMES J. O'BRIEN (age 48) is Chairman of the Board, Chief Executive Officer and Director of Ashland and has served in such capacities since November 15, 2002, October 1, 2002 and August 13, 2002, respectively. During the past five years, he has also served as President, Chief Operating Officer, Senior Vice President and Group Operating Officer of Ashland and President of The Valvoline Company.

PAUL W. CHELLGREN (age 59) was Ashland's Chairman of the Board, Chief Executive Officer and a Director of Ashland - positions he had held since 1997, 1996 and 1992, respectively. Mr. Chellgren retired as Chief Executive Officer on October 1, 2002, and as Chairman of the Board and Director on November 15, 2002.

DAVID J. D'ANTONI (age 57) is Senior Vice President and Group Operating Officer of Ashland and has served in such capacities since 1988 and 1999, respectively. During the past five years, he has also served as President of Ashland Chemical Company.

CHARLES F. POTTS (age 58) is Senior Vice President of Ashland and President of APAC, Inc. and has served in such capacities since 1992.

J. MARVIN QUIN (age 55) is Senior Vice President and Chief Financial Officer of Ashland and has served in such capacities since 1992.

KENNETH L. AULEN (age 53) is Administrative Vice President and Controller of Ashland and has served in such capacities since 1992.

GARY A. CAPPELINE (age 53) is Vice President of Ashland and President of Ashland Specialty Chemical Company effective December 4, 2002. During the last five years, he has also served as a chemical industry partner at Bear Stearns Merchant Bank, President of AlliedSignal Specialty Chemicals and Group Vice President, Pigments and Additives of Engelhard Corp.

JAMES A. DUQUIN (age 55) was Vice President of Ashland and President of Ashland Specialty Chemical Company - positions he had held since 1999. During the past five years, he also served as Group Vice President - Specialty Chemical Division of Ashland Chemical Company. Mr. DuQuin resigned as Vice President of Ashland and President of Ashland Specialty Chemical Company on November 25, 2002 and will retire from Ashland on December 31, 2002.

DAVID L. HAUSRATH (age 50) is Vice President and General Counsel of Ashland and has served in such capacities since 1998 and 1999, respectively. During the past five years, he has also served as Associate General Counsel of Ashland.

J. DAN LACY (age 55) is Vice President - Corporate Affairs of Ashland and has served in such capacity since 1986.

SAMUEL J. MITCHELL (age 41) is Vice President of Ashland and President of The Valvoline Company and has served in such capacities since January 2002. During the past five years, he has also served as Vice President - Retail Business, Vice President of Marketing and Director of Marketing - The Valvoline Company.

RICHARD P. THOMAS (age 56) is Vice President and Secretary of Ashland and has served in such capacities since 1998 and 1999, respectively.

FRANK L. WATERS (age 41) is Vice President of Ashland and President of Ashland Distribution Company and has served in such capacities since January 2002. During the past five years, he has also served as Vice President of Ashland Plastics - Europe, Director of Sales for Ashland Distribution's Fine Ingredients Division and an Executive Assistant of Ashland.

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

There is hereby incorporated by reference the information appearing in Note P of Notes to Consolidated Financial Statements in Ashland's Annual Report.

At September 30, 2002, there were approximately 17,700 holders of record of Ashland's Common Stock. Ashland Common Stock is listed on the New York and Chicago stock exchanges (ticker symbol ASH) and has trading privileges on the Boston, Cincinnati, Pacific and Philadelphia stock exchanges.

ITEM 6. SELECTED FINANCIAL DATA

There is hereby incorporated by reference the information appearing under the caption "Five-Year Selected Financial Information" on page 62 in Ashland's Annual Report.

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

There is hereby incorporated by reference the information appearing under the caption "Management's Discussion and Analysis" on pages 32 to 41 in Ashland's Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There is hereby incorporated by reference the information appearing under the caption "Derivative Instruments" on page 40 in Ashland's Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

There is hereby incorporated by reference the consolidated financial statements appearing on pages 43 through 61 in Ashland's Annual Report.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference the information to appear under the caption "Ashland Inc.'s Board of Directors - Nominees for Election at the 2003 Annual Meeting" and the information regarding Section 16 beneficial ownership reporting compliance in Ashland's definitive Proxy Statement for its January 30, 2003 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after September 30, 2002 ("Proxy Statement"). See also the list of Ashland's executive officers and related information under "Executive Officers of Ashland" in Part I - Item X in this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference the information to appear under the captions "Executive Compensation," "Compensation of Directors" and "Miscellaneous - Personnel and Compensation Committee Interlocks and Insider Participation" in Ashland's Proxy Statement.

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

There is hereby incorporated by reference the information to appear under the caption "Ashland Common Stock Ownership of Directors and Certain Officers of Ashland" and the information regarding the ownership of securities of Ashland in Ashland's Proxy Statement.

The following table summarizes the equity compensation plans under which Ashland Common Stock may be issued as of September 30, 2002. Except as disclosed in the narrative to the table, all plans were approved by shareholders of Ashland.

EQUITY COMPENSATION PLAN INFORMATION

| PLAN CATEGORY ----- | NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS ----- | WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS ----- | NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a)) ----- |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders..... | 6,636,877 | \$37.72 | 3,727,439 |
| Equity compensation plans not approved by security holders (1)..... | 845,392 | \$33.88 | 0 |
| Total..... | 7,482,269 ===== | \$37.28 ===== | 3,727,439 ===== |

(1) The Ashland Inc. Stock Option Plan for Employees of Joint Ventures is the only equity compensation plan of Ashland not approved by Ashland's shareholders. This plan was approved by Ashland's Board of Directors on September 17, 1998 and is specifically designed to grant stock options to employees of joint ventures in which Ashland has an interest. There are currently no shares reserved for future issuance under this plan. The Board of Directors authorizes the issuance of the shares at the time the stock options are granted. A recipient of such stock options will have the right to purchase Ashland Common Stock at a price and on terms specified by the Personnel and Compensation Committee of Ashland's Board of Directors. The stock options listed in the table above have been granted to certain MAP employees and were registered with the SEC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference the information to appear under the caption "Miscellaneous - Business Relationships" in Ashland's Proxy Statement.

ITEM 14. CONTROLS AND PROCEDURES

- (a) Ashland's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of Ashland's disclosure controls and procedures as of a date within 90 days of the filing date of this Form 10-K, have concluded that the disclosure controls and procedures were effective to ensure that material information relating to Ashland and its consolidated subsidiaries was made known to them by others within those entities.
- (b) There were no significant changes in Ashland's internal controls or in other factors that could significantly affect these controls or procedures subsequent to the date of Ashland's evaluation, nor were there any significant deficiencies or material weaknesses in Ashland's internal controls. As a result, no corrective actions were required or undertaken.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Report

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

The consolidated financial statements and financial schedule of Ashland presented or incorporated by reference in this report are listed in the index on page 20.

(3) Exhibits

- 3.1 Third Restated Articles of Incorporation of Ashland (filed as Exhibit 3 to Ashland's Form 10-Q for the quarter ended June 30, 2002 and incorporated herein by reference).
- 3.2 By-laws of Ashland, effective as of November 15, 2002.
- 4.1 Ashland agrees to provide the SEC, upon request, copies of instruments defining the rights of holders of long-term debt of Ashland and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the SEC.
- 4.2 Indenture, dated as of August 15, 1989, as amended and restated as of August 15, 1990, between Ashland and Citibank, N.A., as Trustee (filed as Exhibit 4.2 to Ashland's Form 10-K for the fiscal year ended September 30, 2001 and incorporated herein by reference).
- 4.3 Indenture, dated as of September 7, 2001, between Ashland and U.S. Bank National Association, as Trustee (filed as Exhibit 4.3 to Ashland's Form 10-K for the fiscal year ended September 30, 2001 and incorporated herein by reference).
- 4.4 Rights Agreement, dated as of May 16, 1996, between Ashland Inc. and the Rights Agent, together with Form of Right Certificate (filed as Exhibit 4.4 to Ashland's Form 10-K for the fiscal year ended September 30, 2001 and incorporated herein by reference).

The following Exhibits 10.1 through 10.15 are compensatory plans or arrangements or management contracts required to be filed as exhibits pursuant to Item 601(b)(10)(ii)(A) of Regulation S-K.

- 10.1 Amended Stock Incentive Plan for Key Employees of Ashland Inc. and its Subsidiaries (filed as Exhibit 10.1 to Ashland's Form 10-K for the fiscal year ended September 30, 1999 and incorporated herein by reference).
- 10.2 Ashland Inc. Deferred Compensation Plan for Non-Employee Directors.
- 10.3 Ashland Inc. Deferred Compensation Plan.
- 10.4 Tenth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees, as amended.
- 10.5 Ashland Inc. Salary Continuation Plan.
- 10.6 Form of Ashland Inc. Executive Employment Contract between Ashland Inc. and certain executives of Ashland.
- 10.7 Form of Separation Agreement and General Release between Ashland Inc. and Paul W. Chellgren, former Chief Executive Officer of Ashland.
- 10.8 Form of Indemnification Agreement between Ashland Inc. and each member of its Board of Directors (filed as Exhibit 10.8 to Ashland's Form 10-K for the fiscal year ended September 30, 2001 and incorporated herein by reference).
- 10.9 Ashland Inc. Nonqualified Excess Benefit Pension Plan.
- 10.10 Ashland Inc. Long-Term Incentive Plan (filed as Exhibit 10.9 to Ashland's Form 10-K for the fiscal year ended September 30, 2000 and incorporated herein by reference).
- 10.11 Ashland Inc. Directors' Charitable Award Program.
- 10.12 Ashland Inc. 1993 Stock Incentive Plan (filed as Exhibit 10.11 to Ashland's Form 10-K for the fiscal year ended September 30, 2000 and incorporated herein by reference).

- 10.13 Ashland Inc. 1995 Performance Unit Plan (filed as Exhibit 10.12 to Ashland's Form 10-K for the fiscal year ended September 30, 2000 and incorporated herein by reference).
- 10.14 Ashland Inc. 1997 Stock Incentive Plan.
- 10.15 Amended and Restated Ashland Inc. Incentive Plan.
- 10.16 Amended and Restated Limited Liability Company Agreement of Marathon Ashland Petroleum LLC dated as of December 31, 1998 (filed as Exhibit 10.17 to Ashland's Form 10-K for the fiscal year ended September 30, 1999 and incorporated herein by reference).
- 10.17 Put/Call, Registration Rights and Standstill Agreement as amended to December 31, 1998 among Marathon Oil Company, USX Corporation, Ashland Inc. and Marathon Ashland Petroleum (filed as Exhibit 10.18 to Ashland's Form 10-K for the fiscal year ended September 30, 1999 and incorporated herein by reference).
- 11 Computation of Earnings Per Share (appearing on page 48 of Ashland's Annual Report to Shareholders, incorporated by reference herein, for the fiscal year ended September 30, 2002).
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 13 Portions of Ashland's Annual Report to Shareholders, incorporated by reference herein, for the fiscal year ended September 30, 2002.
- 21 List of subsidiaries.
- 23.1 Consent of independent auditors.
- 24 Power of Attorney, including resolutions of the Board of Directors.
- 99.1 Certificate of Chief Executive Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- 99.2 Certificate of Chief Financial Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

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

(b) Reports on Form 8-K

A report on Form 8-K was filed August 2, 2002, to report that Paul W. Chellgren, Chairman and Chief Executive Officer of Ashland, announced his plans to retire effective November 15, 2002.

A report on Form 8-K was filed on August 7, 2002 to report that Ashland had submitted to the SEC the Statements under Oath of the Principal Executive Officer and the Principal Financial Officer pursuant to the SEC's June 27, 2002 Order requiring the filing of such statements.

A report on Form 8-K was filed on August 13, 2002 to report that James J. O'Brien had been named President and Chief Operating Officer and was elected to Ashland's Board of Directors. O'Brien would become Chairman of the Board and Chief Executive Officer of Ashland effective November 15, 2002 when Paul W. Chellgren, the then current Chairman and Chief Executive Officer retired.

A report on Form 8-K was filed on September 19, 2002 to report that James J. O'Brien would become Chief Executive Officer of Ashland effective October 1, 2002 and Chairman of the Board effective November 15, 2002.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

ASHLAND INC.
(Registrant)
By:

/s/ J. Marvin Quin

J. Marvin Quin
Senior Vice President and Chief
Financial Officer

Date: December 3, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant, in the capacities indicated, on December 3, 2002.

| SIGNATURES ----- | CAPACITY ----- |
|---|---|
| /S/ JAMES J. O'BRIEN ----- JAMES J. O'BRIEN | Chairman of the Board, Chief Executive Officer and Director |
| /S/ J. MARVIN QUIN ----- J. MARVIN QUIN | Senior Vice President and Chief Financial Officer |
| /S/ KENNETH L. AULEN ----- KENNETH L. AULEN | Administrative Vice President, Controller and Principal Accounting Officer |
| * ----- SAMUEL C. BUTLER | Director |
| * ----- FRANK C. CARLUCCI | Director |
| * ----- ERNEST H. DREW | Director |
| * ----- JAMES B. FARLEY | Director |
| * ----- ROGER W. HALE | Director |
| * ----- BERNADINE P. HEALY | Director |
| * ----- MANNIE L. JACKSON | Director |
| * ----- PATRICK F. NOONAN | Director |

*

Director

JANE C. PFEIFFER

*

Director

WILLIAM L. ROUSE, JR.

*

Director

THEODORE M. SOLSO

*

Director

MICHAEL J. WARD

*By: /s/ David L. Hausrath

David L. Hausrath
Attorney-in-Fact

Date: December 3, 2002

CERTIFICATION

Statement Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by
Chief Executive Officer Regarding Facts and Circumstances Relating to
Exchange Act Filings.

I, James J. O'Brien, Chief Executive Officer of Ashland Inc., certify
that:

1. I have reviewed this annual report on Form 10-K of Ashland Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 3, 2002

/s/ James J. O'Brien

Chief Executive Officer

CERTIFICATION

Statement Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer Regarding Facts and Circumstances Relating to Exchange Act Filings.

I, J. Marvin Quin, Chief Financial Officer of Ashland Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Ashland Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 3, 2002

/s/ J. Marvin Quin

Chief Financial Officer

Consolidated financial statements:

| | |
|---|----|
| Statements of consolidated income | * |
| Consolidated balance sheets | * |
| Statements of consolidated stockholders' equity | * |
| Statements of consolidated cash flows | * |
| Notes to consolidated financial statements | * |
| Information by industry segment | * |
| Report of independent auditors..... | 21 |
| Consolidated financial schedule: | |
| Schedule II - Valuation and qualifying accounts..... | 22 |

*The consolidated financial statements appearing on pages 43 through 61 in Ashland's Annual Report are incorporated by reference in this Annual Report on Form 10-K.

Schedules other than that listed above have been omitted because of the absence of the conditions under which they are required or because the information required is shown in the consolidated financial statements or the notes thereto. Separate financial statements for MAP required by Rule 3-09 of Regulation S-X will be filed as an amendment to this Form 10-K within 90 days after the end of MAP's fiscal year ending December 31, 2002. Separate financial statements of other unconsolidated affiliates are omitted because each company does not constitute a significant subsidiary using the 20% tests when considered individually. Summarized financial information for such affiliates is disclosed in Note D of Notes to Consolidated Financial Statements in Ashland's Annual Report.

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements and schedule of Ashland Inc. and consolidated subsidiaries listed in the accompanying index to financial statements and financial schedule (Item 15(a)). These financial statements and schedule are the responsibility of Ashland's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements listed in the accompanying index to financial statements (Item 15(a)) present fairly, in all material respects, the consolidated financial position of Ashland Inc. and consolidated subsidiaries at September 30, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note A to the financial statements, in 2002 the Company changed its method of accounting for goodwill and other intangible assets. Additionally, as discussed in Note A to the financial statements, in 2001 the Company and its unconsolidated affiliate, Marathon Ashland Petroleum LLC, changed their method of accounting for derivatives.

/s/ Ernst & Young LLP

Cincinnati, Ohio
November 6, 2002

Ashland Inc. and Consolidated Subsidiaries
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

| (In millions) | Balance at beginning of year | Provisions charged to earnings | Reserves utilized | Other changes | Balance at end of year |
|---------------------------------------|------------------------------|--------------------------------|-------------------|---------------|------------------------|
| YEAR ENDED SEPTEMBER 30, 2002 | | | | | |
| Reserves deducted from asset accounts | | | | | |
| Accounts receivable | \$ 34 | \$ 24 | \$ (23)(1) | \$ - | \$ 35 |
| Inventories | 15 | 7 | (6) | - | 16 |
| YEAR ENDED SEPTEMBER 30, 2001 | | | | | |
| Reserves deducted from asset accounts | | | | | |
| Accounts receivable | \$ 25 | \$ 34 | \$ (25)(1) | \$ - | \$ 34 |
| Inventories | 13 | 5 | (3) | - | 15 |
| YEAR ENDED SEPTEMBER 30, 2000 | | | | | |
| Reserves deducted from asset accounts | | | | | |
| Accounts receivable | \$ 23 | \$ 15 | \$(12)(1) | \$(1) | \$ 25 |
| Inventories | 15 | 3 | (5) | - | 13 |

(1) Uncollected amounts written off, net of recoveries which were not significant in 2002, \$1 million in 2001 and \$1 million in 2000.

Exhibit Index

| Exhibit No. | Description |
|-------------|---|
| 3.2 | By-laws of Ashland, effective as of November 15, 2002. |
| 10.2 | Ashland Inc. Deferred Compensation Plan for Non-Employee Directors. |
| 10.3 | Ashland Inc. Deferred Compensation Plan. |
| 10.4 | Tenth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees, as amended. |
| 10.5 | Ashland Inc. Salary Continuation Plan. |
| 10.6 | Form of Ashland Inc. Executive Employment Contract between Ashland Inc. and certain executives of Ashland. |
| 10.7 | Form of Separation Agreement and General Release between Ashland Inc. and Paul W. Chellgren, former Chief Executive Officer of Ashland. |
| 10.9 | Ashland Inc. Nonqualified Excess Benefit Pension Plan. |
| 10.11 | Ashland Inc. Directors' Charitable Award Program. |
| 10.14 | Ashland Inc. 1997 Stock Incentive Plan. |
| 10.15 | Amended and Restated Ashland Inc. Incentive Plan. |
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 13 | Portions of Ashland's Annual Report to Shareholders, incorporated by reference herein, for the fiscal year ended September 30, 2002. |
| 21 | List of subsidiaries. |
| 23.1 | Consent of independent auditors. |
| 24 | Power of Attorney, including resolutions of the Board of Directors. |
| 99.1 | Certificate of Chief Executive Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. |
| 99.2 | Certificate of Chief Financial Officer of Ashland pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. |

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, 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. 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. In the case of a removal of a director without cause, removal shall require 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. 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 for the remainder of the full term of the class of

directors in which the vacancy occurred 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.

(H) General Provision. The powers, authorities, and duties established pursuant to this Section 4 may be delegated, assigned, or required directly or indirectly by the Board of Directors, the Chairman of the Board or the President, as the case may be.

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

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 VIII

FISCAL YEAR

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

ARTICLE IX

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 X

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.

ASHLAND INC.
DEFERRED COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS
(Amended as of November 7, 2002)

ARTICLE I. GENERAL PROVISIONS

1. PURPOSE

The purpose of this Ashland Inc. Deferred Compensation Plan For Non-Employee Directors (the "Plan") is to provide each Director with an opportunity to defer some or all of the Director's Fees as a means of saving for retirement or other purposes. In addition, the Plan provides Directors with the ability to increase their proprietary interest in the Company's long-term prospects by permitting Directors to receive all or a portion of their Fees in Ashland Common Stock.

2. DEFINITIONS

The following definitions shall be applicable throughout the Plan:

(a) "Accounting Date" means the Business Day on which a calculation concerning a Participant's Compensation Account is performed, or as otherwise defined by the Committee.

(b) "Act" means the Securities Act of 1933, as amended from time to time.

(c) "Beneficiary" means the person(s) designated by a Participant in accordance with Article IV, Section 1.

(d) "Board" means the Board of Directors of Ashland Inc. or its designee.

(e) "Business Day" means a day on which the New York Stock Exchange is open for trading activity.

(f) "Change in Control" shall be deemed to occur (1) upon the approval of the shareholders of the Company (or if such approval is not required, upon the approval of the Board) of (A) any consolidation or merger of the Company, other than a consolidation or merger of the Company into or with a direct or indirect wholly-owned subsidiary, in which the Company 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 the Company, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of the Company shall be deemed to occur unless assets constituting 80% of the total assets of the Company are transferred pursuant to such sale, lease, exchange or other transfer, or (C) adoption of any plan or proposal for the liquidation or dissolution of the Company, (2) when any "person" (as defined in Section 3(a)(9) or 13(d) of the Exchange Act), other than the Company or any subsidiary or employee benefit plan or trust maintained by the Company, 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 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. Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of the Company's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, the Company and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

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

(h) "Committee on Directors" means the Committee on Directors of the Board or its designee.

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

(j) "Common Stock Fund" means that investment option, approved by the Committee on Directors, in which a Participant's Retirement Account may be deemed to be invested and may earn income based on a hypothetical investment in Common Stock.

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

(l) "Corporate Human Resources" means the Corporate Human Resources Department of the Company.

(m) "Credit Date" means the date on which any Fees would otherwise have been paid to the Participant or in the case of the Participant's designation of investment option changes, within three Business Days after

the Participant's designation is received by Corporate Human Resources, or as otherwise designated by the Committee.

(n) "Deferral Account" means the account(s) to which the Participant's Deferred Fees are credited and from which, pursuant to Article III, Section 5, distributions are made.

(o) "Deferred Fees" means the Fees elected by the Participant to be deferred pursuant to the Plan.

(p) "Director" means any non-employee director of the Company.

(q) "Disability" means a Director's incapacity, due to physical or mental illness, resulting in an inability to attend to his or her duties and responsibilities as a member of the Board.

(r) "Election" means a Participant's delivery of a written notice of election to the Secretary of the Company electing to defer payment of his or her Fees or to receive such Fees in the form of Common Stock.

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

(t) "Fair Market Value" means the price of a share of Common Stock, as reported on the Composite Tape for New York Stock Exchange issues on the date and at the time designated by the Company.

(u) "Fees" mean the annual retainer and meeting fees, as well as any per diem compensation for special assignments, earned by a Director for his or her service as a member of the Board during a calendar year or portion thereof.

(v) "Fiscal Year" means that annual period commencing October 1 and ending the following September 30.

(w) "Participant" means a Director who has elected to defer payment of all or a portion of his or her Fees and/or to receive all or a specified portion of his or her Fees in shares of Common Stock.

(x) "Payment Commencement Date" means the date payments of amounts deferred begin pursuant to Article III, Section 6.

(y) "Personal Representative" means the person or persons who, upon the disability or incompetence of a Director, shall have acquired on behalf of the Director, by legal proceeding or otherwise, the right to receive the benefits specified in this Plan.

(z) "Plan" means this Ashland Inc. Deferred Compensation Plan For Non-Employee Directors.

(aa) "Stock Account" means an account by that name established pursuant to Article III, Section 1.

(bb) "Stock Unit(s)" means the share equivalents credited to a Participant's Stock Account pursuant to Article III, Section 1.

(cc) "Termination" means retirement from the Board or termination of service as a Director for any other reason.

3. SHARES; ADJUSTMENTS IN EVENT OF CHANGES IN CAPITALIZATION

(a) Shares Authorized for Issuance. There shall be reserved for issuance under the Plan 500,000 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 of the Company by reason of any stock split, stock dividend, recapitalization, merger, consolidation, reorganization, combination, or exchange 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 so that the proportionate interest of the Directors shall be maintained as before the occurrence of such event. Such adjustment shall be conclusive and binding for all purposes of the Plan.

4. ELIGIBILITY

Any non-employee Director of the Company shall be eligible to participate in the Plan.

5. ADMINISTRATION

Full power and authority to construe, interpret and administer the Plan shall be vested in the Company and the Committee on Directors. Decisions of the Company and the Committee on Directors shall be final, conclusive and binding upon all parties. Day-to-day administration of the Plan shall be the responsibility of Corporate Human Resources. This Department may authorize new or modify existing forms for use under this Plan so long as any such modified or new forms are not inconsistent with the terms of the Plan.

ARTICLE II. COMMON STOCK PROVISION

Each Director may elect to receive all or a portion of his or her Fees in shares of Common Stock by making an Election pursuant to Article III, Section 4. Shares shall be issued to the Director at the end of each quarter beginning in the quarter the Election is effective. The number of shares of Common Stock so issued shall be equal to the amount of Fees which otherwise would have been payable to such Director during the quarter divided by the Fair Market Value. Only whole number of shares of Common Stock will be issued, with any fractional shares to be paid in cash.

ARTICLE III. DEFERRED COMPENSATION

1. PARTICIPANT ACCOUNTS

(a) Upon election to participate in the Plan, there shall be established a Deferral Account to which there shall be credited any Deferred Fees as of each Credit Date. The Deferral Account shall be credited (or debited) on each Accounting Date with income (or loss) based upon a hypothetical investment in any one or more of the investment options available under the Plan, as prescribed by the Committee on Directors, which may include a Common Stock Fund, as elected by the Participant under the terms of Article III, Section 4.

(b) The Stock Account of a Participant shall be credited on each Accounting Date with Stock Units equal to the number of shares of Common Stock (including fractions of a share) that could have been purchased with the amount of such deferred Fees as to which a stock deferral election has been made at the Fair Market Value on the Accounting Date. As of the date of any dividend distribution date for the Common Stock, the Participant's Stock Account shall be credited with additional Stock Units equal to the number of shares of Common Stock (including fractions of a share) that could have been purchased, at the Fair Market Value on such date, with the amount which would have been paid as dividends on that number of shares (including fractions of a share) of Common Stock which is equal to the number of Stock Units then credited to the Participant's Stock Account.

2. FINANCIAL HARDSHIP

Upon the written request of a Participant or a Participant's Personal Representative and a finding that continued deferral will result in an unforeseeable financial hardship to the Participant, the Committee on Directors or the Company (each in its sole discretion) may authorize (a) the payment of all or a part of a Participant's Deferral Account in a single installment prior to his or her ceasing to be a Director, or (b) the acceleration of payment of any multiple installments hereof. It is intended that the Committee's determinations as to whether the Participant has suffered an "unforeseeable financial emergency" shall be made consistent with the requirements under Section 457(d) of the Internal Revenue Code. If the Participant requesting such a payment is a member of the Committee on Directors, the Participant shall abstain from the Committee on Directors' determination as to whether the payment shall be made.

3. ACCELERATED DISTRIBUTION

(a) Availability of Withdrawal Prior to Termination. The Participant or the Participant's Beneficiary who is receiving installment payments under the Plan may elect, in writing, to withdraw all or a portion of a Participant's Deferral Account at any time prior to the time such Deferral Account otherwise becomes payable under the Plan, provided the conditions specified in subsections (c), (d) and (e) of this Article III, Section 3 are satisfied.

(b) Acceleration of Periodic Distributions. Upon the written election of the Participant or the Participant's Beneficiary who is receiving installment payments under the Plan, the Participant or Participant's Beneficiary may elect to have all or a portion of the remaining installments distributed in the form of an immediately payable lump sum, provided the conditions specified in subsection (c) and (e) of this Article III, Section 3 are satisfied.

(c) Forfeiture Penalty. In the event of a withdrawal pursuant to subsection (a) of this Article III, Section 3, or an accelerated distribution pursuant to subsection (b) of this Article III, Section 3, the Participant shall forfeit from such Deferral Account an amount equal to 10% of the amount of the withdrawal or accelerated distribution, as the case may be. The forfeited amount shall be deducted from the Deferral Account prior to giving effect to the requested withdrawal or acceleration. Neither the Participant nor the Participant's Beneficiary shall have any right or claim to the forfeited amount, and the Company shall have no obligation whatsoever to the Participant, the Participant's Beneficiary or any other person with regard to the forfeited amount.

(d) Minimum Withdrawal. In no event shall the amount withdrawn in accordance with subsection (a) of this Article III, Section 3 be less than 25% of the amount credited to such Participant's Deferral Account immediately prior to the withdrawal.

(e) Suspension from Deferrals. In the event of a withdrawal pursuant to subsection (a) or (b) of this Article III, Section 3, a Participant who is otherwise eligible to make deferrals of Fees under this Plan shall be prohibited from making such deferrals with respect to the remainder of the current Fiscal Year and the Fiscal Year of the Plan immediately following the Fiscal Year of the Plan during which the withdrawal was made, and any Election previously made by the Participant with respect to deferrals of Fees for such Fiscal Year of the Plan shall be void and of no effect.

4. MANNER OF ELECTION

(a) General. Any Director wishing to participate in the Plan may elect to do so by delivering to the Secretary of the Company an Election on a

form prescribed by Corporate Human Resources designating the manner in which such Deferred Fees are to be invested in accordance with Article III, Section 1 and electing the timing and form of distribution. The timing of the filing of the appropriate form with Corporate Human Resources shall be determined by the Company or the Committee on Directors. An effective election to defer Fees may not be revoked or modified except as otherwise determined by the Company or the Committee on Directors or as stated herein.

(b) Investment Alternatives - Existing Balances. A Participant may elect to change an existing selection as to the investment alternatives in effect with respect to existing deferred Fees (in increments prescribed by the Committee on Directors or the Company) as often, and with such restrictions, as determined by the Committee on Directors or by the Company.

(c) Change of Beneficiary. A Participant may, at any time, elect to change the designation of a Beneficiary in accordance with Article IV, Section 1 hereof.

(d) Initial Election. With respect to Directors' Fees payable for all or any portion of a calendar year after such person's initial election to the office of Director of the Company, any such person wishing to participate in the Plan may file a proper Election within 30 days after such election to office. Any such Election shall be effective upon filing or as soon as possible thereafter with respect to such Fees.

5. DISTRIBUTION

(a) Deferral Account. In accordance with the Participant's Election and as prescribed by the Committee on Directors, Deferred Fees credited to a Participant's Deferral Account shall be distributed in cash or shares of Common Stock (or a combination of both). Unless otherwise directed by the Committee on Directors, if no Election is made by a Participant as to the distribution or form of payment of his or her Deferral Account, upon Termination such account shall be paid in cash in lump sum. The entire Deferral Account must be paid out within forty years following the date of the Participant's Termination.

(b) Change of Distribution of Deferral Account. A Participant will be allowed to change the Election as to the applicable payment period for all amounts deferred pursuant to such Election, subject to approval by the Company or the Committee. Such change must be made by the earlier of:

(i) the date six months prior to the first day of the month following the Participant's Termination; or

(ii) the December 31 immediately preceding the first day of the month following the Participant's Termination.

If the Participant making such change is a member of the Committee on Directors, such Participant shall abstain from the Committee on Directors' decision to approve or disapprove such change.

6. PAYMENT COMMENCEMENT DATE

Payments of amounts deferred pursuant to a valid Election shall commence after a Participant's Termination in accordance with his or her Election. If a Participant dies prior to the first deferred payment specified in an Election, payments shall commence to the Participant's Beneficiary on the first payment date so specified.

7. CHANGE IN CONTROL

Notwithstanding any provision of this Plan to the contrary, in the event of a "Change in Control" (as defined in Section 2(f) of Article I), each Participant in the Plan shall receive an automatic lump sum cash distribution of all amounts accrued in the Participant's Cash and/or Stock Account(s) (including interest at the Prime Rate of Interest through the business day immediately preceding the date of distribution) not later than fifteen (15) days after the date of the "Change in Control." For this purpose, the balance in the Stock Account shall be determined by multiplying the number of Stock Units by the higher of (a) the highest closing price of a share of Common Stock during the period commencing 30 days prior to such Change in Control or (b) if the Change in Control of the Company occurs as a result of a tender or exchange offer or consummation of a corporate transaction, then the highest price paid per share of Common Stock pursuant thereto. Any consideration other than cash forming a part or all of the consideration for Common Stock to be paid pursuant to the applicable transaction shall be valued at the valuation price thereon determined by the Board.

In addition, the Company shall reimburse a Director for the legal fees and expenses incurred if the Director is required to seek to obtain or enforce any right to distribution. In the event that it is determined that such Director is properly entitled to a cash distribution hereunder, such Director shall also be entitled to interest thereon at the Prime Rate of Interest quoted by Citibank, N.A. as its prime commercial lending rate on the subject date from the date such distribution should have been made to and including the date it is made. Notwithstanding any provision of this Plan to the contrary, Article I, Section 2(f) and Section 7 of this Article may not be amended after a "Change in Control" occurs without the written consent of a majority in number of Participants.

ARTICLE IV. MISCELLANEOUS PROVISIONS

1. BENEFICIARY DESIGNATION

A Director may designate one or more persons (including a trust) to whom or to which payments are to be made if the Director dies before receiving payment of all amounts due hereunder. A designation of Beneficiary will be effective only after the signed Election is filed with the Secretary of the Company while the Director is alive and will cancel all designations of a Beneficiary signed and filed earlier. If the Director fails to designate a Beneficiary as provided above or if all of a Director's Beneficiaries predecease him or her and he or she fails to designate a new Beneficiary, remaining unpaid amounts shall be paid in one lump sum to the estate of such Director. If all Beneficiaries of the Director die before the Director or before complete payment of all amounts due hereunder, the remaining unpaid amounts shall be paid in one lump sum to the estate of the last to die of such Beneficiaries.

2. INALIENABILITY OF BENEFITS

The interests of the Directors and their Beneficiaries under the Plan may not in any way be voluntarily or involuntarily transferred, alienated or assigned, nor be subject to attachment, execution, garnishment or other such equitable or legal process.

3. GOVERNING LAW

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

4. AMENDMENTS

The Committee on Directors may amend, alter or terminate this Plan at any time without the prior approval of the Directors; provided, however, that the Committee on Directors may not, without approval by the shareholders:

(a) materially increase the number of securities that may be issued under the Plan (except as provided in Article I, Section 3),

(b) materially modify the requirements as to eligibility for participation in the Plan, or

(c) otherwise materially increase the benefits accruing to participants under the Plan.

5. COMPLIANCE WITH RULE 16b-3

It is the intention of the Company that the Plan comply in all respects with Rule 16b-3 promulgated under Section 16(b) of the Exchange Act and that Plan Participants remain non-employee directors ("Non-Employee Directors") for purposes of administering other employee benefit plans of the Company and having such other plans be exempt from Section 16(b) of the Exchange Act. Therefore, if any Plan provision is found not to be in compliance with Rule 16b-3 or if any Plan provision would disqualify Plan participants from remaining Non-Employee Directors, that provision shall be deemed amended so that the Plan does so comply and the Plan participants remain Non-Employee Directors, to the extent permitted by law and deemed advisable by the Committee on Directors, and in all events the Plan shall be construed in favor of its meeting the requirements of Rule 16b-3.

6. EFFECTIVE DATE

The Plan was approved by the shareholders of the Company on January 27, 1994, and originally became effective as of November 9, 1993, and has been restated in this document effective November 7, 2002.

ASHLAND INC.
DEFERRED COMPENSATION PLAN
(Amended and Restated as of November 7, 2002)

1. PURPOSE

The purpose of this Ashland Inc. Deferred Compensation Plan (the "Plan"), is to provide eligible key employees of the Company with an opportunity to defer compensation to be earned by them from the Company as a means of saving for retirement or other future purposes.

2. DEFINITIONS

The following definitions shall be applicable throughout the Plan:

(a) "Accounting Date" means the Business Day on which a calculation concerning a Participant's Compensation Account is performed, or as otherwise defined by the Committee.

(b) "Beneficiary" means the person(s) designated by the Participant in accordance with Section 12, or if no person(s) is/are so designated, the estate of a deceased Participant.

(c) "Board" means the Board of Directors of Ashland Inc. or its designee.

(d) "Business Day" means a day on which the New York Stock Exchange is open for trading activity.

(e) "Change in Control" shall be deemed to occur (1) upon the approval of the shareholders of the Company (or if such approval is not required, upon the approval of the Board) of (A) any consolidation or merger of the Company, other than a consolidation or merger of the Company into or with a direct or indirect wholly-owned subsidiary, in which the Company 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 the Company, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of the Company shall be deemed to occur unless assets constituting 80% of the total assets of the Company are transferred pursuant to such sale, lease, exchange or other transfer, or (C) adoption of any plan or proposal for the liquidation or dissolution of the Company, (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 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. Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of the Company's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, the Company and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

(f) "Committee" means the Personnel and Compensation Committee of the Board or its designee.

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

(h) "Common Stock Fund" means that investment option, approved by the Committee, in which a Participant's Compensation Account may be deemed to be invested and may earn income based on a hypothetical investment in Common Stock.

(i) "Company" means Ashland Inc., its divisions, subsidiaries and affiliates.

(j) "Compensation" means any employee compensation determined by the Committee to be properly deferrable under the Plan.

(k) "Compensation Account(s)" means the Retirement Account and/or the In-Service Account(s).

(l) "Corporate Human Resources" means the Corporate Human Resources Department of the Company.

(m) "Credit Date" means the date on which Compensation would otherwise have been paid to the Participant or in the case of the Participant's designation of investment option changes, within three Business Days after the Participant's designation is received by Corporate Human Resources, or as otherwise designated by the Committee.

(n) "Deferred Compensation" means the Compensation elected by the Participant to be deferred pursuant to the Plan.

(o) "Election" means a Participant's delivery of a written notice of election to defer payment of all or a portion of his or her Compensation either until retirement, Termination, death or such other time as further provided by the Committee or the Company.

(p) "Employee" means a full-time, regular salaried employee (which term shall be deemed to include officers) of the Company, its present and future subsidiary corporations as defined in Section 424 of the Internal Revenue Code of 1986, as amended or its affiliates.

(q) "Excess Payments" means payments made to a Participant pursuant to the Plan and the Excess Plan.

(r) "Excess Plan" means the Ashland Inc. Nonqualified Excess Benefit Pension Plan, as it now exists or as it may hereafter be amended.

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

(t) "Fair Market Value" means the price of a share of Common Stock, as reported on the Composite Tape for New York Stock Exchange issues on the date and at the time designated by the Company.

(u) "Fiscal Year" means that annual period commencing October 1 and ending the following September 30.

(v) "In-Service Account" means the account(s) to which the Participant's Deferred Compensation is credited and from which, pursuant to Section 10, distributions are made.

(w) "Participant" means an Employee selected by the Committee to participate in the Plan and who has elected to defer payment of all or a portion of his or her Compensation under the Plan.

(x) "Plan" means this Ashland Inc. Deferred Compensation Plan as it now exists or as it may hereafter be amended.

(y) "Retirement Account" means the account(s) to which the Participant's Deferred Compensation is credited and from which, pursuant to Section 10, distributions are made.

(z) "SERP" means the Tenth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Key Executive Employees, as it now exists or as it may hereafter be amended.

(aa) "SERP Payments" means payments made to a Participant pursuant to the Plan and the SERP.

(bb) "Stock Unit(s)" means the share equivalents credited to the Common Stock Fund of a Participant's Compensation Account pursuant to Section 6.

(cc) "Termination" means termination of services as an Employee for any reason other than retirement.

3. SHARES; ADJUSTMENTS IN EVENT OF CHANGES IN CAPITALIZATION

(a) Shares Authorized for Issuance. There shall be reserved for issuance under the Plan 500,000 shares of Common Stock, subject to adjustment pursuant to subsection (c) below.

(b) Units Authorized for Credit. The maximum number of Stock Units that may be credited to Participants' Compensation Accounts under the Plan is 1,500,000, subject to adjustment pursuant to subsection (c) below.

(c) Adjustments in Certain Events. In the event of any change in the outstanding Common Stock of the Company 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 or Stock Units that may be issued or credited under the Plan shall be automatically adjusted so that the proportionate interest of the Participants shall be maintained as before the occurrence of such event. Such adjustment shall be conclusive and binding for all purposes of the Plan.

4. ELIGIBILITY

The Committee shall have the authority to select from management and/or highly compensated Employees those Employees who shall be eligible to participate in the Plan; provided, however, that employees and/or retirees who have elected to defer an amount into this Plan from another plan sponsored or maintained by Ashland Inc., the terms of which allowed such employee or retiree to make such a deferral election into this Plan, shall be considered to be eligible to participate in this Plan.

5. ADMINISTRATION

Full power and authority to construe, interpret and administer the Plan shall be vested in the Company and the Committee. This power and authority includes, but is not limited to, selecting Compensation eligible for deferral, establishing deferral terms and conditions and adopting modifications, amendments and procedures as may be deemed necessary, appropriate or convenient by the Committee. Decisions of the Company and the Committee shall be final, conclusive and binding upon all parties. Day-to-day administration of the Plan shall be the responsibility of

6. PARTICIPANT ACCOUNTS

Upon election to participate in the Plan, there shall be established a Retirement Account and/or In-Service Account, as designated by the Participant to which there shall be credited any Deferred Compensation, as of each Credit Date. Each such Compensation Account shall be credited (or debited) on each Accounting Date with income (or loss) based upon a hypothetical investment in any one or more of the investment options available under the Plan, as prescribed by the Committee for the particular compensation credited, which may include a Common Stock Fund, as elected by the Participant under the terms of Section 9.

7. FINANCIAL HARDSHIP

Upon the written request of a Participant or a Participant's legal representative and a finding that continued deferral will result in an unforeseeable financial emergency to the Participant, the Committee or the Company (each in its sole discretion) may authorize (a) the payment of all or a part of a Participant's Compensation Account in a single installment prior to his or her ceasing to be a Participant, or (b) the acceleration of payment of any multiple installments thereof. It is intended that the Committee's determinations as to whether the Participant has suffered an "unforeseeable financial emergency" shall be made consistent with the requirements under Section 457(d) of the Internal Revenue Code.

8. ACCELERATED DISTRIBUTION

(a) Availability of Withdrawal Prior to Retirement. The Participant or the Participant's Beneficiary who is receiving installment payments under the Plan may elect, in writing, to withdraw all or a portion of a Participant's Compensation Account at any time prior to the time such Compensation Account otherwise becomes payable under the Plan, provided the conditions specified in Sections 8(c), 8(d) and 8(e) hereof are satisfied.

(b) Acceleration of Periodic Distributions. Upon the written notice of the Participant or the Participant's Beneficiary who is receiving installment payments under the Plan, the Participant or Participant's Beneficiary may elect to have all or a portion of the remaining installments distributed in the form of an immediately payable lump sum, provided the conditions specified in Section 8(c) and 8(e) hereof are satisfied.

(c) Forfeiture Penalty. In the event of a withdrawal pursuant to Section 8(a), or an accelerated distribution pursuant to Section 8(b), the Participant shall forfeit from such Compensation Account an amount equal to 10% of the amount of the withdrawal or accelerated distribution, as the case may be. The forfeited amount shall be deducted from the Compensation Account prior to giving effect to the requested withdrawal or acceleration. Neither the Participant nor the Participant's Beneficiary shall have any right or claim to the forfeited amount, and the Company shall have no obligation whatsoever to the Participant, the Participant's Beneficiary or any other person with regard to the forfeited amount.

(d) Minimum Withdrawal. In no event shall the amount withdrawn in accordance with Section 8(a) be less than 25% of the amount credited to such Participant's Compensation Account immediately prior to the withdrawal.

(e) Suspension from Deferrals. In the event of a withdrawal pursuant to Section 8(a) or 8(b), a Participant who is otherwise eligible to make deferrals of Compensation under this Plan shall be prohibited from making such deferrals with respect to the remainder of the current Fiscal Year and the Fiscal Year of the Plan immediately following the Fiscal Year of the Plan during which the withdrawal was made, and any Election previously made by the Participant with respect to deferrals of Compensation for such Fiscal Years of the Plan shall be void and of no effect.

9. MANNER OF ELECTION

(a) General. The Company or the Committee shall determine the timing of the filing of the appropriate Election forms. An effective Election may not be revoked or modified except as otherwise determined by the Company or the Committee or as stated herein. In addition to the provisions contained in this Plan, any deferrals of SERP Payments or Excess Payments must be in accordance with the terms of the SERP or the Excess Plan.

(b) Investment Alternatives -- Existing Balances. A Participant may elect to change an existing selection as to the investment alternatives in effect with respect to an existing Compensation Account (in increments prescribed by the Committee or the Company) as often, and with such restrictions, as determined by the Committee or by the Company.

(c) Change of Beneficiary. A Participant may, at any time, elect to change the designation of a Beneficiary in accordance with Section 11 hereof.

10. DISTRIBUTION

(a) Retirement Account. In accordance with the Participant's Election and within the guidelines established by the Committee or the Company, a Participant's Retirement Account shall be distributed in cash or shares of Common Stock (or a combination of both). If no Election is made by a Participant as to the distribution or form of payment of his or her Retirement Account, upon the earlier of death or retirement such account shall be paid in cash or shares of Common Stock (or a combination of both) in lump sum. The entire Retirement Account must be paid out within forty years following the date of the earlier of the Participant's death or

retirement.

(b) In-Service Account. In accordance with the Participant's Election and within the guidelines established by the Committee or the Company, Deferred Compensation credited to a Participant's In-Service Account shall be distributed in cash or shares of Common Stock (or a combination of both). A Participant may make different Elections with respect to the applicable distribution periods for different deferral cycles in the In-Service Accounts.

(c) Termination. Notwithstanding the foregoing, in the event of a Participant's Termination, the Company reserves the right to distribute the Participant's Compensation Account at such time and in such manner as deemed appropriate.

(d) Change of Distribution of Compensation Account. A Participant will be allowed to change the Election as to the distribution of Deferred Compensation of his or her Retirement Account for all amounts previously deferred pursuant to such Election, subject to approval by the Committee or the Company. Such change must be made by the earlier of:

(1) the date six months prior to the first day of the month following such Participant's retirement; or

(2) the December 31 immediately preceding the first day of the month following such Participant's retirement.

A Participant may not change the Election as to the distribution of Deferred Compensation in his or her In-Service Account(s) except as otherwise set forth in Sections 7 and 8.

11. BENEFICIARY DESIGNATION

A Participant may designate one or more persons (including a trust) to whom or to which payments are to be made if the Participant dies before receiving distribution of all amounts due hereunder. A designation of Beneficiary will be effective only after the signed Election is filed with Corporate Human Resources while the Participant is alive and will cancel all designations of Beneficiary signed and filed earlier. If the Participant fails to designate a Beneficiary as provided above or if all of a Participant's Beneficiaries predecease him or her and he or she fails to designate a new Beneficiary, the remaining unpaid amounts shall be paid in one lump sum to the estate of such Participant. If all Beneficiaries of the Participant die after the Participant but before complete payment of all amounts due hereunder, the remaining unpaid amounts shall be paid in one lump sum to the estate of the last to die of such Beneficiaries.

12. CHANGE IN CONTROL

Notwithstanding any provision of this Plan to the contrary, in the event of a Change in Control, each Participant in the Plan shall receive an automatic lump sum cash distribution of all amounts accrued in the Participant's Compensation Account not later than fifteen (15) days after the date of the Change in Control. For this purpose, the balance in the portion of a Participant's Compensation Account invested in the Common Stock Fund shall be determined by multiplying the number of Stock Units by the higher of (a) the highest Fair Market Value on any date within the period commencing 30 days prior to such Change in Control, or (b) if the Change in Control of the Company occurs as a result of a tender or exchange offer or consummation of a corporate transaction, then the highest price paid per share of Common Stock pursuant thereto. Any consideration other than cash forming a part or all of the consideration for Common Stock to be paid pursuant to the applicable transaction shall be valued at the valuation price thereon determined by the Board.

In addition, the Company shall reimburse a Participant for the legal fees and expenses incurred if the Participant is required to seek to obtain or enforce any right to distribution. In the event that it is determined that such Participant is properly entitled to a cash distribution hereunder, such Participant shall also be entitled to interest thereon payable in an amount equivalent to the Prime Rate of Interest quoted by Citibank, N.A. as its prime commercial lending rate on the subject date from the date such distribution should have been made to and including the date it is made. Notwithstanding any provision of this Plan to the contrary, this Section 12 may not be amended after a Change in Control occurs without the written consent of a majority in number of Participants.

13. INALIENABILITY OF BENEFITS

The interests of the Participants and their Beneficiaries under the Plan may not in any way be voluntarily or involuntarily transferred, alienated or assigned, nor subject to attachment, execution, garnishment or other such equitable or legal process. A Participant or Beneficiary cannot waive the provisions of this Section 13.

14. GOVERNING LAW

The provisions of this plan shall be interpreted and construed in accordance with the laws of the Commonwealth of Kentucky, except to the extent preempted by Federal law.

15. AMENDMENTS

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:

(a) increase the number of securities that may be issued under the Plan (except as provided in Section 3(c));

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

(c) otherwise materially increase the benefits accruing to Participants under the Plan.

16. EFFECTIVE DATE

The Plan was approved by the shareholders of the Company on January 26, 1995, and originally became effective as of October 1, 1994, and has been restated in this document effective as of November 7, 2002.

TENTH AMENDED AND RESTATED
ASHLAND INC.
SUPPLEMENTAL EARLY RETIREMENT PLAN
FOR CERTAIN EMPLOYEES
November 4, 1999 and as amended thereafter

ARTICLE I. PURPOSE AND EFFECTIVE DATE.

1.01 Purpose

The purpose of the Plan is to allow designated employees to retire prior to their sixty-fifth birthday without an immediate substantial loss of income. This Plan is a supplemental retirement arrangement for a select group of management.

1.02 Effective Date

The Tenth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees is hereby amended effective November 4, 1999. However, the rights and obligations of Employees who were selected by the Board or approved for participation pursuant to the eligibility requirements of the Plan to receive a benefit under the Plan, or who were receiving benefits prior to November 4, 1999 shall be governed by the terms of the Plan in effect at the time of each such Employee's Effective Retirement Date, unless otherwise determined by the Committee in its sole discretion.

ARTICLE II. DEFINITIONS.

The following terms used herein shall have the following meanings unless the context otherwise requires:

2.01 "Age" - means the age of an Employee as of his or her last birthday, except as may otherwise be provided under Sections 5.01 and 5.02 in the event of a Change in Control.

2.02 "Annual Retirement Income" - means the annual income payable under this Plan by Ashland for the lifetime of a Participant commencing on such Participant's Effective Retirement Date and ending on his or her date of death, subject to the provisions of Section 5.04.

2.03 "Ashland" - means Ashland Inc. and its present or future subsidiary corporations.

2.04 "Board" - means the Board of Directors of Ashland and its designees.

2.05 "Change in Control" - shall be deemed to occur (1) upon 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, other than a consolidation or merger of Ashland into or with a direct or indirect wholly-owned subsidiary, 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, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of Ashland shall be deemed to occur unless assets constituting 80% of the total assets of Ashland are transferred pursuant to such sale, lease exchange or other transfer, 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 or any subsidiary or employee benefit plan or trust maintained by Ashland, shall become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 15% of Ashland's Common Stock outstanding at the time, without the approval of the Board, or (3) 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. Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of Ashland's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, Ashland and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

2.06 "Committee" - means the Personnel and Compensation Committee of the Board and its designees.

2.07 "Effective Retirement Date" - means the date upon which a Participant retires under this Plan which shall be the first day of the month following the Participant's 62nd birthday or, at Ashland's discretion or as otherwise provided in Article V or VI, any earlier age. Upon approval as provided in Sections 3.01 and 3.02, the "Effective Retirement Date" of a Participant may occur

after the Employee reaches age 62. The Effective Retirement Date of an Employee who becomes a Participant under Section 3.03 because of a Change in Control and who is considered to be a Level I or II participant in the Incentive Compensation Plan and who has an Employment Agreement shall be the first day of the month following (i) such Employee's termination for reasons other than "Cause" or (ii) such Employee's resignation for "Good Reason." The Effective Retirement Date of an Employee who becomes a Participant under Section 3.03 because of a Change in Control and who is considered to be a Level III, IV or V participant in the Incentive Compensation Plan, or who is considered to be a Level I or II participant in the Incentive Compensation Plan and who does not have an Employment Agreement, shall be the first day of the month following such Employee's termination for reasons other than "Cause". For Employees who do not have an Employment Agreement with Ashland, "Cause" shall have the meaning given to that word in Section 3.05.

- 2.08 "Employee" - means an employee of Ashland who (i) is at least 55 years of age or such earlier age pursuant to Section 5.06(b); and (ii) is deemed on the Effective Retirement Date to be a Level V or above employee under the Incentive Compensation Plan. Notwithstanding anything herein to the contrary, if, after a Change in Control, an Employee is terminated other than for "Cause" or, in the case of a Level I or II Employee having an Employment Agreement, resigns for "Good Reason," the age 55 threshold in clause (i) does not apply and is inapplicable.
- 2.09 "Employment Agreements" - means those contractual agreements, in effect from time to time, which are approved by the Board and which provide an Employee with a specified period of employment and other benefits.
- 2.10 "Final Average Bonus" - means the Participant's average bonus paid under the Incentive Compensation Plan (including amounts that may have been deferred) during the highest thirty-six (36) months out of the final eighty-four-month (84) period. For these purposes, the "bonus paid" for a particular month within a particular fiscal year under such plan shall be equal to the amount of such bonus actually paid (regardless of the date paid, but excluding any adjustment for the deferral of such payment) to such Participant on account of such fiscal year divided by the number of months contained in such fiscal year which were used in determining the amount of such bonus actually paid to such Participant.
- 2.11 "Final Average Compensation" - means the average total compensation paid during the highest thirty-six months (36) out of the final eighty-four-month (84) period. For these purposes, "total compensation paid" is the sum of the "compensation paid" and the "bonus paid" during a particular month. "Compensation paid" shall be the base rate of compensation for such Participant in effect on the first day of such calendar month. "Bonus paid" shall have the same meaning as set forth in Section 2.10. In the event a payment is due under the Plan after a Change in Control because the Participant was terminated other than for "Cause" or resigned for "Good Reason," the calculation of Final Average Compensation shall include the amount paid under such Participant's Employment Agreement. The amount so paid shall be divided by 36 to derive the monthly "total compensation paid" it represents.
- 2.12 "Incentive Compensation Plan" - means the Ashland Inc. Incentive Compensation Plan or the Ashland Inc. Incentive Compensation Plan for Key Executives, as applicable, including any successor to such plans.
- 2.13 "Participant" - means an Employee who has been approved for participation in the Plan pursuant to Article III or Section 5.06.
- 2.14 "Plan" - means the Tenth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Employees as set forth herein.
- 2.15 "Service" - means the number of years and fractional years of employment by Ashland of an Employee, measured from the first day of the month coincident with or next succeeding his or her initial date of employment up to and including such Employee's Effective Retirement Date. For purposes of this Section 2.15, Service shall include an Employee's employment with a subsidiary or an affiliate of Ashland determined in accordance with rules from time to time adopted or approved by the Board, or its delegate.

ARTICLE III. PARTICIPATION IN PLAN.
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Eligibility for benefits shall be determined as follows:

3.01 Employees Who Require Board Approval

Except as otherwise provided in Section 3.03, an Employee who on the Effective Retirement Date is deemed to be a Level I or II participant under the Incentive Compensation Plan shall require Board approval to participate in this Plan.

3.02 Employees Who Require CEO or Other Approval

Except as otherwise provided in Section 3.03, an Employee who on the Effective Retirement Date is deemed to be a Level III, IV, or V participant under the Incentive Compensation Plan shall require the approval of either

(i) Ashland's Chief Executive Officer or (ii) Ashland's Chief Financial Officer and either the Vice President Human Resources - Programs and Services or the Vice President and General Counsel to participate in this Plan.

3.03 Automatic Approval for Change in Control

Subject to the provisions of Article VI, in the event of a Change in Control (as defined in Section 2.05), an Employee who is deemed to be a Level I, II, III, IV or V participant under the Incentive Compensation Plan shall automatically be deemed to be approved by the Board or by the Chief Executive Officer, as applicable, for participation under this Plan.

3.04 Other Approvals

The Board or Chief Executive Officer, as applicable, may approve such employees for participation in the Plan as they deem to be appropriate, all in its or his sole discretion.

3.05 Termination for Cause

Ashland reserves the right to terminate any Participant for "Cause" prior to his or her Effective Retirement Date, with a resulting forfeiture of the payment of benefits under the Plan. Ashland also reserves the right to terminate any Participant's participation in the Plan for "Cause" subsequent to his or her Effective Retirement Date. For purposes of this Section 3.05, "Cause" shall mean the willful and continuous failure of a Participant to substantially perform his or her duties to Ashland (other than any such failure resulting from incapacity due to physical or mental illness), or the willful engaging by a Participant in gross misconduct materially and demonstrably injurious to Ashland, each to be determined by Ashland in its sole discretion.

ARTICLE IV. INTERACTION WITH EMPLOYMENT AGREEMENTS.
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4.01 Terminations - General

Notwithstanding any provision of this Plan to the contrary, an Employee who has entered into an Employment Agreement with Ashland and who is either terminated without "Cause" prior to a "change in control of Ashland" or is terminated without "Cause" or resigns for "Good Reason" following a "change in control of Ashland" (each quoted term as defined in the applicable employment agreement) shall be entitled to receive the benefits as provided pursuant to this Plan. Benefits payable hereunder in such a situation shall be calculated in accordance with the payment option selected by the Employee at such time.

4.02 Benefits Prior to "Change in Control."

If the Employee's termination is without "Cause" prior to a "change in control of Ashland," the benefits payable hereunder shall commence no earlier than as of the first day of the calendar month coincident with or next following the second anniversary following the Employee's "Date of Termination" (as defined in the applicable employment agreement); however, if the Employee elects to receive such benefits in a lump sum as provided in Section 5.04(b)(1), such benefits shall commence and be payable as therein specified.

4.03 Benefits Subsequent to a "Change in Control."

If the Employee's termination is without "Cause" or he or she resigns for "Good Reason" following a "change in control of Ashland," benefits payable hereunder shall begin as of the first day of the calendar month next following the Participant's Effective Retirement Date.

4.04 Subsequent Activity in Conflict with Ashland

The provisions of this Section 4.04 shall apply to Level I, II, III, IV and V Participants, regardless of whether such a Participant has an Employment Agreement; except that the provisions of this Section 4.04 shall not apply to any Participant who was approved for participation hereunder under the provisions of Section 3.03. If a Participant accepts, during a period of five (5) years subsequent to his or her Effective Retirement Date, any consulting or employment activity which is in direct and substantial conflict with the business of Ashland at such time (such determination regarding conflicting activity to be made in the sole discretion of the Board), he or she shall be considered in breach of the provisions of this Section 4.04; provided, however, he or she shall not be restricted in any manner with respect to any other non-conflicting activity in which he or she is engaged. If a Participant wishes to accept employment or consulting activity which may be prohibited under this Section 4.04, such Participant may submit to Ashland written notice (Attention: Vice President Human Resources - Programs and Services) of his or her wish to accept such employment or consulting activity. If within ten (10) business days following receipt of such notice Ashland does not notify the Participant in writing of Ashland's objection to his or her accepting such employment or consulting activity, then such Participant shall be free to accept such employment or consulting activity for the period of time and upon the basis set forth in his or her written request. In the event the provisions of this Section 4.04 are breached by a Participant, the Participant shall not be entitled to any additional periodic payments hereunder and shall be liable to repay to Ashland all amounts such Participant received prior to such breach. If a Participant who breaches the provisions of this Section 4.04 received a lump sum distribution of his or her benefit prior to such breach, such Participant shall be liable to repay to Ashland the amount of such distribution. If a Participant who breaches the provisions of this Section 4.04 deferred all or any part of a lump sum distribution hereunder to the Ashland Inc. Deferred Compensation Plan, the amount so deferred

shall be forfeited, and if any amount of the amount so deferred was distributed from the Ashland Inc. Deferred Compensation Plan before the breach occurred, the amount so distributed shall be repaid to Ashland. Any repayment of benefits hereunder shall be assessed interest at the rate applicable for the calculation of a lump sum payment under Section 5.04(b) for the month in which the breach occurs, with such interest compounded monthly from the month in which the breach occurs to the month in which such repayment is made to Ashland. Ashland shall have available to it all other remedies at law and equity to remedy a breach of this Section 4.04.

ARTICLE V. ANNUAL RETIREMENT INCOME AND OTHER BENEFITS.

5.01 LEVELS I AND II.

The Annual Retirement Income of a Participant who is deemed to be a Level I or II Participant under the Incentive Compensation Plan shall be equal to:

(a) Pre-Age 62 Benefit

A Participant who retires under this Plan, including a Participant to whom the provisions of paragraph (d) of this Section 5.01 apply, shall receive an Annual Retirement Income from and after the first day of the calendar month next following his or her Effective Retirement Date until the end of the month in which he or she attains age 62 equal to the greater of (1) the amounts provided in the following schedule or (2) 50% of Final Average Compensation. Notwithstanding the previous sentence, in the event such Participant retired with less than 20 years of Service, such Annual Retirement Income shall be multiplied by a fraction (A) the numerator of which is such Participant's years of and fractional years of Service, and (B) the denominator of which is twenty (20).

| Retirement | % of Compensation |
|--|-------------------|
| 1st - Year After Effective Retirement Date | 75% |
| 2nd - " | 70% |
| 3rd - " | 65% |
| 4th - " | 60% |
| 5th - " | 55% |
| 6th - Year and thereafter to Age 62 | 50% |

For purposes of this Section 5.01(a), "% of Compensation" shall mean the annualized average of the Participant's base monthly compensation rates (excluding incentive awards, bonuses, and any other form of extraordinary compensation) in effect with respect to Ashland on the first day of the thirty-six (36) consecutive calendar months which will give the highest average out of the one-hundred twenty (120) consecutive calendar month period ending on the Participant's Effective Retirement Date.

(b) Age 62 Benefit and Thereafter

From and after the first day of the calendar month next following his or her Effective Retirement Date, or the attainment of age 62, whichever is later, the Participant's Annual Retirement Income shall be equal to 50% of Final Average Compensation; provided, however, that in the event such Participant retired with less than 20 years of Service, such Annual Retirement Income shall be 50% of Final Average Compensation multiplied by a fraction (A) the numerator of which is such Participant's years of and fractional years of Service, and (B) the denominator of which is twenty (20).

(c) Benefit Reduction

The amount of benefit provided in paragraphs (a) and (b) of this Section 5.01 shall be reduced by the sum of the following:

(1) the Participant's benefit under the Ashland Inc. and Affiliates Pension Plan (the "Pension Plan") (assuming 50% of such Participant's account under the Ashland Inc. Leveraged Employee Stock Ownership Plan were transferred to the Pension Plan, as allowed under the terms of each of the said plans and disregarding any benefit assignment under an approved qualified domestic relations order affecting either the Pension Plan or the Ashland Inc. Leveraged Employee Stock Ownership Plan), determined on the basis of a single life annuity form of benefit;

(2) the Participant's benefit under any other defined benefit pension plan qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended which is maintained by Ashland, determined by disregarding any benefit assignment under an approved qualified domestic relations order and on the basis of a single life annuity form of benefit (said plans referred to in sub-paragraphs (1) and (2) of this paragraph (c) are hereinafter referred to jointly and severally as the "Affected Plans");

(3) the Participant's benefit under the Ashland Inc. Nonqualified Excess Benefit Pension Plan, determined on the basis of a single life annuity form of benefit; and

(4) the Participant's benefit under the Ashland Inc. ERISA Forfeiture Plan attributable to amounts which were forfeited under the Ashland Inc. Leveraged Employee Stock Ownership Plan, multiplied by 50%, and determined on the basis of a single life annuity benefit.

In the event a Participant's benefit hereunder is paid as a lump sum pursuant to an election under Section 5.04(b)(1), the reduction to such benefit shall be calculated based upon the lump sum actuarial present value of the benefits referred to in subparagraphs (1)-(4) of this paragraph (c).

For distributions commencing after May 31, 2001, such calculation shall be conducted on the basis that the benefits referred to in said subparagraphs (1)-(4) commence at the same time as of which the benefit in this Plan is paid as a lump sum, using the Participant's attained age at the time of such commencement, unless otherwise required in paragraph (d) of this Section 5.01.

(d) Benefit After a Change in Control

(1) Participants Having Employment Agreements. A Participant having an Employment Agreement who either is terminated without "Cause" or resigns for "Good Reason" after a Change in Control shall have the benefit payable under this Section 5.01 computed by adding 3 years to the Participant's Age and Service at the Participant's Effective Retirement Date. These additions to Age and Service shall, except as otherwise provided, apply for purposes of computing the single life annuity payment to the Participant. A Participant subject to this paragraph (d)(1) whose Effective Retirement Date occurs before attaining an actual age of 55 shall have the 3 year addition to Age apply when converting the single life annuity amount to any permitted optional form under this Article V. If the Effective Retirement Date of a Participant subject to this paragraph (d)(1) occurs on or after the Participant attains an actual age of 55, then the Participant's actual age shall be used when making such a conversion. Notwithstanding anything to the contrary contained herein, when converting a Participant's single life annuity to a lump sum payment option, the Participant's actual age shall be used without reference to the additional 3 years. If the addition of 3 years to the Participant's age results in an Age less than 55 and the Participant commences the benefit, the amount of the benefit shall be adjusted to account for the fact it is paid before the Participant's attainment of Age 55. This adjustment shall be based upon the early retirement table in Section 6.2 of the Ashland Inc. and Affiliates Pension Plan as it existed on September 30, 1999. When applying this table under these circumstances, age 55 shall be substituted for age 62 and adjustments for ages younger than those on the table shall be reasonably determined by an actuary or actuarial firm who regularly performs services in connection with the Plan.

(2) Participants Without Employment Agreements. A Participant without an Employment Agreement who is terminated without "Cause" after a Change in Control shall have the benefit payable under this Section 5.01 computed by adding the applicable amount to the Participant's Age and Service at the Participant's Effective Retirement Date. For these purposes, the applicable amount is derived from the following table.

| Length of Participant's Service at Separation from Employment | Number of Years (the Applicable Amount) |
|---|--|
| Up to 5 years | 3 months |
| More than 5 and up to 10 years | 6 months |
| More than 10 and up to 15 years | 1 year |
| More than 15 and up to 20 years | 1 year and 6 months |
| More than 20 years | 2 years |

These additions to Age and Service shall, except as otherwise provided, apply for purposes of computing the single life annuity payment to the Participant. A Participant subject to this paragraph (d)(2) whose Effective Retirement Date occurs before attaining an actual age of 55 shall have the applicable amount added to such Participant's Age apply when converting the single life annuity amount to any permitted optional form under this Article V. If the Effective Retirement Date of a Participant subject to this paragraph (d)(2) occurs on or after the Participant attains an actual age of 55, then the Participant's actual age shall be used when making such a conversion. Notwithstanding anything to the contrary contained herein, when converting a Participant's single life annuity to a lump sum payment option, the Participant's actual age shall be used without reference to the addition of the applicable amount. If the addition of the applicable amount to the Participant's age results in an Age less than 55 and the Participant commences the benefit, the amount of the benefit shall be adjusted to account for the fact it is paid before the Participant's attainment of Age 55. This adjustment shall be based upon the early retirement table in Section 6.2 of the Ashland Inc. and Affiliates Pension Plan as it existed on September 30, 1999. When applying this table under these circumstances, age 55 shall be substituted for age 62 and adjustments for ages younger than those on the table shall be reasonably determined by an actuary or actuarial firm who regularly performs services in connection with the Plan.

5.02 LEVELS III, IV AND V.

(a) General

The Annual Retirement Income of a Participant (including a Participant to whom the provisions of paragraph (b) of this Section 5.02 apply) who on his or her Effective Retirement Date was deemed to be a Level III, IV, or V Participant under the Incentive Compensation Plan shall, from and after the first day of the calendar month next following his or her 62nd birthday, be equal to 50% of Participant's Final Average Bonus; provided, however, that in the event such Participant retired with less than 20 years of Service, such Annual Retirement Income after age 62 shall be 50% of Final Average Bonus multiplied by a fraction (A) the numerator of which is such Participant's years of and fractional years of Service, and (B) the denominator of which is twenty (20). Although a Participant may elect to commence benefits under this Plan upon his or her Effective Retirement

Date, there shall be an actuarial adjustment (consistent with that applied under Ashland's qualified pension plan, as from time to time in effect) for Participants receiving benefits under this Section 5.02 whose Effective Retirement Date is prior to age 62.

(b) Benefit After a Change in Control

A Participant who is terminated other than for "Cause" after a Change in Control shall have the benefit payable under this Section 5.02 computed by adding to the Participant's Age and Service at the Participant's Effective Retirement Date the number of years equal to the applicable amount for the Participant derived from the following table.

| Length of Participant's Service at Separation from Employment | Number of Years (the Applicable Amount) |
|---|---|
| Up to 5 years | 3 months |
| More than 5 and up to 10 years | 6 months |
| More than 10 and up to 15 years | 1 year |
| More than 15 and up to 20 years | 1 year and 6 months |
| More than 20 years | 2 years |

These additions to Age and Service shall, except as otherwise provided, apply for purposes of computing the single life annuity payment to the Participant. A Participant subject to this paragraph (b) whose Effective Retirement Date occurs before attaining an actual age of 62 shall have the applicable amount from the table hereinabove added to his or her Age apply when converting the single life annuity amount to any permitted optional form under this Article V. If the Effective Retirement Date of a Participant subject to this paragraph (b) occurs on or after the Participant attains an actual age of 62, then the Participant's actual age shall be used when making such a conversion. Notwithstanding anything to the contrary contained herein, when converting a Participant's single life annuity to a lump sum payment option, the Participant's actual age shall be used without reference to the applicable amount derived from the table hereinabove. If the addition of the applicable amount from the table hereinabove to the Participant's age results in an Age less than 62 and the Participant commences the benefit, the amount of the benefit shall be adjusted to account for the fact it is paid before the Participant's attainment of Age 62. This adjustment shall be based upon the early retirement table in Section 6.2 of the Ashland Inc. and Affiliates Pension Plan as it existed on September 30, 1999, and adjustments for ages younger than those on the table shall be reasonably determined by an actuary or actuarial firm who regularly performs services in connection with the Plan.

5.03 Benefits Payable for Less Than 12 Months

Annual Retirement Income benefits payable under Sections 5.01 and 5.02 for a period of less than 12 months due to a Participant's attainment of age 62 or death will be payable on a pro-rata basis, with months taken as a fraction of a year.

5.04 Payment Options

(a) Election

A Participant shall, subject to Sections 5.05 and 5.06, elect the form in which such benefit shall be paid from among those identified in this Section 5.04 and such election shall be made at the time and in the manner prescribed by Ashland, from time to time, provided that the election is made before the Participant's Effective Retirement Date. Such election, including the designation of any contingent annuitant or alternate recipient under Sections 5.04(b)(4) or (5), shall be irrevocable except as otherwise set forth herein. Notwithstanding anything in the foregoing to the contrary, any Participant approved for participation in the Plan pursuant to Sections 3.01, 3.02 and 3.04 who makes an election under Section 5.04(b)(2) shall make such election by the later of -

(1) the 60th day following such Participant's approval to participate in this Plan; or

(2) the earlier of -

(A) the date six months prior to Participant's Effective Retirement Date; or

(B) the December 31 immediately preceding the Participant's Effective Retirement Date. Such deferral election shall be made in the manner prescribed by Ashland, from time to time, and shall be irrevocable as of the applicable time identified under Sections 5.04(a)(1) or (2).

Until the time at which an election becomes irrevocable, a Participant shall be able to change it.

(b) Optional Forms of Payment

(1) Lump Sum Option. A Participant may elect to receive the benefit under Article V as a lump sum distribution. A lump sum benefit payable under the Plan to a Participant shall be computed on the basis of the actuarially equivalent present value of such Participant's benefit under Article V based upon such actuarial assumptions as determined by the Committee. Such lump sum shall be payable within thirty (30) days following the later of the Participant's Effective Retirement Date, or at such later date as

Ashland or its delegate may determine, in its sole discretion. The option shall be made available to a Participant contingent upon various considerations, including, but not limited to, the following: The tax status of Ashland, including without limitation, the corporate and individual tax rate then applicable and whether or not Ashland has or projects a net operating loss; the current and projected liquidity of Ashland, including cash flow, capital expenditures and dividends; Ashland's borrowing requirements and debt leverage; applicable book charges; organizational issues, including succession issues; security of the retirement payment(s) with respect to the retiree; and the Participant's preference.

(2) Lump Sum Deferral Option. A Participant who is eligible to receive a lump sum distribution under 5.04(b)(1) shall be able to elect to defer all or a portion of the receipt of the elected lump sum (in increments of such percentage or such amount as may be prescribed by Ashland or its delegatee, from time to time), by having the obligation to distribute such amount transferred to the Ashland Inc. Deferred Compensation Plan to be held thereunder in a notional account and paid pursuant to the applicable provisions of such Plan, as they may be amended from time to time; provided, however, that the election to defer such distribution shall be made at the time and in the manner prescribed in Section 5.04(a)(1) and (2).

(3) Single Life Annuity. A Participant may elect to have such benefit paid in the form of equal monthly payments for and during such Participant's life, with such payments ending at such Participant's death. Payments under this option shall be actuarially equivalent to the benefit provided under Section 5.01 or 5.02, whichever is applicable, determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Pension Plan.

(4) Joint and Survivor Income Option A Participant may elect to receive an actuarially reduced benefit payable monthly during the Participant's lifetime with payments to continue after his or her death to the person he designates (hereinafter called "contingent annuitant"), in an amount equal to (1) 100% of such actuarially reduced benefit, (2) 66 2/3% of such actuarially reduced benefit, or (3) 50% of such actuarially reduced benefit. Benefit payments under this option shall terminate with the monthly payment for the month in which occurred the date of death of the later to die of the Participant and his or her contingent annuitant. The following additional limitations and conditions apply to this option:

(A) The contingent annuitant shall be designated by the Participant in writing in such form and at such time as Ashland may from time to time prescribe. Before the Participant's Effective Retirement Date, the Participant may change the contingent annuitant elected.

(B) In the event of the death of the contingent annuitant prior to the date as of which the election is irrevocable, the Participant's selection of this option shall be void and the Participant may change the contingent annuitant or change the option elected, subject to the applicable limitations and conditions applied to elections for the options described under 5.04(a)(1) and (2).

(C) Actuarial equivalence under this sub-paragraph (4) shall be determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Pension Plan.

(5) Period Certain Income Option. A Participant may elect to receive an actuarially reduced benefit payable monthly during his or her lifetime and terminating with the monthly payment for the month in which his or her death occurs, with the provision that not less than a total of 120 monthly payments shall be made in any event to him or her and/or the person designated by him or her to receive payments under this sub-paragraph (5) in the event of his or her death (hereinafter called "alternate recipient"). If a Participant and his or her alternate recipient die after the Effective Retirement Date, but before the total specified monthly payments have been made to such Participant and/or his or her alternate recipient, the commuted value of the remaining unpaid payments shall be paid in a lump sum to the estate of the later to die of the Participant or his or her alternate recipient. The following additional limitations and conditions shall apply to this option:

(A) The alternate recipient shall be designated in writing by the Participant in such form and at such time as Ashland may from time to time prescribe. The designation of an alternate recipient under this sub-paragraph (5) is irrevocable after the Effective Retirement Date, provided, however, a Participant may designate a new alternate recipient if the one first designated dies before the Participant and after the Effective Retirement Date.

(B) In the event of the death of the alternate recipient prior to the date as of which the election is irrevocable, the Participant's selection of this option shall be void and the Participant may change the alternate recipient or change the option elected, subject to the applicable limitations and conditions applied to elections for the options described under 5.04(a)(1) and (2).

(C) Actuarial equivalence under this sub-paragraph (5) shall be determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Pension Plan.

5.05. Payment of Small Amounts

Unless such Participant elects to receive his or her benefit in a lump sum as provided in Section 5.04, in the event a monthly benefit under this Plan, payable to either a Participant or to his or her contingent annuitant, alternate recipient or surviving spouse, is too small (in the

sole judgment of Ashland) to be paid monthly, such benefit may be paid quarterly, semi-annually, or annually, as determined by Ashland to be administratively convenient.

5.06. Surviving Benefits

(a) Except as otherwise provided in Section 5.04 of this Plan, in the event that a Participant receiving Annual Retirement Income benefits shall die after his or her Effective Retirement Date, no additional benefits shall be payable by Ashland under this Plan to such deceased Participant's beneficiaries, survivors, or estate.

(b) If an Employee dies while in active service with Ashland

(1) prior to approval for participation in the Plan and said Employee is a Level I or II participant under the Incentive Compensation Plan; or

(2) after approval for participation in the Plan but prior to making an election pursuant to Section 5.04(a) and said Employee is a Level I -V participant under the Incentive Compensation Plan; then such Employee shall be deemed:

(i) to be a Participant under the Plan in the case of Section 5.06 (b)(1);

(ii) to have commenced participation one (1) day prior to the date of the Employee's death; and

(iii) to have elected to receive his or her benefits in the form of the 100% Joint & Survivor retirement income option and to have designated his or her spouse as the beneficiary thereunder.

(c) In the event an Employee is approved for participation under the Plan and dies after having made an election under Section 5.04(a) but prior to his or her Effective Retirement Date, then such Employee shall be deemed to have commenced participation one (1) day prior to the date of the Employee's death and payment shall be made under this Plan in accordance with the Employee's election.

5.07 Participation in Other Benefits

After a Participant's Effective Retirement Date, he or she shall continue to participate in Ashland's Group Life Insurance, Medical and Dental programs in the same manner and under the same terms and conditions as provided for retirees as a class under the provisions of such programs, as from time to time in effect. Except as otherwise expressly provided in this Plan, a Participant's active participation in all employee benefit programs maintained by Ashland derived from his or her employment status with Ashland shall be discontinued.

ARTICLE VI. CHANGE IN CONTROL.

Notwithstanding any provision of this Plan to the contrary, in the event of a Change in Control, an Employee who is deemed to be a Level I, II, III, IV or V participant under Ashland's Incentive Compensation Plan, shall, in accordance with Section 3.03, automatically be deemed approved for participation under this Plan. Consistent with the applicable terms of Sections 5.01 and 5.02, such a Participant may, in his or her sole discretion, elect to retire prior to Age 62. In addition, Ashland (or its successor after the Change in Control) shall reimburse an Employee for legal fees, fees of other experts and expenses incurred by such Employee if he or she is required to, and is successful in, seeking to obtain or enforce any right to payment pursuant to the Plan. In the event that it shall be determined that such Employee is properly entitled to the payment of benefits hereunder, such Employee shall also be entitled to interest thereon payable in an amount equivalent to the prime rate of interest (quoted by Citibank, N.A. as its prime commercial lending rate on the latest date practicable prior to the date of the actual commencement of payments) from the date such payment(s) should have been made to and including the date it is made. Notwithstanding any provision of this Plan to the contrary, the provisions of this Plan or any other plan of Ashland Inc. having a material impact on the benefits payable under this Plan may not be amended after a Change in Control occurs without the written consent of a majority of the Board who were directors prior to the Change in Control.

ARTICLE VII. MISCELLANEOUS.

7.01 The obligations of Ashland hereunder constitute merely the promise of Ashland to make the payments provided for in this Plan. No employee, his or her spouse or the estate of either of them shall have, by reason of this Plan, any right, title or interest of any kind in or to any property of Ashland. To the extent any Participant has a right to receive payments from Ashland under this Plan, such right shall be no greater than the right of any unsecured general creditor of Ashland.

7.02 Full power and authority to construe, interpret and administer this Plan shall be vested in the Board or its delegate. This includes, without limitation, the ability to make factual determinations, construe and interpret provisions of the Plan, reconcile any inconsistencies between provisions in the Plan or between provisions of the Plan and any other statement concerning the Plan, whether oral or written, supply any omissions to the Plan or any document associated with the Plan, and to correct any defect in the Plan or in any document associated with the Plan. Decisions of the Board or its delegate shall be final, conclusive and binding upon all parties, provided, however, that no such

decision may adversely affect the rights of any Participant who has been approved for participation in the Plan under the terms of Section 3.03 and whose benefit is determined under the terms of Section 5.01(d) or Section 5.02(b).

- 7.03 This Plan shall be binding upon Ashland and any successors to the business of Ashland and shall inure to the benefit of the Participants and their beneficiaries, if applicable. Except as otherwise provided in Article VI, the Board or its delegate may, at any time, amend this Plan, retroactively or otherwise, but no such amendment may adversely affect the rights of any Participant who has been approved for participation in the Plan except to the extent that such action is required by law.
- 7.04 Except as otherwise provided in Section 5.04, no right or interest of the Participants under this Plan shall be subject to voluntary or involuntary alienation, assignment or transfer of any kind.
- 7.05 This Plan shall be governed for all purposes by the laws of the Commonwealth of Kentucky.
- 7.06 If any term or provision of this Plan is determined by a court or other appropriate authority to be invalid, void, or unenforceable for any reason, the remainder of the terms and provisions of this Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

ASHLAND INC.
SALARY CONTINUATION PLAN
(as amended as of November 7, 2002)

The Ashland Inc. Salary Continuation Plan (the "Plan"), effective July 21, 1988, is an employee benefit plan which provides eligible salaried employees of Ashland Inc. and its majority-owned subsidiaries (collectively referred to herein as the "Company") with certain severance benefits if the individual's employment with the Company is terminated under defined circumstances after a Change in Control, as defined in Section 4(b). The details and purpose of the Plan are more fully explained below.

SECTION 1. PURPOSE

The purpose of the Plan is to reduce employee concerns about the possibility of a Change in Control, as defined below in Section 4(b). It is important that each employee be able to focus his or her full attention and energy toward the goals and objectives of the Company. The Plan is also designed to permit the Company to retain its high quality work force by increasing stability and improving morale and productivity. In addition, the Plan will allow the company to attract and retain new qualified employees.

SECTION 2. ADMINISTRATION

Ashland Inc. ("Ashland") shall be the Plan Administrator and shall administer the Plan. Any determinations by the Vice President, Human Resources - Programs and Services, or his or her designee, in carrying out, administering, or interpreting this Plan shall be final and binding for all purposes and upon all interested persons and their heirs, successors, and personal representatives. All costs associated with the Plan shall be borne by the Company.

SECTION 3. ELIGIBILITY

An employee who is classified on the records of the Company as a regular, full-time salaried employee, whether exempt or non-exempt as specified in the Fair Labor Standards Act, as from time to time amended, (excluding hourly employees; employees covered by collective bargaining agreements; employees of subsidiaries, entities, or partnerships in which the Company has a 50% or less ownership interest; and international employees, except foreign nationals who are located in Canada or those who are U.S. expatriates) will be entitled to participate in the Plan, regardless of length of service. Employees who have entered into employment contracts with the Company will not be eligible to participate in the Plan.

At any time prior to a Change in Control, as defined in Section 4(b), Ashland reserves, in its complete discretion, the right to amend the eligible classes of employees.

SECTION 4. CONDITIONS FOR BENEFIT PAYMENTS

(a) A participant shall not be entitled to receive benefits under this Plan prior to a Change in Control, as defined in Section 4(b). Participation in the Plan does not create a contract of employment between the Company and its employees. The Company reserves the right to terminate employees at any time for any reason, just as employees have the right to terminate their employment at any time for any reason.

(b) For purposes of the Plan, a change in control of Ashland (herein after referred to as a "Change in Control") shall be deemed to have occurred if:

(i) there shall be consummated (A) any consolidation or merger of the Company, other than a consolidation or merger of the Company into or with a direct or indirect wholly-owned subsidiary, 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 individual holders of the Company's common stock immediately prior to the merger have 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, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of the Company shall be deemed to occur unless assets constituting 80% of the total assets of the Company are transferred pursuant to such sale, lease, exchange or other transfer; 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" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), 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 Ashland representing 50% or more of the combined voting power of Ashland'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 consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Ashland 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.

Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of the Company's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, the Company and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

(c) Benefits shall be payable to a participant under the Plan after a Change in Control has occurred if a participant's employment is terminated by the Company without Cause, as defined below, within two (2) years from the date of the Change in Control. For purposes of the Plan, "cause" shall mean (i) the willful and continued failure of an employee to substantially perform his or her duties with the company (other than such failure resulting from the employee's incapacity due to physical or mental illness), or (ii) willful engaging by an employee in gross misconduct materially injurious to the Company.

SECTION 5. AMOUNT OF BENEFITS

Following a Change in Control and a participant's termination of employment within two (2) years thereafter without Cause, a participant shall be entitled to receive benefits under the Plan as described below:

(a) A participant shall be entitled to be paid in an undiscounted lump sum, within ten (10) business days after such participant's termination of employment without Cause, an amount equal to a specified portion of his or her current base compensation (excluding any bonus compensation) based upon the greater of such participant's (a) aggregate years and months of service (whether or not continuous), or (b) current Job Band (or, if higher, the Job Band of such participant at the time of the Change in Control) calculated as follows:

| Length of Service | Payment |
|--------------------------------------|--------------------------------|
| Up to 5 full years | 3 months' base compensation |
| More than 5 and up to 10 full years | 6 months' base compensation |
| More than 10 and up to 15 full years | 1 year's base compensation |
| More than 15 and up to 20 full years | 1-1/2 year's base compensation |
| More than 20 full years | 2 years' base compensation |

| Job Band | Payment |
|-------------------|-----------------------------|
| Band 1 - 10 | 3 months' base compensation |
| Band 11 - 22 | 6 months' base compensation |
| Band 23 and above | 1 year's base compensation |

(b) At the sole expense of the Company, a participant shall be entitled to the continuation of his or her medical, dental, and group life benefits in effect at the time of such participant's termination of employment without Cause for a period of six (6) months following such participant's termination of employment.

(c) A participant shall be reimbursed for any legal fees or expenses incurred by the participant to enforce the payment of Plan benefits within ten (10) business days of providing copies of applicable invoices to the Company.

(d) A participant shall be entitled to interest on the amount of any payments due under the Plan (but not timely paid) in an amount equivalent to the prime rate of interest (quoted by Citibank, N.A. as its prime commercial lending rate) on the latest date practicable prior to the date such payments should have been made, to and including the date it is made.

(e) Within ten (10) business days of the participant's termination of employment following a Change in Control, the Company shall provide, at no cost to the participant, individual outside assistance in finding other employment. Such obligation may be fulfilled by the Company through the retention of an outplacement service for use by individual participants.

(f) Participants shall be entitled to receive any pension, disability, workers' compensation, other Company benefit plan distribution, payment for vacation accrued but not taken, statutory employment termination benefit, or any other compensation plan payment otherwise independently due; however, in no event shall a participant who receives benefit under this Plan be entitled to additional severance payment pursuant to any other existing severance policy of the Company.

SECTION 6. ACCEPTANCE OF BENEFITS

If a participant receives and accepts all of the benefits provided under Section 5 of the Plan, he or she shall be deemed thereby to have waived any right or cause of action against the Company and its directors, officers, or employees arising from the termination of the participant's employment.

SECTION 7. CLAIMS PROCEDURE

(a) Following a Change in Control and a participant's termination of employment, the benefits described in Section 5 of the Plan shall be paid as described therein without any required action on the part of such participant.

(b) If any participant believes that he or she is entitled to benefits provided under the Plan and has not received such benefits within the time prescribed by the Plan, such participant may submit a written claim for payment of such benefits to the Company. If such claim for benefits is wholly or partially denied, the Company shall, within thirty (30) business days after receipt of the claim, notice the participant of the denial of the claim. Such notice of denial (i) shall be in writing, (ii) shall be written in a manner calculated to be understood by the participant, and (iii) shall contain (A) the specific reason or reasons for denial of the claim, (B) a specific reference to the pertinent Plan provisions upon which the denial is based, (C) a description of any additional material or information necessary to perfect the claim, along with an explanation of why such material or information is necessary, and (D) an explanation of the claim review procedure, in accordance with the provisions of this Section 7.

(c) Within sixty (60) business days after the receipt by the participant of a written notice of denial of the claim, or such later time as shall be deemed reasonable taking into account the nature of the benefit subject to the claim and any other attendant circumstances, the participant may file a written request with the Company that it conduct a full and fair review of the denial of the claim for benefits. As a part of such full and fair review, the participant (or such participant's duly authorized representative) may review and photocopy pertinent documents (including but not limited to the participant's personal history file) and submit issues and comments to the Company in writing. The Company shall make its determination in accordance with the documents governing the Plan insofar as such documents are consistent with the provisions of the Employee Retirement Income Security Act of 1914 (herein "ERISA").

The Company shall promptly deliver to the participant its written decision on the claim (in no event later than thirty (30) business days after the receipt of the aforesaid request for review, except that if there are special circumstances (such as a conference with the participant or his or her representative) which require an extension of time, the aforesaid thirty (30) business day period shall be extended to a reasonable period of time not to exceed sixty (60) business days). Such decision shall (i) be written in a manner calculated to be understood by the participant, (ii) include the specific reason or reasons for the decision, and (iii) contain a specific reference to the pertinent Plan provisions upon which the decision is based. If the decision on review is not furnished within the time prescribed by this Section 7(c), the claim shall be deemed granted on review.

SECTION 8. AMENDMENTS AND TERMINATIONS

Ashland's Board of Directors shall have plenary authority to terminate, modify, or amend this Plan in such respects as it shall deem advisable at any time prior to a Change in Control.

SECTION 9. SUCCESSORS BINDING AGREEMENT

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to eligible participants, expressly to assume and agree to provide benefits pursuant to this Plan in the same manner and to the same extent that the Company would be required to perform its obligations under the Plan 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 violation of this Plan and shall entitle eligible participants to compensation from the Company in the same amount and on the same terms as the participant would be entitled pursuant to Section 5, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the date of the participant's termination of employment without Cause. As used in this Plan, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Plan by operation of law.

(b) This Plan shall inure to the benefit of and be enforceable by a participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If a participant should die while any amounts would still be payable to him or her hereunder if he or she had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to such participant's devisee, legatee, or other designee or, if there be no such designee, to his or her estate.

SECTION 10. WITHHOLDING TAXES

The Company is authorized to withhold any tax required to be withheld from the amounts payable to a participant pursuant to this Plan which are considered taxable compensation to the participant.

SECTION 11. GOVERNING LAW

The Plan shall be governed by the laws of the Commonwealth of Kentucky.

NAME
ADDRESS

Dear Mr. _____:

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 or merger of the Company, other than a consolidation or merger of the Company into or with a direct or indirect wholly-owned subsidiary, 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, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of the Company shall be deemed to occur unless assets constituting 80% of the total assets of the Company are transferred pursuant to such sale, lease, exchange or other transfer, 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. Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of the Company's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, the Company and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

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 shall automatically renew for successive two (2) year periods on the first day of each month. This Agreement may be terminated by either party provided that at least fifteen (15) 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 at which time the Agreement shall terminate at the end of the next succeeding two (2) year period. 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 and second sentences 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) 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 three 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 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. The benefits in this Agreement are in addition to all accrued and vested benefits to which you are entitled under any of the Company's plans and arrangements (to the extent accrued and vested benefits are relevant under the particular plan or arrangement), including but not limited to, the accrued vested benefits to which you are eligible 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. For these purposes, accrued and vested benefits shall include any extra, special or additional benefits under such qualified and non-qualified benefit or retirement plans that become due because of the Change in Control.
- (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 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 _____, 2002.

NAME

AGREEMENT AND GENERAL RELEASE

THIS AGREEMENT AND GENERAL RELEASE is entered into this 27 day of November, 2002 by and between Ashland Inc., on behalf of itself, its officers, directors, shareholders, employees and agents (in their individual and representative capacities), and each of them, jointly and severally (collectively referred to as "Ashland" or the "Company"); and Paul W. Chellgren, on behalf of himself and his heirs, executors, guardians, administrators, successors and assigns, and each of them, jointly and severally (herein singularly and collectively called "Mr. Chellgren" or the "Employee"), who agree to be bound by all of the terms and conditions hereof.

WHEREAS, Employee has been employed by the Company from July 29, 1974 to the present; and

WHEREAS, Employee and the Company desire to settle fully and finally all matters between them, including, but in no way limited to, any issues that might arise out of Employee's employment with and retirement from the Company;

NOW, THEREFORE, in consideration of the mutual promises herein contained, Employee and the Company agree as follows:

1. This Agreement and General Release (the "Agreement") shall not in any way be construed as an admission by the Company that it has acted wrongfully with respect to Employee or any other person, or that Employee has any rights whatsoever against the Company, and the Company specifically disclaims any liability to or wrongful acts against Employee or any other person, on the part of itself, its officers, directors, shareholders, employees or agents.

2. Employee represents, understands, and agrees that in accordance with the terms of the Letter Agreement executed by Employee on November 6, 2002, the terms and conditions of which are incorporated herein by reference, Employee stepped down from his position as Chief Executive Officer on September 30, 2002, and will step down from his position as Chairman of the Board of Directors of Ashland Inc. and as a director of Ashland Inc., effective November 15, 2002. His employment will terminate on November 15, 2002 ("Termination Date"), and he will be eligible to retire from the Company on December 1, 2002 ("Retirement Date").

3. Employee represents that he has not filed any complaints or charges or lawsuits against the Company with any governmental agency or any court concerning any matter subject to the release he is providing under paragraph (15) of this Agreement, and that he will not do so at any time hereafter; provided, however, this shall not limit Employee from filing a lawsuit for the sole purpose of enforcing Employee's rights under this Agreement, or for the purposes of enforcing rights under the ADEA, as described further herein.

Employee Initials:/s/PWC
Page 1

4. In order to assist Employee in the transition into other endeavors, and as mutual consideration for the covenants expressed herein, the Company will provide Employee with the Benefits more fully described in Attachment I (Summary of Benefits), which is hereby incorporated by reference.

5. Employee understands and agrees that the consideration described above is more than Employee would otherwise be entitled to under the Company's existing policies and any current agreement with Employee.

6. Employee understands and agrees that, effective as of his Termination Date, he is no longer authorized to incur any expenses or obligations or liabilities on behalf of the Company. However, Ashland may, during the two-year period immediately following his retirement ("Consulting Period"), request Employee perform services of the nature and type he performed during his service with Ashland, and Employee will be responsive on a reasonable basis to the requests of Ashland; provided however, that any request to perform services in excess of six (6) days during any one calendar month shall be by mutual agreement only. For each day during the Consulting Period in which services are provided under this paragraph (6), Employee shall be compensated at a rate of an additional Two Thousand Dollars (\$2,000) per day, minus all applicable withholdings. Ashland will reimburse Employee for his reasonable expenses related to the performance of the services requested hereunder. Use of Company property, equipment or aircraft in connection with the performance of such services must be expressly authorized in advance by the Company's Chief Executive Officer or the CEO's designee.

7. As of his Termination Date, Employee will return to the Company all Company Information, as defined below, and related reports, maps, files, memoranda, and records; credit cards, cardkey passes; door and file keys; computer access codes; software; and other physical or personal property which Employee received or prepared or helped prepare in connection with his employment. Employee has not retained and will not retain any copies, duplicates, reproductions, or excerpts thereof. The term "Company Information" as used in this Agreement means (a) confidential information including, without limitation, information received from third parties under confidential conditions; and (b) technical, business, financial or other information, the use or disclosure of which might reasonably be construed to be contrary to the interests of the Company, and/or

detrimental to its business reputation or good will.

8. Employee agrees that during the course of his employment with the Company he has acquired Company Information as defined in paragraph (7). Employee understands and agrees that such Company Information is the property of the Company and has been disclosed to Employee in confidence and for Company use only. Employee understands and agrees that he (i) will keep such Company Information confidential at all times during and after his employment with the Company, (ii) will not disclose or communicate Company Information to any third party, and (iii) will not make use of Company Information on Employee's own behalf, or on behalf of any third party. In view of the nature of Employee's employment and the nature of Company

Employee Initials:/s/PWC
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Information which Employee has received during the course of his employment, Employee agrees that any unauthorized disclosure to third parties of Company Information or other violation, or threatened violation, of this Agreement would cause irreparable damage to the trade secret status of Company Information and to the Company. When Company Information becomes generally available to the public other than by Employee's acts or omissions, it is no longer subject to these restrictions. However, Company Information shall not be deemed to come under this exception merely because it is embraced by more general information that is or becomes generally available to the public. It is understood that, if requested by Employee, the Company may review and approve the Employee's resume to assure there is no violation of this paragraph (8), which approval shall not be unreasonably withheld.

9. From the effective date of this Agreement, through December 31, 2005 (the "Non-compete Period"), Employee shall not, without Ashland's prior written consent, which shall not be unreasonably withheld, accept a directorship or employment with, engage in consulting for or otherwise render services for, make investments in, or otherwise engage in any other business activity with, any corporation, partnership, firm or other form of business enterprise which directly competes, both as to the type of activity and geographical location, with any substantial business of the Company. However, Employee's ownership, directly or indirectly, of issued and outstanding stock or debt obligations of any corporation, which are regularly traded on a national securities exchange or in the over-the-counter market, shall not be deemed to be a violation of this Agreement so long as such ownership does not, directly or indirectly, permit Employee to control the business and affairs of such corporation. Employee further agrees that for the Non-compete Period, Employee will not interfere with or disrupt the relationship, contractual or otherwise, with respect to the business or employment relationship between the Company or its successors and any other party, including other employees of the Company or its successors. Employee agrees that these restrictions are reasonable, and that they do not unreasonably preclude Employee from being gainfully employed. Notwithstanding, Employee shall also be subject to the non-compete provisions of paragraph 4.04 of Ashland's Supplemental Early Retirement Plan.

10. This Agreement shall immediately and automatically terminate if (a) Employee breaches the confidentiality provisions of paragraph (8) above, (b) Employee engages in competitive activity as set forth in paragraph (9) above, or (c) Employee takes any other action inconsistent with this Agreement. In the case of such termination of this Agreement, the Company may cease further payments and benefits to Employee, and may recoup previous amounts paid to Employee, and other damages, under this Agreement. The covenants, agreements and releases set forth in paragraphs (8), (9), (15), (16) and (17) shall survive the term of this Agreement.

11. Employee acknowledges and agrees that the remedy of the Company at law for any breach of the covenants and agreements of paragraphs (8) and (9) of this Agreement 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.

Employee Initials:/s/PWC
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12. The provisions of this Agreement are severable, and if any part of it is found to be unenforceable, the other paragraphs shall remain fully valid and enforceable.

13. Employee represents and agrees that he will keep the terms of this Agreement completely confidential, and that he will not hereafter disclose any information concerning this Agreement to anyone except his immediate family, financial advisor and attorney; provided, they agree to keep said information confidential and not disclose it to others.

14. Employee represents and agrees that he has carefully read and fully understands all of the provisions of this Agreement, that he is voluntarily entering into this Agreement, and that he has had sufficient time before signing this Agreement to consult with legal counsel concerning its content and effect. Employee understands that it is his decision whether to consult with legal counsel, and if he elects to sign this document without first consulting legal counsel, it will have been as a result of his voluntary choice.

15. As a material inducement to the Company to enter into this Agreement, Employee hereby irrevocably and unconditionally releases, acquits, and forever discharges Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, divisions, subsidiaries, affiliates, and all persons acting by, through, under, or in concert with any of them (collectively "Releasees"), jointly and individually, from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts, and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, including, but not limited to, any claims of wrongful discharge or any other claim related to Employee's employment or to acts or omissions of the Company involving Employee or of rights under federal, state, or local laws prohibiting age or other forms of discrimination, claims growing out of any legal restrictions on Company's right to terminate its employees, claims based on express or implied contract, claims arising in tort, including claims for fraud or misrepresentation, and claims arising out of any actions or events occurring before the date of Employee's execution of this Release against each or any of the Releasees. Examples of such federal, state, or local law, rule, or regulation regarding discrimination include, but are not limited to, any claims arising under Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 2000e et seq., the Age Discrimination in Employment Act, 29 U.S.C. Section 621 et seq., or the Workers' Adjustment and Retraining Notification (WARN) Act, 29 U.S.C. Section 2101 et seq. These examples shall not limit the scope of this Release. This Release is intended to be a broad release and shall apply to any relief, no matter how denominated, including, but not limited to, claims for future employment, rights or causes of action for wages, backpay, front pay, compensatory damages, or punitive damages. Employee also agrees that he will not file such claim and Employee hereby agrees to indemnify and hold Releasees harmless from any such claim. In addition,

Employee Initials:/s/PWC
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Employee agrees to waive the right to receive any recovery under any charge, claim or lawsuit filed on Employee's behalf. Notwithstanding anything to the contrary in this paragraph (15), Employee does not release any claim he may have under any employee benefit plan in which he was a participant during his employment with the Company for the payment of a benefit thereunder to which he would be entitled in accordance with its terms in the ordinary course of the administration of the Plan. Further, Employee does not release any rights of indemnification as provided under the Company's By-laws or policies, except as provided in paragraph (16) below.

16. Employee also agrees to indemnify the Company from any and all costs and expenses (including but not limited to payment of attorneys fees), and to hold the Company harmless against any liabilities (including but not limited to judgments, fines, penalties, and reasonable settlements (provided that prior to settlement, Employee will be given notice and opportunity to comment on the proposed settlement)), that may be paid by or imposed against the Company in connection with or resulting from any pending, threatened, or completed claim, action, suit or proceeding (including any appeal relating thereto), arising from the Employee's personal relationship with a fellow employee during his tenure with the Company, in violation of the Company's human resources policies. Provided, that this indemnification agreement shall not apply to any obligations specifically undertaken by the Company with respect to said fellow employee under the terms of the Amended Separation Agreement and General Release executed by and between the Company and said fellow employee. And further, that this indemnification agreement shall not apply to any liability imposed against the Company for its own acts or omissions separate and independent of the acts and omissions of Employee, if the Employee can demonstrate that the Company, by its own acts or omissions separate and independent of the acts and omissions of Employee, did not act in good faith and in a manner the Company reasonably believed at the time to be in the best interests of Employee and/or the Company. In connection with the agreements contained in this paragraph (16) Employee further specifically agrees to waive any right to indemnification from the Company that might otherwise exist for such claims made against him in his individual or representative capacity under Article IX of the Company's By-Laws or its Articles of Incorporation or otherwise, or by operation of the Kentucky Business Corporation Act, Chapter 271B of the Kentucky Revised Statutes, including, but not limited to those rights provided under KRS ss. 271B.8-520 and KRS 271B.8-560. Employee further agrees that he will not assert any rights or make any claims under the Company's D&O Policy relating to such claims, and waives the right to any reimbursement for such claims thereunder.

17. As a further material inducement to the Company to enter into this Agreement, Employee hereby agrees to indemnify and hold each and all of the Releasees harmless from and against any and all loss, costs, damages, or expenses, including, without limitation, attorneys' fees incurred by Releasees, or any of them, arising out of any breach of this Agreement by Employee, including costs and expenses incurred to enforce this Agreement, or the fact that any representation made herein by Employee was false when made, except that this provision shall not apply to any alleged breach due to a challenge of the validity of the ADEA waiver contained herein.

Employee Initials:/s/PWC

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18. Employee understands and agrees that Employee has been given through November 27, 2002 (the "Review Period"), which is at least twenty-one (21) days, to review and consider the General Release contained in this Agreement. Employee understands that Employee may use as much or as little of the Review Period as Employee wishes to prior to reaching a decision regarding the signing of this Agreement. However, Employee acknowledges that under no circumstances may Employee sign and date this Agreement Release prior to his Termination Date. Accordingly, Employee understands that if Employee does not sign, date, and return this Agreement during that portion of the Review Period falling after Employee's Termination Date and prior to the expiration of the Review Period, the Agreement and General Release will not be valid and Employee will not receive the special severance benefits under the terms of this special severance offer.

19. In accordance with federal law, Employee may revoke this Agreement and the General Release contained herein at any time within seven (7) calendar days of the date of execution noted below. To be effective, the revocation must be in writing and delivered to David L. Hausrath, Vice President and General Counsel, 50 E. RiverCenter Boulevard, P.O. Box 391, Covington, Kentucky 41012, either by hand or mail within a seven (7) day period following Employee's execution of this Agreement. If delivered by mail, the rescission must be:

1. Postmarked within the seven (7) day period;
2. Properly addressed as noted above; and
3. Sent by Certified Mail, Return Receipt Requested.

This Agreement shall not become effective or enforceable until this 7-day revocation period has expired.

20. This Agreement constitutes the full, complete, and entire agreement between the parties and supercedes all prior agreements between the parties and Employee's signature indicates that he has not relied upon any statements or representations or other matters from the Company, its agents, officers, or employees. Any future alteration, modification, or waiver, to be binding on the parties, must be reduced to writing and attached hereto.

21. Upon execution by both parties, this Agreement shall terminate all prior employment and severance agreements between the Employee and the Company and its divisions or subsidiaries, with the exception of those prior agreements specifically incorporated herein by reference.

22. 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.

23. It is agreed that this Agreement and Release shall be interpreted in accordance with the laws of the Commonwealth of Kentucky.

Employee Initials:/s/PWC
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IMPORTANT NOTICE

BY SIGNING THIS AGREEMENT, YOU, PAUL W. CHELLGREN, AFFIRM THAT YOU HAVE READ AND UNDERSTAND THIS AGREEMENT; THAT YOU HAVE HAD A MINIMUM OF TWENTY-ONE (21) DAYS TO CONSIDER THE AGREEMENT AND USED AS MUCH OF THIS 21-DAY PERIOD AS YOU WISHED PRIOR TO SIGNING; THAT YOU HAVE NOT SIGNED AND DATED THIS AGREEMENT BEFORE YOUR TERMINATION DATE; THAT YOU UNDERSTAND FULLY ITS FINAL AND BINDING EFFECT; THAT THE ONLY PROMISES MADE TO INDUCE YOU TO SIGN THIS AGREEMENT ARE THOSE STATED HEREIN AND THAT YOU ARE SIGNING THIS AGREEMENT VOLUNTARILY WITH THE FULL INTENT OF RELEASING THE COMPANY AND ALL ASSOCIATED ENTITIES AND INDIVIDUALS FROM ANY AND ALL CLAIMS, KNOWN OR UNKNOWN, RELATING TO OR ARISING OUT OF YOUR EMPLOYMENT WITH ASHLAND; THAT YOU HAVE BEEN ADVISED THAT IT IS IN YOUR BEST INTEREST TO HAVE AN ATTORNEY, HIRED BY YOU, LOOK AT THE AGREEMENT AND GIVE YOU ADVICE ABOUT IT; THAT YOU WERE GIVEN A CHANCE TO REFUSE TO SIGN THIS AGREEMENT; AND THAT YOU ARE AWARE THAT YOU HAVE AN ADDITIONAL SEVEN (7) DAYS IN WHICH TO REVOKE YOUR ACCEPTANCE OF THIS AGREEMENT.

ASHLAND INC.

/s/ Paul W. Chellgren
PAUL W. CHELLGREN

By: _____

November 27, 2002
Date of Execution
(Do Not Sign Prior To TERMINATION Date)

Title: _____

Employee Initials:/s/PWC
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Name: PAUL W. CHELLGREN
Date of Presentation: NOVEMBER 6, 2002

Attachment 1

RETIREMENT ELIGIBLE
SUMMARY OF EMPLOYEE BENEFITS
AND MISCELLANEOUS PROVISIONS

On November 15, 2002 (your "Termination Date"), your employment with the Company will end. You will then be eligible to retire on December 1, 2002 (your "Retirement Date").

AGREEMENT AND GENERAL RELEASE

Program benefits will not begin until you have executed the Agreement and Release and it becomes valid. If you do not execute the Agreement and Release, you will not receive the special benefits provided hereunder, and will receive only those benefits ordinarily available to employees in payroll classifications similar to the one you are in at the time your employment terminates.

In general, except as permitted by law, or your eligibility to elect to retire and obtain retiree benefits, you cannot continue participation in any employee benefit plan following your Termination Date. If you were enrolled in a group health plan, you may be able to continue coverage by making what is called a COBRA election. You cannot elect to have any premiums you may have to pay for COBRA coverage deducted from your lump sum severance payment.

The following summarize selected terms and conditions from some of the employee benefit plans in which you may have participated. The actual terms of these plans are in their plan documents. You should refer to the relevant summary plan description for more information on a particular plan and the effect that your severance has with regard to that plan.

PENSION PLAN

Your rights under the Pension Plan will be determined based on your age, years of plan participation, and final average salary on your Termination Date. You will be eligible for an immediate pension benefit commencing as of the first day of the month coincident with or next following your Termination Date if either of the following applies: on your Termination Date you are at least age 55; or on your Termination Date the sum of your age and years of continuous service is at least 80.

Employee Initials:/s/PWC
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MEDICAL AND DENTAL

If you are at least age 55 or the sum of your age and years of continuous service is at least 80, and you have 5 years of service on your Termination Date, you may be eligible for retiree coverage under the Medical Plan and the Dental Plan. Dental coverage during retirement is only available if you were covered by the plan on your Termination Date. Your dental coverage during retirement also must end on the last day of the month in which you attain age 65. Medical coverage during retirement is generally only available if you were covered by the plan on your Termination Date. The exceptions to this general rule are described in the summary plan description.

If you elect retiree coverage, your retiree contributions would be determined using your service to your Termination Date.

Although you may be eligible to elect retiree coverage, federal law requires that COBRA continuation coverage also be offered for the plan or plans in which you were covered. If the amount you have to pay for retiree coverage is greater than what you paid for the same coverage as an active employee, you can choose to elect the COBRA continuation coverage instead of the retiree coverage. If enrolled in the Medical or Dental Plan on the Termination Date, you will be eligible for COBRA continuation coverage under these plans for 12 months, at the same contribution rates that apply to regular, active employees. To be eligible for this, though, you must first make a timely election of COBRA coverage. You make a timely election by completing and filing the COBRA election form that will be sent to you by the Employee Benefits Department. The form will have instructions explaining how to complete it and where to file it. At the end of this 12-month coverage period, you will be eligible for continued COBRA coverage for up to 6 additional months but you must pay the full COBRA costs (both Company and employee contributions, plus 2%) for your coverage. Your first payment for your medical and dental contributions must be made by personal check mailed to the Company's Employee Benefits Department at the following address:

Employee Benefits Department
Ashland Inc.
P. O. Box 14000
Lexington, KY 40512

That first payment is due on the first day of the 13th month, with a 30-day grace period for a late payment. If you do not make the required payment by the end of the grace period, the coverage is retroactively terminated to the first day of the said 13th month, without the ability to reinstate the coverage. You will not be billed for the COBRA coverage. Paying for the coverage is your responsibility.

After the Employee Benefits Department receives your first check, you will receive information on where future checks should be mailed. For further details please consult

the relevant summary plan description or call the Employee Benefits Department at (800) 782-4669.

LIFE INSURANCE

If you are at least age 55 or the sum of your age and years of continuous service is at least 80, you have 5 years of service, and you had plan coverage on your Termination Date, you will be eligible for company-paid retiree life coverage equal to \$10,000. Contributory coverage, spouse coverage, dependent child coverage and accidental death and dismemberment coverage end at your Termination Date.

REIMBURSABLE ACCOUNTS PLAN

Any amount you have remaining in the Dependent Day Care Account and/or the Health Care Account is available to reimburse you for covered services incurred before the end of the month in which your Termination Date occurs. Claims for services performed after that time are not eligible for reimbursement. Claims for reimbursement must be filed by June 30 in the calendar year following your Termination Date. Any amounts in your accounts that are not used will be forfeited according to IRS rules. You will be eligible to elect COBRA continuation coverage for your Health Care Account. Ashland's Employee Benefits Department will provide you with a summary of your COBRA rights that will tell you how to elect to continue coverage under the Health Care Account. You may only elect to continue coverage through the end of the calendar year that contains your Termination Date.

SAVINGS PLAN

Upon your Termination Date, you have a number of withdrawal options. If you have an unpaid loan, you may continue to make monthly payments after your Termination Date. Fidelity will send you payment instructions approximately 4 weeks following your Termination Date. To receive Savings Plan information, call Fidelity Investments at (800) 827-4526. You may also access Savings Plan information on the internet by clicking "Access My Account" under NetBenefits at www.401k.com.

LESOP

Upon your Termination Date, you may elect to receive a distribution of your entire account in cash or shares (if your spouse consents) or you may elect to transfer 50% of your account to the Pension Plan and receive the remaining 50% in shares. If there are fewer than 100 shares in your account after the transfer, then you may elect to have them distributed in cash. LESOP distributions are usually made 3 to 4 weeks from the Friday that the Employee Benefits Department processes your withdrawal form.

Employee Initials:/s/PWC
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LONG TERM DISABILITY; VOLUNTARY ACCIDENTAL DEATH AND DISMEMBERMENT;
OCCUPATIONAL ACCIDENTAL DEATH AND DISMEMBERMENT; TRAVEL ACCIDENT INSURANCE
AND ADOPTION ASSISTANCE PROGRAM

Your eligibility for coverage for all the benefits identified in the above
title of this section ends on your Termination Date.

VISION COST ASSISTANCE PLAN

If you are enrolled for this coverage, it will end on your Termination
Date, although you may be able to elect COBRA continuation of coverage at
that time. Ashland's Employee Benefits Department will provide you with a
summary of your COBRA rights that will tell you how to elect to continue
coverage.

LEGAL PLAN

If you were enrolled for the Legal Plan, your participation ends on your
Termination Date. You may be eligible for coverage for covered legal
matters that are not completed as of your Termination Date. Consult your
summary plan description for details.

GROUP AUTO AND HOMEOWNERS INSURANCE; LONG TERM CARE

You may continue any coverage you had in the group auto and homeowners
insurance and the long term care insurance beyond your Termination Date on
the same basis as any other former employee. Continuing that coverage,
though, is strictly between you and the applicable insurance company that
provides the coverage.

GROUP FINANCIAL SERVICES

If you are enrolled for the group financial services at the time of your
Termination Date, you may continue them for the remainder of the calendar year
if you make appropriate arrangements with the provider to make any required
payments then remaining for the services.

MISCELLANEOUS PROVISIONS

UNUSED VACATION/SICK PAY

You will be paid for any unused earned and accrued vacation based on the amount
of earned vacation for calendar year 2002 that remains unused as of your
Termination Date. You will also be paid for 2003 vacation accrued due to
accelerated vesting through your Termination Date. You will not be paid for any
unused sick pay.

Employee Initials:/s/PWC
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CREDIT UNION

If you are a member of the Credit Union at the time of your Termination Date, you will be able to participate in the Credit Union after your Termination Date. You will need to contact them directly to discuss handling of credit union business.

SERVICE AWARDS

If on your Termination Date you are within 6 months of the date on which you would have received a Service Award, the Service Award will be provided to you on your regularly scheduled date.

MATCHING GIFTS

You will continue to be eligible to participate in the Matching Gifts Program following your retirement, under the terms and conditions of the program.

UNEMPLOYMENT COMPENSATION

Whether you are eligible to receive unemployment compensation is controlled by state laws. If you decide to file for unemployment compensation, the Company is obligated to inform the state's unemployment commission of the nature of your termination.

EXPENSES

If you have incurred any expenses that are reimbursable by the Company, you should submit an Expense Report, along with required receipts immediately.

EMPLOYEE ASSISTANCE PROGRAM

Family Enterprises, Inc. will continue to be available for personal counseling for up to 12 months following your Termination Date, should you have the need. This service can be contacted by calling (800) 522-6330.

FUTURE CORRESPONDENCE

Any future information from the Company will be sent to the address you currently have on file (i.e. employee benefit information, W-2's, etc.). Should your address change in the near future you should contact Corporate Human Resources at (800) 782-4669.

IMPORTANT NOTE ABOUT THIS SUMMARY

DETAILS ON THE BENEFITS FROM THE EMPLOYEE BENEFIT PLANS DISCUSSED ABOVE ARE PROVIDED IN THE SUMMARY PLAN DESCRIPTION BOOKLET FOR EACH PLAN. IN ALL EVENTS, THE RIGHTS AND OBLIGATIONS OF THE COMPANY AND ALL COVERED EMPLOYEES, BENEFICIARIES OR OTHER CLAIMANTS ARE GOVERNED SOLELY BY THE TERMS OF THE OFFICIAL DOCUMENTS UNDER WHICH EACH PARTICULAR PLAN, POLICY OR PROGRAM IS OPERATED.

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ASHLAND INC.
ADDENDUM TO RETIREMENT ELIGIBLE SUMMARY OF
EMPLOYEE BENEFITS AND MISCELLANEOUS PROVISIONS

STOCK OPTIONS

Any unvested Ashland Inc. stock options shall immediately vest, and all vested options may be exercised for the remaining term of the options.

INCENTIVE COMPENSATION

You will be eligible to earn incentive compensation under the Ashland Inc. Incentive Compensation Plan through your Termination Date. If and when payments are made, you shall receive payment in cash of any amount due under Ashland's FY 2002 incentive compensation bonus based on Ashland's performance through the fiscal year and your current individual performance rating. If and when payments are made under Ashland's FY 2003 Incentive Compensation Plan, you shall receive a pro-rata payment in cash under this plan calculated using your Termination Date, Ashland's performance through fiscal year 2003 and your current individual performance rating. Provided, however, that this pro-rata payment shall not be considered when calculating your SERP benefit hereunder.

PUP/LTIP

If and when payments are made to participants generally, you shall receive payment in cash of One Hundred Sixty-four Thousand, One Hundred Thirteen Dollars and Eighteen Cents (\$164,113.18) minus applicable withholdings for employment taxes and deferred compensation elections, as payment under Ashland's Performance Unit Plan for the 1999-2002 cycle. You will also receive a pro rata portion of any payment, if and when made, under the Long Term Incentive Plan for the 2001-2003 cycle and the 2002-2004 cycle. Payments shall be pro-rated through your Termination Date, and based on actual Ashland Inc. measures (as specified in the plans and your awards under the plans) through the entire three or four-year plan cycles (including adjustments for unusual items).

Deferred Compensation

Upon your Termination Date, you shall receive distribution of your "DCP" account(s) in accordance with your DCP election(s). Any changes regarding the distribution of your DCP account(s) must be made by September 30, 2002.

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Financial Planning

You shall be reimbursed for eligible financial planning expenses, including eligible expenses for services provided by AYCO, incurred through the end of calendar year 2004.

Executive Physicals

You shall be eligible for an Executive Physical during calendar years 2003 and 2004.

OFFICE EQUIPMENT AND FURNISHINGS

On your Release Date, the Company will transfer the ownership of certain office furnishings and equipment, as approved in advance by Richard P. Thomas, Vice-President and Corporate Secretary, to you. In lieu of providing certain software that may be non-transferable due to licensing agreements, the Company may agree to purchase replacement software specifically for your use. The fair market value of any furnishings, equipment and/or related materials provided to you under this paragraph will be reported as income to you by the Company.

OFFICE SPACE AND Administrative ASSISTANCE

During the first twelve (12) months following your Termination Date, the Company will pay the costs of office space for your professional use at the Toebben Building, located at 541 Buttermilk Pike, Suite 207, Crescent Springs, Kentucky, or at some other mutually agreeable location. The Company will also provide you with reimbursement for your reasonable office expenses, and administrative assistance during this period. To the extent mutually agreeable, your current administrative assistant will be permitted to report to you at your new office location, while remaining a regular full-time employee of the Company. In the event either you or the Company wish to discontinue this reporting arrangement at any time during this twelve (12) month period, the Company agrees that in lieu of providing you with an administrative assistant, it will provide you with up to \$2,500 per month for the remainder of this period for your use in securing alternative administrative support services. Any extension of this agreement or reimbursement for such expenses beyond this initial twelve (12) month period must be approved by the Company in advance.

Pension Plan, Non-qualified Pension Plan and SERP

If eligible, you shall receive benefits under these plans as if you remained actively employed up through the earlier of your death or your Termination Date. For purposes of determining your benefits under the Pension Plan or, if approved, the Non-qualified Pension Plan, your compensation history will be determined as of your Termination Date. For purposes of determining your benefits under the SERP, if approved, your compensation history will be determined using the 60-month period ending on September 30, 2002.

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ASHLAND INC. NONQUALIFIED EXCESS BENEFIT
PENSION PLAN - 1996 RESTATEMENT
as adopted on September 19, 1996 and as amended thereafter

WHEREAS, the Employee Retirement Income Security Act of 1974 ("ERISA") establishes maximum limitations on benefits and contributions for retirement plans which meet the requirements of Section 401(a) of the Internal Revenue Code of 1986, as amended ("Code");

WHEREAS, Ashland Inc. ("Ashland" or the "Company") maintains certain pension plans which are subject to the aforesaid limitations on benefits and contributions;

WHEREAS, Ashland adopted the Ashland Oil, Inc. Nonqualified Pension Plan as of September 24, 1975 (which is now called the Ashland Inc. Nonqualified Excess Benefit Pension Plan, otherwise referred to as the "Plan"), for the purpose of providing benefits for certain employees in excess of the aforesaid limitations;

WHEREAS, the Plan was amended and completely restated as of July 21, 1977; WHEREAS, the Plan was amended and completely restated as of October 1, 1982; WHEREAS, the Plan was amended and completely restated as of November 3, 1988; WHEREAS, Ashland has retained the authority to make additional amendments to or terminate the Plan;

WHEREAS, Ashland desires to further amend and restate the Plan and, as so amended, to continue the Plan in full force and effect;

NOW, THEREFORE, effective September 19, 1996, Ashland does hereby further amend and restate the Plan in accordance with the following terms and conditions:

1. Designation and Purpose of Plan. The Plan is designated the "Ashland Inc. Nonqualified Excess Benefit Pension Plan" ("Plan"). The purpose of the Plan is to provide benefits for certain employees in excess of the limitations on contributions, benefits, and compensation imposed by Sections 415 and 401(a)(17) of the Code (including successor provisions thereto) on the plans to which those Sections apply. The portion of the Plan providing benefits in excess of the Section 415 limits is an "excess benefit plan" as that term is defined in Section 3(36) of ERISA. It is intended that the portion, if any, of the Plan which is not an excess benefit plan shall be maintained primarily for a select group of management or highly compensated employees.

2. Eligibility. Subject to Section 11, the Plan shall apply to those employees - (i) who have retired as an early, normal, or deferred normal retiree under the provisions of the Ashland Inc. and Affiliates Pension Plan ("Ashland Pension Plan"), as it may be amended, from time to time, or under provisions of any other retirement plan, as such other plan may be amended from time to time, which, from time to time, is specifically designated by Ashland for purposes of eligibility and benefits under the Plan (all such plans are hereinafter referred to jointly and severally as "Affected Plans"); and (ii) who have been approved for participation in this Plan by Ashland or its delegate, and such approval may, in the discretion of Ashland, be made (A) before an employee's actual early, normal or deferred retirement; or (B) posthumously in the event of a benefit potentially available under Section 6 of the Plan. Notwithstanding anything to the contrary contained herein, any employee who would be entitled to participate in this Plan, but who is not a member of a select group of management or a highly compensated employee, shall be entitled to a benefit amount payable under the Plan based solely on the limitations on benefits imposed under Section 415 of the Code.

3. Benefit Amount.

(i) Computation. At any particular time, the benefit payable to a retiree eligible to participate in this Plan pursuant to the provisions in Section 2 shall be computed by subtracting from (A) the sum of (B) and (C) where -

(A) shall be the single life annuity that would be payable at age 62 to such retiree under the Affected Plans -

(1) with the benefit so payable thereunder calculated by disregarding any salary deferrals that may have been made by such retiree under the Ashland Inc. Deferred Compensation Plan and thereby restoring any salary that may have been so deferred to such retiree's compensation for purposes of the Affected Plans, and

(2) prior to any reductions made because of the limits imposed by Sections 415 and 401(a)(17) of the Code; provided that the single life annuity that would be so payable under the Ashland Pension Plan shall be computed without applying any offset attributable to the Ashland Inc. Leveraged Employee Stock Ownership Plan ("LESOP"), and such single life annuity shall be actuarially adjusted to be equivalent to a single life annuity payable at the particular time applicable based upon the applicable actuarial assumptions and other relevant provisions used for the same in the Affected Plans;

(B) shall be the single life annuity that would be payable at age 62 to such retiree under the Affected Plans after reducing the amount so payable for the limits imposed by Sections 415 and 401(a)(17) of the Code, provided that such single life annuity that would be so payable under the Ashland Pension Plan shall be computed after first applying the offset attributable to the Offset Account (as that term is defined under the LESOP) in the LESOP, and each such single life annuity shall be actuarially adjusted to be equivalent to a single life annuity payable at the

particular time applicable based upon the applicable actuarial assumptions and other relevant provisions used for the same in the Affected Plans; and

(C) shall be the single life annuity that would be actuarially equivalent to such retiree's nonforfeitable portion of the Offset Account under the LESOP as of the valuation date thereunder coincident with or next preceding such retiree's termination of employment using the actuarial assumptions prescribed for this purpose in the Ashland Pension Plan.

(ii) Commencement. Subject to Section 6, the benefit computed under paragraph (i) of this Section 3 shall commence or otherwise be paid or transferred pursuant to the provisions in Sections 4 or 5, effective as of the date as of which payments to such retiree commence under the Affected Plans.

4. Payment Options.

(i) Election. A retiree eligible under Section 2 for the benefit under Section 3 shall, subject to Sections 5 and 6, elect the form in which such benefit shall be paid from among those identified in this Section 4 and such election shall be made at the time and in the manner prescribed by Ashland, from time to time, provided that the election is made before the first day of the month following such retiree's termination from employment. Such election, including the designation of any contingent annuitant or alternate recipient under sub-paragraphs (D) or (E) of paragraph (ii) of this Section 4, shall be irrevocable except as otherwise set forth herein. Notwithstanding anything in the foregoing to the contrary, any retiree who makes an election under sub-paragraph (B) of paragraph (ii) of this Section 4 shall make such election by the later of -

(A) the 60th day following such retiree's approval to participate in this Plan as provided under Section 2; or

(B) by the earlier of -

(1) the date six months prior to the first day of the month following such retiree's termination from employment; or

(2) the December 31 immediately preceding the first day of the month following such retiree's termination from employment.

Such election under sub-paragraph (B) of paragraph (ii) of this Section 4 shall be made in the manner prescribed by Ashland, from time to time, and shall be irrevocable as of the applicable time identified under (A) or (B) of this paragraph (i) of Section 4. Until the time at which such election becomes irrevocable, an eligible retiree shall be able to change it. (ii) Optional Forms of Payment.

(A) Lump Sum Option. Notwithstanding any provisions of Section 3 to the contrary, a retiree in an eligible class may elect to receive all of the benefit under Section 3 as a lump sum distribution, subject to the discretion of the Committee as described below. A lump sum benefit payable under the Plan to a retiree in an eligible class shall be computed on the basis of the actuarially equivalent present value of such retiree's benefit under Section 3 of the Plan payable at the particular time applicable based upon such actuarial assumptions (including the interest rate) as determined from time to time by the Committee, described below. The Personnel and Compensation Committee of Ashland's Board of Directors shall have the sole discretion to provide a lump sum benefit option to a class of retirees for a given calendar year. The decision as to whether to provide a lump sum benefit option shall generally be made by the Committee at the last committee meeting prior thereto. The option shall be made available to a retiree contingent upon various considerations, including, but not limited to, the following:

The tax status of the Company, including without limitation, the corporate and individual tax rate then applicable and whether or not the Company has or projects a net operating loss; the current and projected liquidity of the Company, including cash flow, capital expenditures and dividends; Company borrowing requirements and debt leverage; applicable book charges; organizational issues, including succession issues; security of the retirement payment(s) with respect to the retiree; and the retiree's preference.

(B) Lump Sum Deferral Option. A retiree who is eligible to receive a lump sum distribution under sub-paragraph (A) of this paragraph (ii) of Section 4 and who was part of a select group of management or a highly compensated employee, shall be able to elect to defer all or a portion of the receipt of the elected lump sum (in increments of such percentage or such amount as may be prescribed by Ashland or its delegatee, from time to time), by having the obligation to distribute such amount transferred to the Ashland Inc. Deferred Compensation Plan to be held thereunder in a notional account and paid pursuant to the applicable provisions of such Plan, as they may be amended from time to time; provided, however, that the election to defer such distribution shall be made at the time and in the manner prescribed in paragraph (i) of this Section 4.

(C) Single Life Annuity. A retiree eligible under Section 2 for the benefit under Section 3 may elect to have such benefit paid in the form of equal monthly payments for and during such retiree's life, with such payments ending at such retiree's death. Before such election becomes irrevocable as provided under paragraph (i) of Section 4, the retiree may change the option elected, subject to the applicable limitations and conditions applied to elections for the options described under sub-paragraphs (A) and (B) of this paragraph (ii) of Section 4. Payments under this option shall be actuarially equivalent to the benefit provided under Section 3, determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Ashland Pension Plan.

(D) Joint and Survivor Income Option. A retiree eligible under Section 2 for the benefit under Section 3 may elect to receive an actuarially reduced benefit payable monthly during the retiree's lifetime with payments to continue after his death to the person he designates (hereinafter called "contingent annuitant"), in an amount equal to (1) 100% of such actuarially reduced benefit, (2) 66 2/3% of such actuarially reduced benefit, or (3) 50% of such actuarially reduced benefit. Benefit payments under this option shall terminate with the monthly payment for the month in which occurred the date of death of the later to die of the retiree and his contingent annuitant. The following additional limitations and conditions apply to this option:

(a) The contingent annuitant shall be designated by the retiree in writing in such form and at such time as Ashland may from time to time prescribe.

(b) In the event the contingent annuitant dies prior to the date the election of this optional form of benefit becomes irrevocable as provided under paragraph (i) of Section 4, the retiree's selection of this option shall be void. Before the date the election of this optional form of benefit becomes irrevocable as provided under paragraph (i) of Section 4, the retiree may change the contingent annuitant or change the option elected, subject to the applicable limitations and conditions applied to elections for the options described under sub-paragraphs (A) and (B) of this paragraph (ii) of Section 4.

(c) In the event of the death of the retiree prior to the date the election is irrevocable as provided under paragraph (i) of Section 4, such retiree shall be deemed to have terminated employment on the day before his death (for reasons other than death) and survived until the day after the date as of which the benefit he elected under this sub-paragraph (D) would have commenced.

(d) Actuarial equivalence under this sub-paragraph (D) shall be determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Ashland Pension Plan.

(E) Period Certain Income Option. A retiree eligible under Section 2 for the benefit under Section 3 may elect to receive an actuarially reduced benefit payable monthly during his lifetime and terminating with the monthly payment for the month in which his death occurs, with the provision that not less than a total of 120 monthly payments shall be made in any event to him and/or the person designated by him to receive payments under this sub-paragraph (E) in the event of his death (hereinafter called "alternate recipient"). Such alternate recipient shall be designated in writing by the retiree in such form and at such time as Ashland may from time to time prescribe. If a retiree and his alternate recipient die after the date as of which payments have commenced but before the total specified monthly payments have been made to such retiree and/or his alternate recipient, the commuted value of the remaining unpaid payments shall be paid in a lump sum to the estate of the later to die of the retiree or his alternate recipient. The following additional limitations and conditions shall apply to this option:

(a) A retiree may designate a new alternate recipient if the one first designated dies before the retiree and after the date the election of this optional form of benefit became irrevocable under paragraph (i) of Section 4. In the event the alternate recipient dies prior to the date the election becomes irrevocable as provided under paragraph (i) of Section 4, the retiree's selection of this option shall be void. Before the date the election of this optional form of benefit becomes irrevocable as provided under paragraph (i) of Section 4, the retiree may change the alternate recipient or change the option elected, subject to the applicable limitations and conditions applied to elections for the options described under sub-paragraphs (A) and (B) of this paragraph (ii) of Section 4.

(b) In the event of the death of the retiree prior to the date the election is irrevocable as provided under paragraph (i) of Section 4, such retiree shall be deemed to have terminated employment on the day before his death (for reasons other than death) and survived until the day after the date as of which the benefit he elected under this sub-paragraph (E) would have commenced.

(c) Actuarial equivalence under this sub-paragraph (E) shall be determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Ashland Pension Plan.

(F) Death Before Payment. Subject to Section 6, in the event a retiree eligible under Section 2 for the benefit under Section 3 dies after having made an election of an optional form of payment under this paragraph (ii) of Section 4 before the date such election became irrevocable as provided under paragraph (i) of Section 4, such retiree shall be deemed to have terminated employment on the day before his death (for reasons other than death) and survived until the day after the date as of which the optional form of payment he elected would have commenced and payment shall then be made under the Plan in accordance with such retiree's election.

5. Payment of Small Amounts. Unless such retiree elects to receive his or her benefit in a lump sum as provided in Section 4, in the event a monthly benefit under this Plan, payable to either a retiree or to his contingent annuitant, alternate recipient or surviving spouse, is too small (in the sole judgment of Ashland) to be paid monthly, such benefit may be paid quarterly, semi-annually, or annually, as determined by Ashland to be administratively convenient.

6. Surviving Spouse Benefit. In the event a retiree who was eligible under Section 2 for the benefit under Section 3 dies, leaving a surviving spouse, before electing an optional form of payment under paragraph (ii) of

Section 4 and before the date such an election would have become irrevocable under paragraph (i) of Section 4, then such retiree shall be deemed to have - (i) elected the joint and 100% survivor income option under sub-paragraph (D) of paragraph (ii) of Section 4; (ii) named his spouse as the 100% contingent annuitant; (iii) terminated employment on the day before his death (for reasons other than death); and (iv) survived until the day after the date as of which such benefit would have commenced.

7. Costs. In appropriate cases, Ashland may cause an affiliate to make the payment (or an allocable portion thereof) called for by the Plan directly to the person eligible to receive such payments.

8. Confidentiality and No Competition. All benefits under the Plan shall be forfeited by anyone who discloses confidential information to others outside of Ashland's organization without the prior written consent of Ashland or who accepts, during a period of five (5) years following his or her retirement, any employment or consulting activity which is in direct conflict with the business of Ashland at such time. Such determination shall be made in the sole discretion of Ashland. A breach of this Section 8 shall result in an immediate forfeiture of benefits payable to any retiree under the Plan.

9. Lost Participant/Beneficiary. In the event Ashland, after reasonable effort, is unable to locate a person to whom a benefit is payable under the Plan, such benefit shall be forfeited; provided, however, that such benefit shall be reinstated (in the same amount and form as that of the benefit forfeited without any obligation to pay amounts which would otherwise have previously come due) upon proper claim made by such person prior to termination of the Plan.

10. Miscellaneous.

(i) The obligations of Ashland and any affiliate thereof with respect to benefits under this Plan constitute merely the unsecured promise of Ashland and/or its affiliates, as the case may be, to make the payments provided for in this Plan. No property of Ashland or any affiliate is or shall, by reason of the Plan, be held in trust or be deemed to be held in trust for any person and any participant or beneficiary under the Plan, the estate of either of them and any person claiming under or through them shall not have, by reason of the Plan, any right, title or interest of any kind in or to any property of Ashland and its affiliates. To the extent any person has a right to receive payments under the Plan, such right shall be no greater than the right of any unsecured general creditor of Ashland/ or its affiliates.

(ii) Ashland shall administer the Plan. Ashland shall have full power and authority to amend, modify, or terminate the Plan and shall have all powers and the discretion necessary and convenient to administer the Plan in accordance with its terms, including, but not limited to, all necessary, appropriate, discretionary and convenient power and authority to interpret, administer and apply the provisions of the Plan with respect to all persons having or claiming to have any rights, benefits, entitlements or obligations under the Plan. This includes, without limitation, the ability to construe and interpret provisions of the Plan, make determinations regarding law and fact, reconcile any inconsistencies between provisions in the Plan or between provisions of the Plan and any other statement concerning the Plan, whether oral or written, supply any omissions to the Plan or any document associated with the Plan, and to correct any defect in the Plan or in any document associated with the Plan. All such interpretations of the Plan and documents associated with the Plan and questions concerning its administration and application, as determined by Ashland, shall be binding on all persons having an interest under the Plan. Ashland may delegate (and may give to its delegatee the power and authority to redelegate) to any person or persons any responsibility, power or duty under the Plan. Decisions of Ashland or its delegatee shall be final, conclusive, and binding on all parties.

(iii) Except as expressly allowed pursuant to Sections 3 and 4 of this Plan in regard to the form of benefit option, no right or interest of any person entitled to a benefit under the Plan shall be subject to voluntary or involuntary alienation, assignment, transfer, hypothecation, pledge, or encumbrance of any kind; provided, however, Ashland or any affiliate may offset or cause an offset to be made against any payment to be made under the Plan in regard to amounts due and owing from such person to Ashland or any affiliate. Notwithstanding anything to the contrary in this paragraph (iii), legally required tax withholding on benefit payments, the recovery, by any means, of previously made overpayments of Plan benefits, or the direct deposit of Plan benefit payments in a bank or similar account, provided that such direct deposits are allowed by Ashland in the administration of the Plan and provided that such direct deposit is not part of an arrangement constituting an assignment or alienation, shall not be considered to be prohibited under this paragraph (iii).

(iv) No amount paid or payable under the Plan shall be deemed salary or other compensation to any employee for the purpose of computing benefits to which such employee or any other person may be entitled under any employee benefit plan of Ashland or any affiliate.

(v) To the extent that state law shall not have been preempted by ERISA or any other law of the United States, the Plan shall be governed by the laws of the Commonwealth of Kentucky. (vi) The Plan described herein shall amend and supersede, as of September 19, 1996, all provisions in the Ashland Oil, Inc. Nonqualified Pension Plan as Amended, dated as of November 3, 1988, except as otherwise provided herein and further excepting that the rights of former employees who terminated employment, retired, or became disabled prior to the day before the effective date hereof shall be governed by the terms of the Plan as in effect at the time of such termination of employment, retirement, or disability, unless otherwise provided herein.

11. Change in Control. Notwithstanding any provision of this Plan to the contrary, in the event of a Change in Control (as defined hereinafter in this Section 11), any employee who would or will meet the requirements of Section 2, except that such employee has not been approved to participate as provided under paragraph (ii) of Section 2, shall be deemed to be approved for participation hereunder, regardless of when such employee actually retires and commences benefits under an Affected Plan and such entitlement shall be vested from and after the time of such Change in Control. Ashland shall reimburse an employee for legal fees and expenses incurred if he or she is required to, and is successful in, seeking to obtain or enforce any right to payment pursuant to the Plan after a Change in Control. In the event that it shall be determined that such employee is properly entitled to the payment of benefits hereunder, such employee shall also be entitled to interest thereon payable in an amount equivalent to the prime rate of interest (quoted by Citibank, N.A. as its prime commercial lending rate on the latest date practicable prior to the date of the actual commencement of payments) from the date such payment(s) should have been made to and including the date it is made. Notwithstanding any provision of this Plan to the contrary, the Plan may not be amended after a Change in Control without the written consent of a majority of the Board of Directors of Ashland (hereinafter "Board") who were directors prior to the Change in Control. For purposes of this Section 11, Change in Control shall be deemed to occur (1) upon 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, other than a consolidation or merger of Ashland into or with a direct or indirect wholly-owned subsidiary, 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, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of Ashland shall be deemed to occur unless assets constituting 80% of the total assets of Ashland are transferred pursuant to such sale, lease exchange or other transfer, 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 or any subsidiary or employee benefit plan or trust maintained by Ashland, shall become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 15% of Ashland's Common Stock outstanding at the time, without the approval of the Board, or (3) 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. Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of Ashland's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, Ashland and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

ASHLAND INC.
DIRECTORS' CHARITABLE AWARD PROGRAM
(Amended as of November 7, 2002)

1. Purpose. The purpose of the Ashland Inc. Directors' Charitable Award Program (the "Program") is to enhance the competitiveness of the Company's Director benefits program, thereby aiding Ashland Inc. ("Ashland" or the "Company") in the attraction and retention of Board members of the highest caliber. The Program also provides a cost-effective means to recognize the mutual interest of the Company and its Directors in supporting worthy charitable and educational institutions, thereby advancing the social and charitable goals and objectives of the Company and its Directors.

2. Definitions.

(a) "Ashland" - means Ashland Inc.

(b) "Board" or "Board or Directors" - means the Board of Directors of Ashland or its designee.

(c) "Change in Control" - shall be deemed to occur (1) upon the approval of the Board of Directors of Ashland (or if approval of the Board of Directors of Ashland is not required as a matter of law, the shareholders of Ashland) of (A) any consolidation or merger of Ashland, other than a consolidation or merger of Ashland into or with a direct or indirect wholly-owned subsidiary, in which Ashland is not the continuing or surviving corporation or pursuant to which shares of Ashland Common Stock would be converted into cash, securities or other property other than a merger in which the holders of Ashland 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, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of Ashland shall be deemed to occur unless assets constituting 80% of the total assets of Ashland are transferred pursuant to such sale, lease, exchange or other transfer, or (C) adoption of any plan or proposal for the liquidation or dissolution of Ashland, or (2) when any "person" (as defined in Section 13(d) of the Securities Exchange Act of 1934), other than Ashland or any subsidiary or employee benefit plan or trust maintained by Ashland or any of its subsidiaries, shall become the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 15% of the Ashland Common Stock outstanding at the time, without the prior approval of the Board of Directors of Ashland, or (3) if at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Ashland shall cease for any reason to constitute at least a majority thereof, unless the election or 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. Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of Ashland's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, Ashland and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

(d) "Director" - means a member of Ashland's Board of Directors.

(e) "Director Retirement Plan" - means the Ashland Inc. Director Retirement Plan in effect from time to time.

(f) "Disability" - means a Director's incapacity due to physical or mental illness for a period of six (6) months or more during which period the Director is unable to attend to his or her duties and responsibilities as a member of the Board.

(g) "Donation" - means a charitable contribution made under the terms of this Program.

(h) "Program" - means the Ashland Inc. Directors' Charitable Award Program.

3. Eligibility Criteria.

All current and future Directors of Ashland shall be eligible to participate in the Program. However, former directors (whose service has ceased prior to the effective date of the Program) shall not be eligible to participate.

4. Grant Procedure.

(a) Each eligible Director will become a participant in the Program upon submission of a form approved by Ashland for this purpose (the "Beneficiary Recommendation Form") to the Vice President, Corporate Human Resources (the "Human Resources Department") of Ashland designating that one or more organization(s) be considered for a grant of all or part of \$1,000,000, payable following the death of the Director. However, no more than ten (10) organizations may be recommended by any Director and the amount of the recommended Donation must not be less than \$100,000 to any one organization.

(b) In order to qualify for a grant under this Program, the designated charity must be a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (i.e., civic, religious, educational or medical/health care organizations), and the designated charity's activities or purposes must be compatible with the goals and objectives of Ashland's charitable programs.

(c) Each organization recommended by a Director to receive a Donation is subject to the review and initial approval of Ashland's Human Resources Department, with the final determination as to whether an organization meets the eligibility requirements at the time a Donation is to be made to be decided jointly by the Chairman and Chief Executive Officer of Ashland and the Chairman of the Personnel and Compensation Committee of the Board.

(d) The recommendation of a beneficiary may be revoked or revised by a Director at any time before his or her death by the completion of a new Beneficiary Recommendation Form, unless a Director elects to make a recommendation irrevocable.

(e) A Director can make the recommendation of a beneficiary irrevocable as to all or a portion of the recommended Donation for the organization. An irrevocable recommendation cannot be changed by the Director unless the recommended organization ceases to meet the eligibility requirements of Section 4(b) under the Program.

(f) A Director may request Ashland to notify an organization that it has been selected by the Director to receive a Donation by so advising Ashland on the Beneficiary Recommendation Form.

(g) If any organization recommended by a Director to receive a Donation ceases to meet the requirements of Section 4(b), the Director will be advised of such and given an opportunity to revise his or her Beneficiary Recommendation Form. If a revised Beneficiary Recommendation Form is not submitted by the Director before his or her death, the amount recommended for that particular organization shall be divided among the Director's remaining recommended qualified organizations on a prorated basis. If all the organizations selected by a Director cease to qualify, Ashland will, in its sole discretion, select the organization(s) to receive the Donation(s) on behalf of the Director.

(h) No Donation will be made on behalf of a Director if a Director's termination from Board service is for any reason other than: (1) mandatory retirement at age 72 under the Ashland Inc. Director Retirement Plan; (2) death; (3) Disability; (4) voluntary early retirement to take a position in public governmental service; or (5) a Change in Control of Ashland; however, the Board of Directors shall have plenary authority to authorize that a Donation be made on behalf of a retiring Director, provided that the Director has a minimum of ten (10) years service as a Director with Ashland.

(i) Any Donation made under this Program shall generally be made as soon as practicable following the eligible Director's death. The payment shall be identified as a gift in honor of the service of the Director on Ashland's Board of Directors. Payment shall be contingent upon presentation to the Human Resources Department of proof of the Director's death and the continued approval of the Director's recommendations.

5. Miscellaneous Provisions.

(a) An eligible Director's rights and interest under the Program may not be assigned or transferred in whole or in part. Nothing contained in this Program shall create, or be deemed to create, a trust (actual or constructive) for the benefit of a Director or any organization recommended by a Director to receive a Donation.

(b) In order to financially support the Program, Ashland may elect to purchase a life insurance policy or policies insuring the lives of the Directors. Ashland will be the sole owner and beneficiary thereof. Neither the Directors nor the charitable organizations recommended by the Directors will have any rights or beneficial ownership interests in any such policy or policies acquired by Ashland. Directors may be asked to provide certain medical and other information to assist Ashland in acquiring such policy or policies.

(c) The expenses of the Program shall be borne by Ashland.

(d) The Program shall be administered and interpreted by the Personnel and Compensation Committee of the Board (the "Committee"). The Committee shall have plenary authority to prescribe, amend, suspend or terminate the Program (or any rules, regulations, and procedures relating to the Program) at any time in its sole discretion without the consent of the Directors participating in the Program. The determinations of the Committee shall be conclusive and binding on all interested parties. The Human Resources Department of Ashland, or its designee, shall be delegated the responsibility of preparing and distributing periodic reports, making disbursements, and administering the Program.

(e) The provisions of this Program shall be interpreted and construed in accordance with the laws of the Commonwealth of Kentucky.

(f) Benefits payable under this Program shall be binding upon Ashland, its successors and assigns.

(g) The effective date of this Program shall be December 1, 1990.

ASHLAND INC.
1997 STOCK INCENTIVE PLAN
(Amended as of November 7, 2002)

SECTION 1. PURPOSE

The purpose of the Ashland Inc. 1997 Stock Incentive Plan is to promote the interests of Ashland Inc. and its shareholders by providing incentives to its directors, officers and employees. Accordingly, the Company may grant to selected officers and employees Options, Stock Appreciation Rights, Restricted Stock, Merit Awards and Performance Share Awards in an effort to attract and retain in its employ qualified individuals and to provide such individuals with incentives to continue service with Ashland, devote their best efforts to the Company and improve Ashland's economic performance, thus enhancing the value of the Company for the benefit of shareholders. The Plan also provides an incentive for qualified persons, who are not officers or employees of the Company, to serve on the Board of Directors of the Company and to continue to work for the best interests of the Company by rewarding such persons with an automatic grant of Restricted Stock of the Company upon being appointed or elected to the Company's Board of Directors. Options, Stock Appreciation Rights, Merit Awards and Performance Shares may not be granted to such Outside Directors under the Plan.

SECTION 2. DEFINITIONS

(A) "Agreement" shall mean a written agreement setting forth the terms of an Award, to be entered into at the Company's discretion.

(B) "Ashland" shall mean, collectively, Ashland Inc. and its Subsidiaries.

(C) "Award" shall mean an Option, a Stock Appreciation Right, a Restricted Stock Award, a Merit Award, or a Performance Share Award, in each case granted under this Plan.

(D) "Beneficiary" shall mean the person, persons, trust or trusts designated by an Employee or Outside Director or if no designation has been made, the person, persons, trust, or trusts entitled by will or the laws of descent and distribution to receive the benefits specified under this Plan in the event of an Employee's or Outside Director's death.

(E) "Board" shall mean the Board of Directors of the Company or its designee.

(F) "Change in Control" shall be deemed to occur (1) upon 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, other than a consolidation or merger of Ashland into or with a direct or indirect wholly-owned subsidiary, 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, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of Ashland shall be deemed to occur unless assets constituting 80% of the total assets of Ashland are transferred pursuant to such sale, lease, exchange or other transfer, 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 or any Subsidiary or employee benefit plan or trust maintained by Ashland, shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 15% of Ashland's Common Stock outstanding at the time, without the approval of the Board, or (3) 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. Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of Ashland's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, Ashland and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

(G) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(H) "Committee" shall mean the Personnel and Compensation Committee of the Board, as from time to time constituted, or any successor committee of the Board with similar functions, which shall consist of three or more members, each of whom shall be a Non-Employee Director and an "outside director" as defined in the regulations issued under Section 162(m) of the

Code or its designee.

(I) "Committee on Directors" shall mean the Committee on Directors of the Board, as from time to time constituted, or any successor committee of the Board with similar functions.

(J) "Common Stock" shall mean the Common Stock of the Company (\$1.00 par value), subject to adjustment pursuant to Section 13.

(K) "Company" shall mean, collectively, Ashland Inc. and its Subsidiaries.

(L) "Employee" shall mean a regular, full-time or part-time employee of Ashland as selected by the Committee to receive an Award under the Plan.

(M) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(N) "Exercise Price" shall mean, with respect to each share of Common Stock subject to an Option, the price fixed by the Committee at which such share may be purchased from the Company pursuant to the exercise of such Option, which price at no time may be less than 100% of the Fair Market Value of the Common Stock on the date the Option is granted.

(O) "Fair Market Value" shall mean the price of the Common Stock as reported on the Composite Tape of the New York Stock Exchange on the date and at the time selected by the Company or as otherwise provided in the Plan.

(P) "Incentive Stock Option" or "ISO" shall mean an Option that is intended by the Committee to meet the requirements of Section 422 of the Code or any successor provision.

(Q) "Merit Award" shall mean an award of Common Stock issued pursuant to Section 9 of the Plan.

(R) "Non-Employee Director" shall mean a non-employee director within the meaning of applicable regulatory requirements, including those promulgated under Section 16 of the Exchange Act.

(S) "Nonqualified Stock Option" or "NQSO" shall mean an Option granted pursuant to this Plan which does not qualify as an Incentive Stock Option.

(T) "Option" shall mean the right to purchase Common Stock at a price to be specified and upon terms to be designated by the Committee or otherwise determined pursuant to this Plan. An Option shall be designated by the Committee as a Nonqualified Stock Option or an Incentive Stock Option.

(U) "Outside Director" shall mean a director of the Company who is not also an Employee of the Company.

(V) "Performance Goals" means 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 relation 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.

(W) "Performance Period" shall mean the period designated by the Committee during which the performance objectives shall be measured.

(X) "Performance Share Award" shall mean an award of shares of Common Stock, the issuance of which is contingent upon attainment of performance objectives specified by the Committee.

(Y) "Performance Shares" shall mean those shares of Common Stock issuable pursuant to a Performance Share Award.

(Z) "Personal Representative" shall mean the person or persons who, upon the disability or incompetence of an Employee or Outside Director, shall have acquired on behalf of the Employee or Outside Director by legal proceeding or otherwise the right to receive the benefits specified in this Plan.

(AA) "Plan" shall mean this Ashland Inc. 1997 Stock Incentive Plan.

(BB) "Restricted Period" shall mean the period designated by the Committee during which Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered, which period in the case of Employees shall not be less than one year from the date of grant (unless otherwise directed by the Committee), and in the case of Outside Directors is the period set forth in subsection (B) of Section 8.

(CC) "Restricted Stock" shall mean those shares of Common Stock issued pursuant to a Restricted Stock Award which are subject to the restrictions, terms, and conditions set forth in the related Agreement, if any.

(DD) "Restricted Stock Award" shall mean an award of Restricted Stock.

(EE) "Retained Distributions" shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of Restricted Stock during any Restricted Period.

(FF) "Retirement" shall mean retirement of an Employee from the employ

of the Company at any time as described in the Ashland Inc. and Affiliates Pension Plan or in any successor pension plan, as from time to time in effect.

(GG) "Section 16(b) Optionee" shall mean an Employee or former Employee who is subject to Section 16(b) of the Exchange Act.

(HH) "Stock Appreciation Right" or "SAR" shall mean the right of the holder to elect to surrender an Option or any portion thereof which is then exercisable and receive in exchange therefor shares of Common Stock, cash, or a combination thereof, as the case may be, with an aggregate value equal to the excess of the Fair Market Value of one share of Common Stock over the Exercise Price specified in such Option multiplied by the number of shares of Common Stock covered by such Option or portion thereof which is so surrendered. An SAR may only be granted concurrently with the grant of the related Option. An SAR shall be exercisable upon any additional terms and conditions (including, without limitation, the issuance of Restricted Stock and the imposition of restrictions upon the timing of exercise) which may be determined as provided in the Plan.

(II) "Subsidiary" shall mean any present or future subsidiary corporations, as defined in Section 424 of the Code, of Ashland.

(JJ) "Tax Date" shall mean the date the withholding tax obligation arises with respect to the exercise of an Award.

SECTION 3. STOCK SUBJECT TO THE PLAN

There will be reserved for issuance under the Plan (upon the exercise of Options and Stock Appreciation Rights, upon awards of Restricted Stock, Performance Shares and Merit Awards and for stock bonuses on deferred awards of Restricted Stock and Performance Shares), an aggregate of 3,212,000 shares of Ashland Common Stock, par value \$1.00 per share; provided, however, that of such shares, only 500,000 shares in the aggregate shall be available for issuance for Restricted Stock Awards and Merit Awards. Such shares shall be authorized but unissued shares of Common Stock. Except as provided in Sections 7 and 8, if any Award under the Plan shall expire or terminate for any reason without having been exercised in full, or if any Award shall be forfeited, the shares subject to the unexercised or forfeited portion of such Award shall again be available for the purposes of the Plan. During the term of the Plan (as provided in Section 14 hereof), no Employee shall be granted more than a total of 500,000 in Options or Stock Appreciation Rights.

SECTION 4. ADMINISTRATION

Except as provided in subsection (B) of Section 8 herein, the Plan shall be administered by the Committee.

In addition to any implied powers and duties that may be needed to carry out the provisions of the Plan, the Committee shall have all the powers vested in it by the terms of the Plan, including exclusive authority (except as to Awards of Restricted Stock granted to Outside Directors) to select the Employees to be granted Awards under the Plan, to determine the type, size and terms of the Awards to be made to each Employee selected, to determine the time when Awards will be granted, and to prescribe the form of the Agreements embodying Awards made under the Plan. Subject to the provisions of the Plan specifically governing Awards of Restricted Stock granted or to be granted to Outside Directors pursuant to subsection (B) of Section 8 herein, the Committee shall be authorized to interpret the Plan and the Awards granted under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, to make any other determinations which it believes necessary or advisable for the administration of the Plan, and to correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent the Committee deems desirable to carry it into effect. Any decision of the Committee in the administration of the Plan, as described herein, shall be final and conclusive.

The Committee (or, in the case of subsection (B) of Section 8 herein, the Committee on Directors) may act only by a majority of its members. Any determination of the Committee or the Committee on Directors may be made, without notice, by the written consent of the majority of the members of the Committee or the Committee on Directors. In addition, the Committee or the Committee on Directors may authorize any one or more of their number or any officer of the Company to execute and deliver documents on behalf of the Committee or the Committee on Directors. No member of the Committee or the Committee on Directors shall be liable for any action taken or omitted to be taken by him or her or by any other member of the Committee or the Committee on Directors in connection with the Plan, except for his or her own willful misconduct or as expressly provided by statute.

SECTION 5. ELIGIBILITY

Awards may only be granted (i) to individuals who are Employees of Ashland, and (ii) as expressly provided in subsection (B) of Section 8 of the Plan, to individuals who are duly elected Outside Directors of Ashland.

SECTION 6. OPTIONS

A. Designation and Price.

(a) Any Option granted under the Plan may be granted as an Incentive Stock Option or as a Nonqualified Stock Option as shall be designated by the Committee at the time of the grant of such Option. Each Option shall, at the discretion of the Company and as directed by the Committee, be evidenced by an Agreement between the recipient and the Company, which Agreement shall specify the designation of the Option as an ISO or a NQSO, as the case may be, and shall contain such terms and conditions as the Committee, in its sole discretion, may determine in accordance with the Plan.

(b) Every Incentive Stock Option shall provide for a fixed expiration date of not later than ten years from the date such Incentive Stock Option is granted. Every Nonqualified Stock Option shall provide for a fixed expiration date of not later than ten years and one month from the date such Nonqualified Stock Option is granted.

(c) The Exercise Price of Common Stock issued pursuant to each Option shall be fixed by the Committee at the time of the granting of the Option; provided, however, that such Exercise Price shall in no event be less than 100% of the Fair Market Value of the Common Stock on the date such Option is granted.

B. Exercise.

The Committee may, in its discretion, provide for Options granted under the Plan to be exercisable in whole or in part; provided, however, that no Option shall be exercisable prior to the first anniversary of the date of its grant, except as provided in Section 11 or as the Committee otherwise determines in accordance with the Plan, and in no case may an Option be exercised at any time for fewer than 50 shares (or the total remaining shares covered by the Option if fewer than 50 shares) during the term of the Option. The specified number of shares will be issued upon receipt by Ashland of (i) notice from the holder thereof of the exercise of an Option, and (ii) payment to Ashland (as provided in this Section 6, subsection (C) below), of the Exercise Price for the number of shares with respect to which the Option is exercised. Each such notice and payment shall be delivered or mailed by postpaid mail, addressed to the Treasurer of Ashland at Ashland Inc., 500 Diederich Boulevard, Russell, Kentucky 41169, or such other place or person as Ashland may designate from time to time.

C. Payment for Shares.

Except as otherwise provided in this Section 6, the Exercise Price for the Common Stock shall be paid in full when the Option is exercised. Subject to such rules as the Committee may impose, the Exercise Price may be paid in whole or in part (i) in cash, (ii) in whole shares of Common Stock owned by the Employee and evidenced by negotiable certificates, valued at their Fair Market Value (which shares of Common Stock must have been owned by the Employee six months or longer, and not used to effect an Option exercise within the preceding six months, unless the Committee specifically provides otherwise), (iii) by Attestation, (iv) by a combination of such methods of payment, or (v) by such other consideration as shall constitute lawful consideration for the issuance of Common Stock and be approved by the Committee (including, without limitation, effecting a "cashless exercise," with a broker, of the Option). "Attestation" means the delivery to Ashland of a completed Attestation Form prescribed by Ashland setting forth the whole shares of Common Stock owned by the Employee which the Employee wishes to utilize to pay the Exercise Price. The Common Stock listed on the Attestation Form must have been owned by the Employee six months or longer, and not have been used to effect an Option exercise within the preceding six months, unless the Committee specifically provides otherwise. A "cashless exercise" of an option is a procedure by which a broker provides the funds to an Employee to effect an option exercise. At the direction of the Employee, the broker will either (i) sell all of the shares received when the option is exercised and pay the Employee the proceeds of the sale (minus the option exercise price, withholding taxes and any fees due to the broker) or (ii) sell enough of the shares received upon exercise of the option to cover the exercise price, withholding taxes and any fees due the broker and deliver to the Employee (either directly or through the Company) a stock certificate for the remaining shares. Dispositions to a broker effecting a cashless exercise are not exempt under Section 16 of the Exchange Act.

SECTION 7. STOCK APPRECIATION RIGHTS

The Committee may grant Stock Appreciation Rights pursuant to the provisions of this Section 7 to any holder of any Option granted under the Plan with respect to all or a portion of the shares subject to the related Option. An SAR may only be granted concurrently with the grant of the related Option. Subject to the terms and provisions of this Section 7, each SAR shall be exercisable only at the same time and to the same extent the related Option is exercisable and in no event after the termination of the related Option. An SAR shall be exercisable only when the Fair Market Value (determined as of the date of exercise of the SAR) of each share of Common Stock with respect to which the SAR is to be exercised shall exceed the Exercise Price per share of Common Stock subject to the related Option. An SAR granted under the Plan shall be exercisable in whole or in part by notice to Ashland. Such notice shall state that the holder of the SAR

elects to exercise the SAR and the number of shares in respect of which the SAR is being exercised.

Subject to the terms and provisions of this Section 7, upon the exercise of an SAR, the holder thereof shall be entitled to receive from Ashland consideration (in the form hereinafter provided) equal in value to the excess of the Fair Market Value (determined as of the date of exercise of the SAR) of each share of Common Stock with respect to which such SAR has been exercised over the Exercise Price per share of Common Stock subject to the related Option. The Committee may stipulate in the Agreement the form of consideration which shall be received upon the exercise of an SAR. If no consideration is specified therein, upon the exercise of an SAR, the holder may specify the form of consideration to be received by such holder, which shall be in shares of Common Stock, or in cash, or partly in cash and partly in shares of Common Stock (valued at Fair Market Value on the date of exercise of the SAR), as the holder shall request; provided, however, that the Committee, in its sole discretion, may disapprove the form of consideration requested and instead authorize the payment of such consideration in shares of Common Stock (valued as aforesaid), or in cash, or partly in cash and partly in shares of Common Stock.

Upon the exercise of an SAR, the related Option shall be deemed exercised to the extent of the number of shares of Common Stock with respect to which such SAR is exercised and to that extent a corresponding number of shares of Common Stock shall not again be available for the grant of Awards under the Plan. Upon the exercise or termination of the related Option, the SAR with respect thereto shall be considered to have been exercised or terminated to the extent of the number of shares of Common Stock with respect to which the related Option was so exercised or terminated.

SECTION 8. RESTRICTED STOCK AWARDS

A. Awards to Employees

The Committee may make an award of Restricted Stock to selected Employees, which may, at the Company's discretion and as directed by the Committee, be evidenced by an Agreement which shall contain such terms and conditions as the Committee, in its sole discretion, may determine. The amount of each Restricted Stock Award and the respective terms and conditions of each Award (which terms and conditions need not be the same in each case) shall be determined by the Committee in its sole discretion. As a condition to any Award hereunder, the Committee may require an Employee to pay to the Company a non-refundable amount equal to, or in excess of, the par value of the shares of Restricted Stock awarded to him or her. Subject to the terms and conditions of each Restricted Stock Award, the Employee, as the owner of the Common Stock issued as Restricted Stock, shall have all rights of a shareholder including, but not limited to, voting rights as to such Common Stock and the right to receive dividends thereon when, as and if paid.

In the event that a Restricted Stock Award has been made to an Employee whose employment or service is subsequently terminated for any reason prior to the lapse of all restrictions thereon, such Restricted Stock will be forfeited in its entirety by such Employee; provided, however, that the Committee may, in its sole discretion, limit such forfeiture.

Employees may be offered the opportunity to defer the receipt of payment of vested shares of Restricted Stock, and Common Stock may be granted as a bonus for deferral, under terms as may be established by the Committee from time to time; however, in no event shall the Common Stock granted as a bonus for deferral exceed 20% of the Restricted Stock so deferred.

B. Awards to Outside Directors

During the term of the Plan, each person who is duly appointed or elected as an Outside Director shall be granted, effective on the date of his or her appointment or election to the Board, an Award of 1,000 shares of Restricted Stock. All Awards under this subsection (B) are subject to the limitation on the number of shares of Common Stock available pursuant to Section 3 and to the terms and conditions set forth in this subsection (B) and subsection (C) below.

As a condition to any Award hereunder, the Outside Director may be required to pay to the Company a non-refundable amount equal to the par value of the shares of Restricted Stock awarded to him or her. Upon the granting of the Restricted Stock Award, such Outside Director shall be entitled to all rights incident to ownership of Common Stock of the Company with respect to his or her Restricted Stock, including, but not limited to, the right to vote such shares of Restricted Stock and to receive dividends thereon when, as and if paid; provided, however, that, subject to subsection (C) hereof, in no case may any shares of Restricted Stock granted to an Outside Director be sold, assigned, transferred, pledged, or otherwise encumbered during the Restricted Period which shall not lapse until the earlier to occur of the following: (i) retirement from the Board at age 72, (ii) the death or disability of such Outside Director, (iii) a 50% change in the beneficial ownership of the Company as defined in Rule 13d-3 under the Exchange Act, or (iv) voluntary early retirement to take a position in governmental service. Unless otherwise determined and directed by the Committee on Directors, in the case of voluntary resignation or

other termination of service of an Outside Director prior to the occurrence of any of the events described in the preceding sentence, any grant of Restricted Stock made to him or her pursuant to this subsection (B) will be forfeited by such Outside Director. As used herein, a director shall be deemed "disabled" when he or she is unable to attend to his or her duties and responsibilities as a member of the Board because of incapacity due to physical or mental illness.

C. Transferability

Subject to subsection (B) of Section 15 hereof, Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered during a Restricted Period, which, in the case of Employees, shall be determined by the Committee and, unless otherwise determined by the Committee, shall not be less than one year from the date such Restricted Stock was awarded, and, in the case of Outside Directors, shall be determined in accordance with subsection (B) of this Section 8. The Committee may, at any time, reduce the Restricted Period with respect to any outstanding shares of Restricted Stock awarded under the Plan to Employees, but, unless otherwise determined by the Committee, such Restricted Period shall not be less than one year.

During the Restricted Period, certificates representing the Restricted Stock and any Retained Distributions shall be registered in the recipient's name and bear a restrictive legend to the effect that ownership of such Restricted Stock (and any such Retained Distributions), and the enjoyment of all rights appurtenant thereto are subject to the restrictions, terms, and conditions provided in the Plan and the applicable Agreement, if any. Such certificates shall be deposited by the recipient with the Company, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and the applicable Agreement, if any. Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes. The recipient will have the right to vote such Restricted Stock, to receive and retain all regular cash dividends, and to exercise all other rights, powers, and privileges of a holder of Common Stock with respect to such Restricted Stock, with the exception that (i) the recipient will not be entitled to delivery of the stock certificate or certificates representing such Restricted Stock until the restrictions applicable thereto shall have expired; (ii) the Company will retain custody of all Retained Distributions made or declared with respect to the Restricted Stock (and such Retained Distributions will be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in separate accounts; (iii) subject to subsection (B) of Section 15 hereof, the recipient may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Stock or any Retained Distributions during the Restricted Period; and (iv) a breach of any restrictions, terms, or conditions provided in the Plan or established by the Committee with respect to any Restricted Stock or Retained Distributions will cause a forfeiture of such Restricted Stock and any Retained Distributions with respect thereto.

SECTION 9. MERIT AWARDS

The Committee may from time to time make an award of Common Stock under the Plan to selected Employees for such reasons and in such amounts as the Committee, in its sole discretion, may determine. As a condition to any such Merit Award, the Committee may require an Employee to pay to the Company an amount equal to, or in excess of, the par value of the shares of Common Stock awarded to him or her.

SECTION 10. PERFORMANCE SHARES

The Committee may make awards of Common Stock which may, in the Company's discretion and as directed by the Committee, be evidenced by an Agreement, to selected Employees on the basis of the Company's financial performance in any given period. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Employees who shall receive such Performance Shares, to determine the number of such shares to be granted for each Performance Period, and to determine the duration of each such Performance Period. There may be more than one Performance Period in existence at any one time, and the duration of Performance Periods may differ from each other.

The Performance Goals and Performance Period applicable to an award of Performance Shares shall be set forth in writing by the Committee no later than 90 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.

In making a Performance Share 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 Share award shall be established in shares of Common Stock and/or shares of Restricted Stock in such proportions as the Committee shall determine. The original amount of any Performance Share award shall not exceed 250,000 shares of Common Stock or Restricted Stock.

The Committee shall determine, in its sole discretion, the manner of payment, which may include (i) cash, (ii) shares of Common Stock, or (iii) shares of Restricted Stock in such proportions as the Committee shall determine. Employees may be offered the opportunity to defer the receipt of payment of earned Performance Shares, and Common Stock may be granted as a bonus for deferral under terms as may be established by the Committee from time to time; however, in no event shall the Common Stock granted as a bonus for deferral exceed 20% of the Performance Shares so deferred.

An Employee must be employed by the Company at the end of a Performance Period in order to be entitled to payment of Performance Shares in respect of such period; provided, however, that in the event of an Employee's cessation of employment before the end of such period, or upon the occurrence of his or her death, retirement, or disability, or other reason approved by the Committee, the Committee may, in its sole discretion, limit such forfeiture.

SECTION 11. CONTINUED EMPLOYMENT, AGREEMENT TO SERVE AND EXERCISE PERIODS

(A) Subject to the provisions of subsection (F) of this Section 11, every Option and SAR shall provide that it may not be exercised in whole or in part for a period of one year after the date of granting such Option (unless otherwise determined by the Committee) and if the employment of the Employee shall terminate prior to the end of such one year period (or such other period determined by the Committee), the Option granted to such Employee shall immediately terminate.

(B) Every Option shall provide that in the event the Employee dies (i) while employed by Ashland, (ii) during the periods in which Options may be exercised by an Employee determined to be disabled as provided in subsection (C) of this Section 11 or (iii) after Retirement, such Option shall be exercisable, at any time or from time to time, prior to the fixed termination date set forth in the Option, by the Beneficiaries of the decedent for the number of shares which the Employee could have acquired under the Option immediately prior to the Employee's death.

(C) Every Option shall provide that in the event the employment of any Employee shall cease by reason of disability, as determined by the Committee at any time during the term of the Option, such Option shall be exercisable, at any time or from time to time prior to the fixed termination date set forth in the Option by such Employee for the number of shares which the Employee could have acquired under the Option immediately prior to the Employee's disability. As used herein, an Employee will be deemed "disabled" when he or she becomes unable to perform the functions required by his or her regular job due to physical or mental illness and, in connection with the grant of an Incentive Stock Option shall be disabled if he or she falls within the meaning of that term as provided in Section 22(e)(3) of the Code. The determination by the Committee of any question involving disability shall be conclusive and binding.

(D) Every Option shall provide that in the event the employment of any Employee shall cease by reason of Retirement, such Option may be exercised at any time or from time to time, prior to the fixed termination date set forth in the Option for the number of shares which the Employee could have acquired under the Option immediately prior to such Retirement.

(E) Except as provided in subsections (A), (B), (C), (D), (F) and (G) of this Section 11, every Option shall provide that it shall terminate on the earlier to occur of the fixed termination date set forth in the Option or thirty (30) days after cessation of the Employee's employment for any cause only in respect of the number of shares which the Employee could have acquired under the Option immediately prior to such cessation of employment; provided, however, that no Option may be exercised after the fixed termination date set forth in the Option.

(F) Notwithstanding any provision of this Section 11 to the contrary, any Award granted pursuant to the Plan, except a Restricted Stock Award to Outside Directors, which is governed by Section 8, subsection (B), may, in the discretion of the Committee or as provided in the relevant Agreement (if any), become exercisable, at any time or from time to time, prior to the fixed termination date set forth in the Award for the full number of awarded shares or any part thereof, less such numbers as may have been theretofore acquired under the Award (i) from and after the time the Employee ceases to be an Employee of Ashland as a result of the sale or other disposition by Ashland of assets or property (including shares of any Subsidiary) in respect of which such Employee had theretofore been employed or as a result of which such Employee's continued employment with Ashland is no longer required, and (ii) in the case of a Change in Control of Ashland, from and after the date of such Change in Control.

(G) Notwithstanding any provision of this Section 11 to the contrary, in the event the Committee determines, in its sole and absolute discretion, that the employment of any Employee has terminated for a reason or in a manner adversely affecting the Company (which may include, without limitation, taking other employment or rendering service to others without

the consent of the Company), then the Committee may direct that such Employee forfeit any and all Options that he or she could otherwise have exercised pursuant to the terms of this Plan.

(H) Each Employee granted an Award under this Plan shall agree by his or her acceptance of such Award to remain in the service of Ashland for a period of at least one year from the date of the Agreement respecting the Award between Ashland and the Employee (or, if no Agreement is entered into, at least one year from the date of the Award). Such service shall, subject to the terms of any contract between Ashland and such Employee, be at the pleasure of Ashland and at such compensation as Ashland shall reasonably determine from time to time. Nothing in the Plan, or in any Award granted pursuant to the Plan, shall confer on any individual any right to continue in the employment of or service to Ashland or interfere in any way with the right of Ashland to terminate the Employee's employment at any time.

(I) Subject to the limitations set forth in Section 422 of the Code, the Committee may adopt, amend, or rescind from time to time such provisions as it deems appropriate with respect to the effect of leaves of absence approved by any duly authorized officer of Ashland with respect to any Employee.

SECTION 12. WITHHOLDING TAXES

Federal, state or local law may require the withholding of taxes applicable to gains resulting from the exercise of an Award. Unless otherwise prohibited by the Committee, each Employee may satisfy any such tax withholding obligation by any of the following means, or by a combination of such means: (i) a cash payment, (ii) authorizing Ashland to withhold from the shares of Common Stock otherwise issuable to the Employee pursuant to the exercise or vesting of an Award a number of shares having a Fair Market Value, as of the Tax Date, which will satisfy the amount of the withholding tax obligation, or (iii) by delivery to Ashland of a number of shares of Common Stock having a Fair Market Value as of the Tax Date which will satisfy the amount of the withholding tax obligation arising from an exercise or vesting of an Award. An Employee's election to pay the withholding tax obligation by (ii) or (iii) above must be made on or before the Tax Date, is irrevocable, is subject to such rules as the Committee may adopt, and may be disapproved by the Committee. If the amount requested is not paid, the Committee may refuse to issue Common Stock under the Plan.

SECTION 13. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

In the event of any change in the outstanding Common Stock of the Company by reason of any stock split, stock dividend, recapitalization, merger, consolidation, reorganization, combination, or exchange of shares, split-up, split-off, spin-off, liquidation or other similar change in capitalization, or any distribution to common stockholders other than cash dividends, the number or kind of shares that may be issued under the Plan pursuant to Section 3 and the number or kind of shares subject to, or the price per share under any outstanding Award shall be automatically adjusted so that the proportionate interest of the Employee or Outside Director shall be maintained as before the occurrence of such event. Such adjustment shall be conclusive and binding for all purposes of the Plan.

SECTION 14. AMENDMENTS AND TERMINATIONS

Unless the Plan shall have been earlier terminated as hereinafter provided, no Awards shall be granted hereunder after January 30, 2002. The Board, the Committee, or the Committee on Directors may at any time terminate, modify or amend the Plan in such respects as it shall deem advisable; provided, however, that the Board or the Committee may not, without approval by the holders of a majority of the outstanding shares of stock present and voting at any annual or special meeting of shareholders of Ashland change the manner of determining the minimum Exercise Price of Options, other than to change the manner of determining the Fair Market Value of the Common Stock as set forth in Section 2.

SECTION 15. MISCELLANEOUS PROVISIONS

(A) Except as to an Award of 1,000 Restricted Shares to an Outside Director upon being appointed or elected to the Company's Board of Directors, no Employee or other person shall have any claim or right to be granted an Award under the Plan.

(B) An Employee's or Outside Director's rights and interest under the Plan may not be assigned or transferred in whole or in part, either directly or by operation of law or otherwise (except in the event of an Employee's or Outside Director's death, by will or the laws of descent and distribution), including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner, and no such right or interest of any Employee or Outside Director in the Plan

shall be subject to any obligation or liability of such individual; provided, however, that an Employee's or Outside Director's rights and interest under the Plan may, subject to the discretion and direction of the Committee or, in the case of an Outside Director, the Committee on Directors, be made transferable by such Employee or Outside Director during his or her lifetime. Except as specified in Section 8, the holder of an Award shall have none of the rights of a shareholder until the shares subject thereto shall have been registered in the name of the person receiving or person or persons exercising the Award on the transfer books of the Company.

(C) No Common Stock shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable Federal, state, and other securities laws.

(D) The expenses of the Plan shall be borne by the Company.

(E) By accepting any Award under the Plan, each Employee and Outside Director and each Personal Representative or Beneficiary claiming under or through him or her shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board, the Committee or the Committee on Directors.

(F) Awards granted under the Plan shall be binding upon Ashland, its successors, and assigns.

(G) The appropriate officers of the Company shall cause to be filed any reports, returns, or other information regarding Awards hereunder or any Common Stock issued pursuant hereto as may be required by Sections 13, 15(d) or 16(a) of the Exchange Act, or any other applicable statute, rule, or regulation.

(H) Nothing contained in this Plan shall prevent the Board of Directors from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required.

(I) Each Employee shall be deemed to have been granted any Award on the date the Committee took action to grant such Award under the Plan or such later date as the Committee in its sole discretion shall determine at the time such grant is authorized.

SECTION 16. EFFECTIVENESS OF THE PLAN

The Plan was submitted to the shareholders of the Company for their approval and adoption on January 30, 1997 and was approved by the shareholders on that date.

SECTION 17. GOVERNING LAW

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

AMENDED AND RESTATED
ASHLAND INC. INCENTIVE PLAN
(As amended November 7, 2002)

SECTION 1. PURPOSE

The purpose of the Ashland Inc. Incentive Plan is to promote the interests of Ashland Inc. and its shareholders by providing incentives to its directors, officers and employees. Accordingly, the Company may grant to selected officers and employees Option Awards, Stock Appreciation Rights Awards, Restricted Stock Awards, Incentive Awards, Performance Unit Awards and Merit Awards in an effort to attract and retain in its employ qualified individuals and to provide such individuals with incentives to continue service with the Company, devote their best efforts to the Company and improve the Company's economic performance, thus enhancing the value of the Company for the benefit of shareholders. This Plan also provides an incentive for qualified persons, who are not officers or employees of the Company, to serve on the Board of Directors of the Company and to continue to work for the best interests of the Company by rewarding such persons with an automatic Restricted Stock Award and with discretionary Option Awards.

SECTION 2. DEFINITIONS

(A) "Agreement" shall mean a written agreement setting forth the terms of an Award, to be entered into at the Company's discretion.

(B) "Attestation" means the delivery to the Company of a completed attestation form prescribed by the Company setting forth the whole shares of Common Stock owned by the Recipient which the Recipient wishes to utilize to pay the Exercise Price. The Common Stock listed on the attestation form must have been owned by the Recipient six months or longer, and not have been used to effect an Option exercise within the preceding six months, unless the Committees specifically provide otherwise.

(C) "Award" shall mean an Option Award, a Stock Appreciation Right Award, an Incentive Award, a Performance Unit Award, a Restricted Stock Award or a Merit Award, in each case granted under this Plan.

(D) "Beneficiary" shall mean the person, persons, trust or trusts designated by a Recipient or if no designation has been made, the person, persons, trust, or trusts entitled by will or the laws of descent and distribution to receive the benefits specified under this Plan in the event of a Recipient's death.

(E) "Board" shall mean the Board of Directors of the Company or its designee.

(F) "Cashless Exercise" shall mean the procedure by which a broker provides the funds to a Recipient to effect an Option exercise. At the direction of the Recipient, the broker will either: (i) sell all of the shares received when the Option is exercised and pay the Recipient the proceeds of the sale (minus the Exercise Price, withholding taxes and any fees due to the broker); or (ii) sell enough of the shares received upon exercise of the Option to cover the Exercise Price, withholding taxes and any fees due to the broker and deliver to the Recipient (either directly or through the Company) a stock certificate for the remaining shares.

(G) "Change in Control" shall be deemed to occur (1) upon approval of the shareholders of the Company (or if such approval is not required, upon the approval of the Board) of (A) any consolidation or merger of the Company, other than a consolidation or merger of the Company into or with a direct or indirect wholly-owned subsidiary, in which the Company 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 the Company, provided, however, that no sale, lease, exchange or other transfer of all or substantially all the assets of the Company shall be deemed to occur unless assets constituting 80% of the total assets of the Company are transferred pursuant to such sale, lease, exchange or other transfer, or (C) adoption of any plan or proposal for the liquidation or dissolution of the Company, (2) when any person (as defined in Section 3(a)(9) or 13(d) of the Exchange Act), other than the Company or any Subsidiary or employee benefit plan or trust maintained by the Company, shall become the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 15% of the Company's Common Stock outstanding at the time, without the approval of the Board, or (3) 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 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. Notwithstanding the foregoing, any transaction, or series of transactions, that shall result in the disposition of Ashland's interest in Marathon Ashland Petroleum LLC, including without limitation any transaction arising out of that certain Put/Call, Registration Rights and Standstill Agreement dated January 1, 1998 among Marathon Oil Company, USX Corporation, the Company and Marathon Ashland Petroleum LLC, as amended from time to time, shall not be deemed to constitute a Change in Control.

(H) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(I) "Committees" shall refer to the P&C Committee as it relates to Awards to Participants and to the G&N Committee as it relates to Awards to Outside Directors.

(J) "Common Stock" shall mean the Common Stock of the Company (\$1.00 par value), subject to adjustment pursuant to Section 15 hereof.

(K) "Company" shall mean, collectively, Ashland Inc. and its Subsidiaries.

(L) "Disability" shall mean, (i) in the case of a Participant, he or she becomes unable to perform the functions required by his or her regular job due to physical or mental illness and, in connection with the grant of an Incentive Stock Option shall be disabled if he or she falls within the meaning of that term as provided in Section 22(e)(3) of the Code and (ii) in the case of an Outside Director, when he or she is unable to attend to his or her duties and responsibilities as a member of the Board because of incapacity due to physical or mental illness.

(M) "Exercise Price" shall mean, with respect to each share of Common Stock subject to an Option, the price fixed by the Committees at which such share may be purchased from the Company pursuant to the exercise of such Option, which price at no time may be less than 100% of the Fair Market Value of the Common Stock on the date the Option is granted.

(N) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(O) "Fair Market Value" shall mean the price of the Common Stock as reported on the Composite Tape of the New York Stock Exchange on the date and at the time selected by the Committees or as otherwise provided in this Plan.

(P) "G&N Committee" shall mean the Governance and Nominating Committee of the Board, as from time to time constituted, or any successor committee of the Board with similar functions, or its designee.

(Q) "Incentive Award" shall mean an Award made pursuant to Section 7 hereof, the payment of which is contingent upon the achievement of the Performance Goals for the particular Performance Period.

(R) "Incentive Stock Option" or "ISO" shall mean an Option that is intended by the Committees to meet the requirements of Section 422 of the Code or any successor provision.

(S) "ISO Award" shall mean an Award of an Incentive Stock Option pursuant to Section 10 hereof.

(T) "Merit Award" shall mean an Award of Common Stock issued pursuant to Section 9 hereof.

(U) "Non-Employee Director" shall mean a non-employee director within the meaning of applicable regulatory requirements, including those promulgated under Section 16 of the Exchange Act.

(V) "Nonqualified Stock Option" or "NQSO" shall mean an Option granted pursuant to this Plan which does not qualify as an Incentive Stock Option.

(W) "Notice of Grant" shall mean a written notice setting forth the terms of an Option or SAR Award, to be entered into at the Company's discretion.

(X) "Option" shall mean the right to purchase Common Stock at a price to be specified and upon terms to be designated by the Committees or otherwise determined pursuant to this Plan. The Committees shall designate an Option as a Nonqualified Stock Option or an Incentive Stock Option.

(Y) "Option Award" shall mean an Award of an Option pursuant to Section 10 hereof.

(Z) "Outside Director" shall mean a director of the Company who is not also an employee of the Company as selected by the G&N Committee to receive an Award under this Plan.

(AA) "P&C Committee" shall mean the Personnel and Compensation Committee of the Board, as from time to time constituted, or any successor committee of the Board with similar functions, which shall consist of three or more members, each of whom shall be a Non-Employee Director and an outside director as defined in the regulations issued under Section 162(m) of the Code, or its designee.

(BB) "Participant" shall mean a regular, full-time or part-time employee of the Company as selected by the P&C Committee to receive an Award under this Plan.

(CC) "Performance Goals" shall mean performance goals as may be established in writing by the P&C Committee which may be based on earnings, stock price, return on equity, return on investment, total return to shareholders, economic profit, debt rating or achievement of business, financial or operational goals. Such goals may be absolute in their terms or measured against or in relation to other companies comparably or otherwise situated. Such performance goals may be particular to a Participant or the division or other unit in which the Participant works and/or may be based on the performance of the Company generally.

(DD) "Performance Period" shall mean the period designated by the P&C Committee during which the performance objectives shall be measured.

(EE) "Performance Unit Award" shall mean an Award made pursuant to

Section 8 hereof, the payment of which is contingent upon the achievement of the Performance Goals for the particular Performance Period.

(FF) "Personal Representative" shall mean the person or persons who, upon the Disability or incompetence of a Recipient, shall have acquired on behalf of the Recipient by legal proceeding or otherwise the right to receive the benefits specified in this Plan.

(GG) "Plan" shall mean this Ashland Inc. Incentive Plan, as amended and restated.

(HH) "Recipients" shall mean a Participant or an Outside Director, as appropriate.

(II) "Restricted Period" shall mean the period designated during which Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered, which period in the case of Participants shall not be less than one year from the date of grant (unless otherwise directed by the P&C Committee), and in the case of Outside Directors is the period set forth in Section 6(B) hereof.

(JJ) "Restricted Stock" shall mean those shares of Common Stock issued pursuant to a Restricted Stock Award which are subject to the restrictions, terms, and conditions set forth in the related Agreement, if any.

(KK) "Restricted Stock Award" shall mean an Award of Restricted Stock pursuant to Section 6 hereof.

(LL) "Retained Distributions" shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of Restricted Stock during any Restricted Period.

(MM) "Retirement" shall mean, (a) in the case of a Participant, retirement from the employ of the Company at any time as described in the Ashland Inc. and Affiliates Pension Plan or in any successor pension plan, as from time to time in effect, and (b) in the case of an Outside Director, retirement from the Board at age 72 or at any other age as the Board may from time to time determine.

(NN) "Stock Appreciation Right" or "SAR" shall mean the right of the holder to elect to surrender an Option or any portion thereof which is then exercisable and receive in exchange therefor shares of Common Stock, cash, or a combination thereof, as the case may be, with an aggregate value equal to the excess of the Fair Market Value of one share of Common Stock over the Exercise Price specified in such Option multiplied by the number of shares of Common Stock covered by such Option or portion thereof which is so surrendered. A SAR may only be granted concurrently with the grant of the related Option. A SAR shall be exercisable upon any additional terms and conditions (including, without limitation, the issuance of Restricted Stock and the imposition of restrictions upon the timing of exercise) which may be determined as provided in this Plan.

(OO) "Stock Appreciation Right Award" or "SAR Award" shall mean an Award of a Stock Appreciation Right pursuant to Section 11 hereof.

(PP) "Subsidiary" shall mean any present or future subsidiary corporations, as defined in Section 424 of the Code, of the Company.

(QQ) "Tax Date" shall mean the date the withholding tax obligation arises with respect to an Award.

SECTION 3. STOCK SUBJECT TO THIS PLAN

There will be reserved for issuance under this Plan an aggregate of 4,000,000 shares of Common Stock, par value \$1.00 per share; provided, however, that of such shares only 1,000,000 shares in the aggregate shall be available for Restricted Stock Awards, Merit Awards, ISO Awards and Performance Unit Awards. Such shares shall be authorized but unissued shares of Common Stock. If any Award under this Plan shall expire or terminate for any reason without having been earned or vested in full, or if any Award shall be forfeited or deferred, the shares subject to the unearned, forfeited or deferred portion of such Award shall again be available for the purposes of this Plan. No Participant shall be granted more than a total of 250,000 Option or SAR Awards annually and no Outside Director shall be granted more than a total of 10,000 Option or SAR Awards annually.

SECTION 4. ADMINISTRATION

The P&C Committee shall have the exclusive authority to administer this Plan for Participants. The G&N Committee shall have the exclusive authority to administer this Plan for Outside Directors.

In addition to any implied powers and duties that may be needed to carry out the provisions hereof, the Committees, acting individually, shall have all the powers vested in them by the terms hereof, including exclusive authority to select the Recipients, to determine the type, size and terms of the Awards to be made to each Recipient, to determine the time when Awards will be granted, and to prescribe the form of the Agreement or Notice of Grant embodying Awards made under this Plan. The Committees shall be authorized to interpret this Plan and the Awards granted under this Plan, to establish, amend and rescind any rules and regulations relating to this Plan, to make any other determinations which they believe necessary or advisable for the administration hereof, and to correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Award in the manner and to the extent the Committees deem desirable to carry it into effect. Any decision of the Committees in the administration of this Plan, as described herein, shall be final and conclusive.

SECTION 5. ELIGIBILITY

Awards may only be granted (i) to regular full-time or part-time employees of the Company, or (ii) as expressly provided in Sections 6(B), 10 and 11 hereof, to Outside Directors of the Company.

SECTION 6. RESTRICTED STOCK AWARDS

(A) Awards to Employees

The P&C Committee may make a Restricted Stock Award to selected Participants, which Restricted Stock Awards may, at the Company's discretion and as directed by the P&C Committee, be evidenced by an Agreement which shall contain such terms and conditions as the P&C Committee, in its sole discretion, may determine. The amount of each Restricted Stock Award and the respective terms and conditions of such Award (which terms and conditions need not be the same in each case) shall be determined by the P&C Committee in its sole discretion. As a condition to any Restricted Stock Award hereunder, the P&C Committee may require a Participant to pay to the Company a non-refundable amount equal to, or in excess of, the par value of the shares of the Restricted Stock Award. Subject to the terms and conditions of each Restricted Stock Award, the Participant, as the owner of the Common Stock issued as Restricted Stock, shall have all rights of a shareholder including, but not limited to, voting rights as to such Common Stock and the right to receive dividends thereon when, as and if paid.

Unless otherwise determined and directed by the P&C Committee, in the event that a Restricted Stock Award has been made to a Participant whose employment or service is subsequently terminated for any reason prior to the lapse of all restrictions thereon, such Restricted Stock will be forfeited in its entirety by such Participant.

(B) Awards to Outside Directors

During the term of this Plan, each person who is hereafter duly appointed or elected as an Outside Director shall be granted, effective on the date of his or her appointment or election to the Board, a Restricted Stock Award of 1,000 shares. All Awards under this subsection (B) are subject to the limitation on the number of shares of Common Stock available pursuant to Section 3 hereof and to the terms and conditions set forth in this subsection (B) and subsection (C) below.

As a condition to any Restricted Stock Award hereunder, the Outside Director may be required to pay to the Company a non-refundable amount equal to the par value of the shares of the Restricted Stock Award. Upon the granting of the Restricted Stock Award, such Outside Director shall be entitled to all rights incident to ownership of Common Stock of the Company with respect to his or her Restricted Stock, including, but not limited to, the right to vote such shares of Restricted Stock and to receive dividends thereon when, as and if paid; provided, however, that subject to subsection (C) hereof, in no case may any shares of Restricted Stock granted to an Outside Director be sold, assigned, transferred, pledged, or otherwise encumbered during the Restricted Period which shall not lapse until the earlier to occur of the following: (i) Retirement, (ii) the death or Disability of such Outside Director, (iii) a 50% change in the beneficial ownership of the Company as defined in Rule 13d-3 under the Exchange Act, or (iv) voluntary early retirement to take a position in governmental service. Unless otherwise determined and directed by the G&N Committee, in the case of voluntary resignation or other termination of service of an Outside Director prior to the occurrence of any of the events described in the preceding sentence, any Restricted Stock Award made pursuant to this subsection will be forfeited by such Outside Director.

(C) Transferability

Subject to Section 17(B) hereof, Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered during a Restricted Period, which, in the case of Participants, shall be determined by the P&C Committee and, unless otherwise determined by the P&C Committee, shall not be less than one year from the date of the Restricted Stock Award, and, in the case of Outside Directors, shall be determined in accordance with subsection (B) of this Section. The P&C Committee may, at any time, reduce the Restricted Period with respect to any outstanding shares of a Restricted Stock Award, but, unless otherwise determined by the P&C Committee, such Restricted Period shall not be less than one year.

During the Restricted Period, certificates representing the Restricted Stock and any Retained Distributions shall be registered in the Recipient's name and bear a restrictive legend to the effect that ownership of such Restricted Stock (and any such Retained Distributions), and the enjoyment of all rights appurtenant thereto are subject to the restrictions, terms, and conditions provided in this Plan and the applicable Agreement, if any. Such certificates shall be deposited by the Recipient with the Company, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions which shall be forfeited in accordance with this Plan and the applicable Agreement, if any. Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes, with the exception that: (i) the Recipient will not be entitled to delivery of the stock certificates representing such Restricted Stock until the restrictions applicable thereto shall have expired; (ii) the Company will retain custody of all Retained Distributions made or declared with respect to the Restricted Stock (and such Retained Distributions will be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall

not bear interest or be segregated in separate accounts; (iii) subject to Section 17(B) hereof, the Recipient may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Stock or any Retained Distributions during the Restricted Period; and (iv) unless otherwise determined and directed by the Committees, a breach of any restrictions, terms, or conditions provided in this Plan or established by the Committees with respect to any Restricted Stock or Retained Distributions will cause a forfeiture of such Restricted Stock and any Retained Distributions with respect thereto.

SECTION 7. INCENTIVE AWARDS

(A) Any Participant may receive one or more Incentive Awards, as the P&C Committee shall from time to time determine.

(B) No later than 120 days (90 days for those Participants subject to the limitations of Code Section 162(m)) after the commencement of each Performance Period, the P&C Committee shall establish in writing one or more Performance Goals that must be reached by a Participant in order to receive an Incentive Award for such Performance Period. Except with respect to Participants subject to the limitations of Code Section 162(m), the P&C Committee shall have the discretion to later revise the Performance Goals and the amount to be paid out upon the attainment of these goals for any reason including the reflection of promotions, transfers or other changes in a Participant's employment so long as such changes are consistent with the Performance Goals established for other Participants in the same or similar positions. Performance Goals established for Participants subject to Code Section 162(m) may only be adjusted to reduce or eliminate the amount of compensation otherwise payable upon attainment of the Performance Goals.

(C) The target Incentive Award is a fixed percentage of the Participant's Base Salary paid during the year. The maximum Incentive Award is 150% of the target Incentive Award. No Incentive Award shall exceed three million dollars (\$3,000,000).

(D) Payment of Incentive Awards shall be made on a date or dates fixed by the P&C Committee. Payment may be made in one or more installments and may be made wholly in cash, wholly in shares of Common Stock or a combination thereof as determined by the P&C Committee.

If payment of an Incentive Award shall be made all or partially in shares of Common Stock, the number of shares of Common Stock to be delivered to a Participant on any payment date shall be determined by dividing (x) the original dollar amount to be paid on the payment date (or the part thereof determined by the P&C Committee to be delivered in shares of such Incentive Award) by (y) the Fair Market Value on the date the Board approves the P&C Committee's decision to pay an Incentive Award or such other date as the Board shall determine.

(E) Unless otherwise determined and directed by the P&C Committee, an Incentive Award shall terminate if the Participant does not remain continuously employed and in good standing with the Company until the date of payment of such Award. Unless otherwise determined and directed by the P&C Committee, in the event a Participant's employment is terminated because of death, Disability or Retirement, the Participant (or his or her beneficiaries or estate) shall receive the prorated portion of the payment of an Incentive Award for which the Participant would have otherwise been eligible 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.

SECTION 8. PERFORMANCE UNIT AWARDS

(A) Any Participant may receive one or more Performance Unit Awards, as the P&C Committee shall from time to time determine.

(B) The Performance Goals and Performance Period applicable to a Performance Unit Award shall be set forth in writing by the P&C Committee no later than 120 days (90 days for those Participants subject to the limitations imposed by Code Section 162(m)) after the commencement of the Performance Period. Except with respect to Participants subject to the limitations of Code Section 162(m), the P&C Committee shall have the discretion to later revise the Performance Goals and the amount to be paid out upon the attainment of these goals for any reason including the reflection of promotions, transfers or other changes in a Participant's employment so long as such changes are consistent with the Performance Goals established for other Participants in the same or similar positions. Goals established for Participants subject to Code Section 162(m) may only be adjusted to reduce or eliminate the amount of compensation otherwise payable upon attainment of the Performance Goals.

(C) Each Performance Unit Award shall be established in dollars or shares of Common Stock, or a combination of both, as determined by the P&C Committee. The original amount of any Performance Unit Award shall not exceed 400% of the Participant's then annual base salary and the original amount of any Performance Unit Award shall not exceed five million dollars (\$5,000,000). 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.

(D) Unless otherwise determined and directed by the P&C Committee, a Performance Unit Award shall terminate for all purposes if the Participant does not remain continuously employed and in good standing with the Company until payment of such Performance Unit Award. Unless otherwise determined and directed by the P&C Committee, a Participant (or his or her beneficiaries or estate) whose employment was terminated because of death, Disability or Retirement will receive a prorated 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.

(E) Payment with respect to Performance Unit Awards will be made to Participants on a date or dates fixed by the P&C Committee. The amount of such payment shall be determined by the P&C 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 a combination thereof as determined by the P&C Committee.

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 a Participant 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 P&C 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 a Participant 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 P&C 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 P&C Committee may determine.

SECTION 9. MERIT AWARDS

Any Participant may receive a Merit Award of Common Stock under this Plan for such reasons and in such amounts as the P&C Committee may from time to time determine. As a condition to any such Merit Award, the P&C Committee may require a Participant to pay to the Company a non-refundable amount equal to, or in excess of, the par value of the shares of Common Stock awarded to him or her.

SECTION 10. OPTION AWARDS

(A) Any Recipient may receive one or more Option Awards, as the Committees shall from time to time determine.

(B) Designation and Price

(1) Any Option granted under this Plan may be granted as an Incentive Stock Option or as a Nonqualified Stock Option as shall be designated by the Committees at the time of the grant of such Option. Only Participants may be granted ISOs. Each Option shall, at the discretion of the Company and as directed by the Committees, be evidenced by a Notice of Grant, which Notice of Grant shall specify the designation of the Option as an ISO or a NQSO, as the case may be, and shall contain such terms and conditions as the Committees, in their sole discretion, may determine in accordance with this Plan.

(2) Every ISO shall provide for a fixed expiration date of not later than ten years from the date such ISO is granted. Every NQSO shall provide for a fixed expiration date of not later than ten years and one month from the date such NQSO is granted.

(3) The Exercise Price of Common Stock issued pursuant to each Option shall be fixed by the Committees at the time of the granting of the Option; provided, however, that such Exercise Price shall in no event be less than 100% of the Fair Market Value of the Common Stock on the date such Option is granted.

(C) Exercise

The Committees may, in their sole discretion, provide for Options granted under this Plan to be exercisable in whole or in part; provided, however, that no Option shall be exercisable prior to the first anniversary of the date of its grant, except as provided in Section 13 hereof or as the Committees otherwise determine in accordance with this Plan, and in no case may an Option be exercised at any time for fewer than 50 shares (or the total remaining shares covered by the Option if fewer than 50 shares) during the term of the Option. The specified number of shares will be issued upon receipt by the Company of (i) notice from the holder thereof of the exercise of an Option, and (ii) payment to the Company (as provided in subsection (D) of this Section), of the Exercise Price for the number of shares with respect to which the Option is exercised. Each such notice and payment shall be delivered or mailed by postpaid mail, addressed to the Trust Investments Department of the Company, 3499 Blazer Parkway, Lexington, Kentucky 40509, or such other place as the Company may designate from time to time.

(D) Payment for Shares

Except as otherwise provided in this Section, the Exercise Price for the Common Stock shall be paid in full when the Option is exercised. Subject to such rules as the Committees may impose, the Exercise Price may be paid in whole or in part: (i) in cash; (ii) in whole shares of Common Stock owned by the Recipient and evidenced by negotiable certificates, valued at their Fair Market Value (which shares of Common Stock must have been owned by the Recipient six months or longer, and not used to effect an Option exercise within the preceding six months, unless the Committees specifically provide otherwise); (iii) by Attestation; (iv) by a combination of such methods of payment; or (v) by such other consideration

as shall constitute lawful consideration for the issuance of Common Stock and be approved by the Committees (including, without limitation, effecting a Cashless Exercise of the Option with a broker).

(E) Continued Employment, Agreement to Serve and Exercise Period

(1) Participants

(a) Subject to the provisions of Section 13(D) hereof, every Option and SAR shall provide that it may not be exercised in whole or in part for a period of one year after the date of granting such Option (unless otherwise determined by the P&C Committee) and if the employment of the Participant shall terminate prior to the end of such one year period (or such other period determined by the P&C Committee), the Option granted to such Participant shall immediately terminate.

(b) Every Option shall provide that in the event the Participant dies (i) while employed by the Company, (ii) during the periods in which Options may be exercised by a Participant determined to be Disabled, or (iii) after Retirement, such Option shall be exercisable, at any time or from time to time, prior to the fixed termination date set forth in the Option, by the Beneficiaries of the decedent for the number of shares which the Participant could have acquired under the Option immediately prior to the Participant's death.

(c) Every Option shall provide that in the event the employment of any Participant shall cease by reason of Disability, as determined by the P&C Committee at any time during the term of the Option, such Option shall be exercisable, at any time or from time to time prior to the fixed termination date set forth in the Option by such Participant for the number of shares which the Participant could have acquired under the Option immediately prior to the Participant's Disability. The determination by the P&C Committee of any question involving Disability of a Participant shall be conclusive and binding.

(d) Every Option shall provide that in the event the employment of any Participant shall cease by reason of Retirement, such Option may be exercised at any time or from time to time, prior to the fixed termination date set forth in the Option for the number of shares which the Participant could have acquired under the Option immediately prior to such Retirement.

(e) Notwithstanding any provision of this Plan to the contrary, any Option, may, in the discretion of the P&C Committee or as provided in the relevant Notice of Grant (if any), become exercisable, at any time or from time to time, prior to the fixed termination date set forth in the Option for the full number of awarded shares or any part thereof, less such number as may have been theretofore acquired under the Option from and after the time the Participant ceases to be an employee of the Company as a result of the sale or other disposition by the Company of assets or property (including shares of any Subsidiary) in respect of which such Participant had theretofore been employed or as a result of which such Participant's continued employment with the Company is no longer required.

(f) Except as provided in sub-subsections (b), (c), (d), (e) and (g) of this Section 10(E) and Section 13(D) hereof, every Option shall provide that it shall terminate on the earlier to occur of the fixed termination date set forth in the Option or thirty (30) days after cessation of the Participant's employment for any cause in respect of the number of shares which the Participant could have acquired under the Option immediately prior to such cessation of employment; provided, however, that no Option may be exercised after the fixed termination date set forth in the Option.

(g) Notwithstanding any provision of this Section to the contrary, in the event the P&C Committee determines, in its sole and absolute discretion, that the employment of any Participant has terminated for a reason or in a manner adversely affecting the Company (which may include, without limitation, taking other employment or rendering service to others without the consent of the Company), then the P&C Committee may direct that such Participant forfeit any and all Options that he or she could otherwise have exercised pursuant to the terms of this Plan.

(h) Each Participant granted an Award under this Plan shall agree by his or her acceptance of such Award to remain in the service of the Company for a period of at least one year from the date of the Notice of Grant respecting the Award (or, if no Notice of Grant is given, at least one year from the date of the Award). Such service shall, subject to the terms of any contract between the Company and such Participant, be at the pleasure of the Company and at such compensation as the Company shall reasonably determine from time to time. Nothing in this Plan, or in any Award granted pursuant to this Plan, shall confer on any individual any right to continue in the employment of or service to the Company or interfere in any way with the right of the Company to terminate the Participant's employment at any time.

(i) Notwithstanding anything to the contrary herein, any Option that is an ISO shall be exercisable not later than three (3) months following the date that the employment of a Participant terminated.

(2) Outside Directors

If an Outside Director's service on the Board terminates by reason of (i) Retirement, (ii) the death or Disability of such Outside Director, (iii) a 50% change in the beneficial ownership of the Company as defined in Rule 13d-3 under the Exchange Act, or (iv) voluntary early retirement to take a position in governmental service, any Option held by such Outside Director may thereafter be exercised by the Outside Director, or in the event of death, by his or her Beneficiary to the extent it was vested and exercisable at the time of such termination (i) for a period equal to the number of years of completed Board service as of the date of such

termination of the Outside Director on whose behalf the Option is exercised, or (ii) until the expiration of the stated term of such Option whichever period is the shorter. In the event of termination for any reason other than those set forth above, any Option held by such Outside Director may thereafter be exercised by the Outside Director to the extent it was vested and exercisable at the time of termination (i) for a period of one year from the date of such termination or (ii) until the expiration of the stated term of such Option, whichever period is the shorter, unless otherwise determined by the G&N Committee.

SECTION 11. STOCK APPRECIATION RIGHT AWARDS

The Committees may grant Stock Appreciation Rights pursuant to the provisions of this Section to any Recipient holding any Option granted under this Plan with respect to all or a portion of the shares subject to the related Option. A SAR may only be granted concurrently with the grant of the related Option. Subject to the terms and provisions of this Section, each SAR shall be exercisable only at the same time and to the same extent the related Option is exercisable and in no event after the termination of the related Option. A SAR shall be exercisable only when the Fair Market Value (determined as of the date of exercise of the SAR) of each share of Common Stock with respect to which the SAR is to be exercised shall exceed the Exercise Price per share of Common Stock subject to the related Option. A SAR granted under this Plan shall be exercisable in whole or in part by notice to the Company. Each such notice shall be delivered or mailed by postpaid mail, addressed to the Trust Investments Department of the Company, 3499 Blazer Parkway, Lexington, Kentucky 40509, or such other place as the company may designate from time to time. Such notice shall state that the holder of the SAR elects to exercise the SAR and the number of shares in respect of which the SAR is being exercised.

Subject to the terms and provisions of this Section, upon the exercise of a SAR, the Recipient shall be entitled to receive from the Company consideration (in the form hereinafter provided) equal in value to the excess of the Fair Market Value (determined as of the date of exercise of the SAR) of each share of Common Stock with respect to which such SAR has been exercised over the Exercise Price per share of Common Stock subject to the related Option. The Committees may stipulate in the Notice of Grant the form of consideration which shall be received upon the exercise of a SAR. If no consideration is specified therein, upon the exercise of a SAR, the Recipient, may specify the form of consideration to be received by such Recipient, which shall be in shares of Common Stock, or in cash, or partly in cash and partly in shares of Common Stock (valued at the Fair Market Value on the date of exercise of the SAR), as the Recipient shall request; provided, however, that the Committees, in their sole discretion, may disapprove the form of consideration requested and instead authorize the payment of such consideration in shares of Common Stock (valued as aforesaid), or in cash, or partly in cash and partly in shares of Common Stock.

Upon the exercise of a SAR, the related Option shall be deemed exercised to the extent of the number of shares of Common Stock with respect to which such SAR is exercised and to that extent a corresponding number of shares of Common Stock shall not again be available for the grant of Awards under this Plan. Upon the exercise or termination of the related Option, the SAR with respect thereto shall be considered to have been exercised or terminated to the extent of the number of shares of Common Stock with respect to which the related Option was so exercised or terminated.

SECTION 12. CONTINUED EMPLOYMENT

Nothing in this Plan, or in any Award granted pursuant to this Plan, shall confer on any individual any right to continue in the employment of, or service to, the Company or interfere in any way with the right of the Company to terminate the Participant's employment at any time.

SECTION 13. CHANGE IN CONTROL

(A) Upon a Change in Control, any Restricted Stock Award shall be free of all restrictions for the full number of awarded shares less such number as may have been theretofore acquired under the Restricted Stock Award.

(B) Upon a Change in Control, there shall be an acceleration of any Performance Period relating to any Incentive Award, and payment of any Incentive 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. Further, the Company's obligation with respect to such Incentive 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 P&C Committee, in its sole judgment, may make adjustments to any Incentive Award as may be appropriate to reflect such Change in Control.

(C) Upon a Change in Control, 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 Performance Unit 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 a Participant 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, the Company'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 P&C Committee,

in its sole judgment, may make adjustments to any Performance Unit Award as may be appropriate to reflect such Change in Control.

(D) Upon a Change in Control, any Option Award or SAR Award shall become immediately exercisable for the full number of awarded shares or any part thereof, less such numbers as may have been theretofore acquired under the Option Award or SAR Award from and after the date of such Change in Control, unless otherwise provided in the Notice of Grant.

SECTION 14. WITHHOLDING TAXES

Federal, state or local law may require the withholding of taxes applicable to gains resulting from the payment or vesting of an Award. Unless otherwise prohibited by the P&C Committee, each Participant may satisfy any such tax withholding obligation by any of the following means, or by a combination of such means: (i) a cash payment; (ii) authorizing the Company to withhold from the shares of Common Stock otherwise issuable to the Participant pursuant to the vesting of an Award a number of shares having a Fair Market Value, as of the Tax Date, which will satisfy the amount of the withholding tax obligation; or (iii) by delivery to the Company of a number of shares of Common Stock having a Fair Market Value as of the Tax Date which will satisfy the amount of the withholding tax obligation arising from the vesting of an Award. A Participant's election to pay the withholding tax obligation by (ii) or (iii) above must be made on or before the Tax Date, is irrevocable, is subject to such rules as the P&C Committee may adopt, and may be disapproved by the P&C Committee. If the amount requested is not paid, the P&C Committee may refuse to issue Common Stock under this Plan.

SECTION 15. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

In the event of any change in the outstanding Common Stock of the Company by reason of any stock split, stock dividend, recapitalization, merger, consolidation, reorganization, combination, or exchange of shares, split-up, split-off, spin-off, liquidation or other similar change in capitalization, or any distribution to common stockholders other than cash dividends, the number or kind of shares that may be issued under this Plan pursuant to Section 3 hereof and the number or kind of shares subject to, or the price per share under any outstanding Award shall be automatically adjusted so that the proportionate interest of the Recipient shall be maintained as before the occurrence of such event. Such adjustment shall be conclusive and binding for all purposes hereof.

SECTION 16. AMENDMENT AND TERMINATIONS

The Committees may amend, alter or terminate this Plan at any time without the prior approval of the Board; provided, however, that: (i) the Committees may not, without approval by the Board and the shareholders, (a) materially increase the benefits provided to Recipients under this Plan or (b) provide for the re-pricing of Options; and (ii) any amendment with respect to Restricted Stock granted to Outside Directors must be approved by the full Board.

Termination of this 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 this Plan notwithstanding its termination.

SECTION 17. MISCELLANEOUS PROVISIONS

(A) Except as to Awards of Restricted Stock to Outside Directors, no Participant or other person shall have any claim or right to be granted an Award under this Plan.

(B) A Recipient's rights and interest under this Plan may not be assigned or transferred in whole or in part, either directly or by operation of law or otherwise (except in the event of a Recipient's death, by will or the laws of descent and distribution), including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner, and no such right or interest of any Recipient in this Plan shall be subject to any obligation or liability of such individual; provided, however, that a Recipient's rights and interest under this Plan may, subject to the discretion and direction of the Committees, be made transferable by such Recipient during his or her lifetime. Except as specified in Section 6 hereof, the holder of an Award shall have none of the rights of a shareholder until the shares subject thereto shall have been registered in the name of the person receiving or person or persons exercising the Award on the transfer books of the Company.

(C) No Common Stock shall be issued hereunder unless counsel for the Company shall be satisfied that such issuance will be in compliance with applicable Federal, state, and other securities laws.

(D) The expenses of this Plan shall be borne by the Company.

(E) By accepting any Award under this Plan, each Recipient and each Personal Representative or Beneficiary claiming under or through him or her shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under this Plan by the Company, the Board, and the Committees.

(F) Awards granted under this Plan shall be binding upon the Company, its successors, and assigns.

(G) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required.

(H) Each Recipient shall be deemed to have been granted any Award on

the date the Committees took action to grant such Award under this Plan or such date as the Committees in their sole discretion shall determine at the time such grant is authorized.

SECTION 18. EFFECTIVENESS OF THIS PLAN

This Plan was originally approved by the shareholders of the Company on January 27, 2000. The Amended and Restated Plan shall be submitted to the shareholders of the Company for their approval and adoption on January 25, 2001, or such other date fixed for the next meeting of shareholders or any adjournment or postponement thereof. If not approved by the shareholders of the Company at the January 25, 2001 Annual Meeting, the original Plan shall remain in effect with respect to Awards other than Option Awards and SAR Awards. No Option Awards or SAR Awards shall be made under the Amended and Restated Plan unless and until the Amended and Restated Plan has been approved and adopted at a meeting of the Company's shareholders.

SECTION 19. GOVERNING LAW

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

EXHIBIT 12
 ASHLAND INC.
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
 (In millions)

| | Years Ended September 30 | | | | |
|--|--------------------------|--------|--------|--------|--------|
| | 1998 | 1999 | 2000 | 2001 | 2002 |
| EARNINGS | | | | | |
| Income from continuing operations | \$ 178 | \$ 291 | \$ 288 | \$ 403 | \$ 129 |
| Income taxes | 114 | 194 | 189 | 273 | 71 |
| Interest expense | 133 | 141 | 189 | 160 | 133 |
| Interest portion of rental expense | 40 | 35 | 39 | 41 | 36 |
| Amortization of deferred debt expense | 1 | 1 | 2 | 2 | 2 |
| Distributions in excess of (less than) earnings of unconsolidated affiliates | (62) | (12) | (112) | (90) | 20 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$ 404 | \$ 650 | \$ 595 | \$ 789 | \$ 391 |
| | ===== | ===== | ===== | ===== | ===== |
| FIXED CHARGES | | | | | |
| Interest expense | \$ 133 | \$ 141 | \$ 189 | \$ 160 | \$ 133 |
| Interest portion of rental expense | 40 | 35 | 39 | 41 | 36 |
| Amortization of deferred debt expense | 1 | 1 | 2 | 2 | 2 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$ 174 | \$ 177 | \$ 230 | \$ 203 | \$ 171 |
| | ===== | ===== | ===== | ===== | ===== |
| RATIO OF EARNINGS TO FIXED CHARGES | 2.32 | 3.67 | 2.59 | 3.89 | 2.29 |

| (In millions) | 2002 | 2001 | 2000 |
|---|----------------|----------------|----------------|
| SALES AND OPERATING REVENUES | | | |
| APAC | \$2,652 | \$2,624 | \$2,505 |
| Ashland Distribution | 2,535 | 2,849 | 3,214 |
| Ashland Specialty Chemical | 1,290 | 1,248 | 1,283 |
| Valvoline | 1,152 | 1,092 | 1,077 |
| Intersegment sales | (86) | (94) | (118) |
| | ----- | ----- | ----- |
| | \$7,543 | \$7,719 | \$7,961 |
| | ===== | ===== | ===== |
| OPERATING INCOME | | | |
| APAC | \$ 122 | \$ 55 | \$ 140 |
| Ashland Distribution | 1 | 35 | 70 |
| Ashland Specialty Chemical | 87 | 58 | 95 |
| Valvoline | 77 | 81 | 78 |
| Refining and Marketing(1) | 143 | 707 | 361 |
| Corporate | (92) | (85) | (73) |
| | ----- | ----- | ----- |
| | \$ 338 | \$ 851 | \$ 671 |
| | ===== | ===== | ===== |
| OPERATING INFORMATION | | | |
| APAC | | | |
| Construction backlog at September 30 (millions)(2) | \$1,691 | \$1,629 | \$1,397 |
| Hot-mix asphalt production (million tons) | 36.7 | 36.7 | 35.0 |
| Aggregate production (million tons) | 31.0 | 28.7 | 27.8 |
| Ready-mix concrete production (million cubic yards) | 2.1 | 2.3 | 2.6 |
| Ashland Distribution(3) | | | |
| Sales per shipping day (millions) | \$ 10.1 | \$ 11.2 | \$ 12.8 |
| Gross profit as a percent of sales | 16.0% | 15.9% | 15.6% |
| Ashland Specialty Chemical(3) | | | |
| Sales per shipping day (millions) | \$ 5.1 | \$ 5.0 | \$ 5.1 |
| Gross profit as a percent of sales | 36.0% | 33.8% | 34.7% |
| Valvoline lubricant sales (million gallons) | | | |
| | 194.4 | 183.0 | 189.6 |
| Refining and Marketing(4) | | | |
| Crude oil refined (thousand barrels per day) | 930 | 912 | 892 |
| Refined products sold (thousand barrels per day)(5) | 1,321 | 1,302 | 1,309 |
| Refining and wholesale marketing margin (per barrel)(6) | \$ 1.82 | \$ 5.17 | \$ 2.63 |
| Speedway SuperAmerica (SSA) | | | |
| Retail outlets at September 30 | 2,063 | 2,145 | 2,288 |
| Gasoline and distillate sales (million gallons) | 3,622 | 3,587 | 3,742 |
| Gross margin - gasoline and distillates (per gallon) | \$.1040 | \$.1218 | \$.1284 |
| Merchandise sales (millions) | \$2,381 | \$2,186 | \$2,143 |
| Merchandise margin (as a percent of sales) | 24.2% | 23.3% | 24.5% |
| | ===== | ===== | ===== |

(1) Includes Ashland's equity income from Marathon Ashland Petroleum LLC (MAP), amortization related to Ashland's excess investment in MAP, and other activities associated with refining and marketing.

(2) Includes APAC's proportionate share of the backlog of unconsolidated joint ventures.

(3) Sales are defined as sales and operating revenues. Gross profit is defined as sales and operating revenues, less cost of sales and operating expenses, and depreciation and amortization relative to manufacturing assets.

(4) Amounts represent 100% of MAP's operations, in which Ashland owns a 38% interest.

(5) Total average daily volume of all refined product sales to MAP's wholesale, branded and retail (SSA) customers.

(6) Sales revenue less cost of refinery inputs, purchased products and manufacturing expenses, including depreciation.

RESULTS OF OPERATIONS

Ashland's net income (including discontinued operations and the cumulative effect of accounting changes) amounted to \$117 million in 2002, \$417 million in 2001 and \$70 million in 2000. Income from continuing operations (which excludes discontinued operations and the cumulative effect of

accounting changes) amounted to \$129 million in 2002, \$403 million in 2001 and \$288 million in 2000. As discussed in Note A to the Consolidated Financial Statements, Ashland adopted FASB Statement No. 142 (FAS 142), "Goodwill and Other Intangible Assets," as of October 1, 2001. Since goodwill is not amortized under FAS 142, Ashland's reported results for 2002 are not comparable with previous years. The following table compares reported results with pro forma financial information assuming that Ashland adopted FAS 142 as of October 1, 1999.

| (In millions) | 2002 | 2001 | 2000 |
|-----------------------------------|-------|-------|-------|
| ----- | | | |
| OPERATING INCOME | | | |
| As reported | \$338 | \$851 | \$671 |
| Pro forma | 338 | 903 | 710 |
| INCOME FROM CONTINUING OPERATIONS | | | |
| As reported | 129 | 403 | 288 |
| Pro forma | 129 | 448 | 320 |
| | ===== | ===== | ===== |

Prior to the change in accounting for goodwill, Ashland's segments recognized goodwill amortization of \$42 million in 2001 (\$25 million for APAC, \$7 million for Ashland Distribution, \$9 million for Ashland Specialty Chemical and \$1 million for Valvoline) and \$29 million in 2000 (\$22 million for APAC, \$1 million for Ashland Distribution, \$5 million for Ashland Specialty Chemical and \$1 million for Valvoline). In addition, part of Ashland's excess investment in Marathon Ashland Petroleum LLC (MAP) was accounted for as goodwill and was being amortized at a rate of \$10 million a year prior to the adoption of FAS 142.

APAC

The APAC construction companies generated operating income of \$122 million in 2002, compared to \$55 million in 2001. The improvement reflects the net effects of better operating results, the change in accounting for goodwill, costs associated with APAC's business process redesign initiative, and a non-recurring charge of \$18 million related to the Manassas, Virginia division that reduced last year's earnings. Earnings from construction jobs and the asphalt plants improved, reflecting better margins. These margin improvements resulted from more efficient production and favorable weather conditions, lower costs for liquid asphalt, fuel and power, and the prior year completion of most of the low-margin work obtained in acquisitions. Goodwill amortization amounted to \$25 million in 2001, but the expense reduction from eliminating that amortization was largely offset by costs of \$17 million in 2002 associated with the process redesign initiative.

Operating income from APAC amounted to \$55 million in 2001, compared to \$140 million in 2000. The decline resulted principally from unusually severe winter weather in most of APAC's operating regions, weak construction margins and a charge of \$18 million to correct improper recognition of construction contract earnings at its Manassas division. Net construction job revenue (total revenue less subcontract costs) was about flat, while production of hot-mix asphalt and aggregate were both up modestly. The sale of certain operations in September 2000 resulted in a decline in the production of ready-mix concrete. However, the levels of construction activity and material production were less important factors than the conditions under which the work took place (extreme cold and precipitation) that made the processes highly inefficient. Construction contract margins were also depressed as many low-margin jobs obtained in acquisitions worked their way through the backlog, and the level of higher-margin private work declined as a result of the economic slowdown.

(Bar graph showing APAC's operating income for 2000, 2001 and 2002)

During an internal investigation of financial activities at APAC's Manassas division in the March 2001 quarter, it was discovered that the division's earnings had been intentionally overstated, and local management of the division was replaced. Independent investigations confirmed that the problems related primarily to the improper recognition of revenues and failure to recognize certain costs over a period of about two years. No evidence of any impact on, or involvement by, outside parties, customers or suppliers was discovered.

ASHLAND DISTRIBUTION

Operating income of Ashland Distribution amounted to \$1 million in 2002, compared to \$35 million in 2001. Overall sales were off 11%, reflecting weak markets and internal execution problems related to the implementation of an enterprise resource planning system. Of all of Ashland's businesses, Ashland Distribution is the most sensitive to industrial output, which remains soft in comparison to prior years. However, sales in the September 2002 quarter exceeded last year's amount for that period and were also up 13% from the low point experienced in the December 2001 quarter. Economic improvements and vigorous efforts to improve service across-the-board with new processes are continuing to occur. Reported results include income of \$7 million from the settlement of a sorbate class action

antitrust suit in 2002, compared to \$11 million from a similar class action involving citric acid in 2001. Results for 2001 also included charges of \$7 million for goodwill amortization and write-offs prior to the change in accounting.

Operating income from Ashland Distribution amounted to \$35 million in 2001, compared to \$70 million in 2000. Overall sales declined 11%, principally reflecting the challenging economic environment and a slowdown in key customer markets. The unfavorable economic conditions also led to higher credit losses, particularly for the North American plastics distribution and energy services divisions. However, the effects of these declines were partially offset by expense reductions and various margin improvement efforts. Such efforts resulted in higher earnings from three distribution business units - industrial chemicals, fine ingredients and European plastics distribution. Results of Ashland Distribution for 2001 reflect a goodwill write-off of \$6 million and other asset impairment charges, the combination of which was largely offset by the proceeds of \$11 million from the citric acid settlement.

(Bar graph showing Ashland Distribution's operating income for 2000, 2001 and 2002)

ASHLAND SPECIALTY CHEMICAL

Operating income from Ashland Specialty Chemical increased to \$87 million in 2002, a 50% increase compared to its recession-weakened results of \$58 million in 2001. Despite softness in unit volumes, Ashland Specialty Chemical has achieved steady improvement throughout the year. Results improved from performance materials (unsaturated polyester resins, foundry chemicals and adhesives) and water treatment chemicals and services. In addition, the semiconductor industry is continuing to recover from its worldwide downturn during 2001. As a result, electronic chemicals had a much better performance in the last half of 2002 even though results from that division were still down for the year. Results of Ashland Specialty Chemical for 2001 included a charge of \$9 million for goodwill amortization and write-downs prior to the change in accounting.

(Bar graph showing Ashland Specialty Chemical's operating income for 2000, 2001 and 2002)

Ashland Specialty Chemical's operating income amounted to \$58 million in 2001, compared to \$95 million in 2000. Earnings from marine and water treatment chemicals were up, but these improvements were more than offset by significant declines in other business units that are more sensitive to a weak economy, including foundry products, specialty adhesives, maleic anhydride and polyester resins. Profits from electronic chemicals also deteriorated sharply as 2001 progressed, reflecting the worldwide downturn in the semiconductor manufacturing industry. Results of Ashland Specialty Chemical for 2001 reflect a goodwill write-down of \$4 million and minor asset impairment charges.

VALVOLINE

Operating income from Valvoline was \$77 million in 2002, compared to \$81 million in 2001. The decline was attributable entirely to lower sales of R-12 automotive refrigerant that contributed essentially no gross profit to 2002 results, compared to \$13 million in 2001. However, strong results from core lubricants, automotive chemicals and international operations, as well as a record year from Valvoline Instant Oil Change (VIOC), largely offset the reduced earnings from sales of R-12. Lubricant volumes were up 6% and sales of premium lubricants continued to grow. Increasing numbers of premium oil changes using MaxLife, Durablend and SynPower also contributed to VIOC's record year. Earnings from automotive chemicals and international operations both recovered strongly from their weakened levels in 2001.

(Bar graph showing Valvoline's operating income for 2000, 2001 and 2002)

At September 30, 2002, VIOC operated 363 company-owned service centers, compared to 364 centers in 2001 and 358 centers in 2000. The VIOC franchising program continues to expand, with 335 centers open at September 30, 2002, compared to 311 centers in 2001 and 272 centers in 2000. VIOC's future growth will continue to focus principally on expanding the number of franchised rather than company-owned centers.

Valvoline's operating income increased from \$78 million in 2000 to \$81 million in 2001. Results from the core lubricants business and Eagle One were up, offsetting declines from other businesses. Although domestic sales of Valvoline branded motor oil were comparable to 2000, sales of premium motor oils, such as MaxLife, continued to grow at a rapid rate. Sales of Eagle One products were up 16%, and its operating income amounted to more than 10% of its revenues. Results from international operations were down as sales volumes fell, with Europe experiencing the largest decline. Results from VIOC improved during the September 2001 quarter, but were down slightly from 2000, which included gains on the sale of certain company-owned service centers. Earnings from automotive chemicals and antifreeze suffered from lower margins.

REFINING AND MARKETING

Operating income from Refining and Marketing, which consists primarily of equity income from Ashland's 38% ownership interest in MAP, was \$143 million in 2002, down from a record \$707 million in 2001. Equity income from MAP's refining and wholesale marketing operations was down \$585 million due principally to weak refining margins. The reduction of \$3.35 a barrel in MAP's refining and wholesale marketing margin resulted from an

in demand for petroleum products and a narrow differential between sweet and sour crude oil prices. Sour crude oils typically account for about 60% of MAP's crude oil slate. Equity income from MAP's retail operations (Speedway SuperAmerica and a 50% interest in the Pilot Travel Centers joint venture) improved slightly, reflecting the net effects of higher sales volumes of products and merchandise, improved merchandise margins and lower product margins. Equity income from MAP for 2001 also included a charge of \$10 million for goodwill amortization.

(Bar graph showing Refining and Marketing operating income for 2000, 2001 and 2002)

Operating income from Refining and Marketing amounted to a record \$707 million in 2001, compared to \$361 million in 2000. Equity income from MAP's refining and wholesale marketing operations was up \$404 million, reflecting the net effects of strong refining margins, a slight reduction in refined product sales and higher operating and administrative expenses. The increase of \$2.54 a barrel in MAP's refining and wholesale marketing margin reflected tight product supplies during much of 2001 in its primary Midwest market. However, equity income from MAP's retail operations declined by \$40 million. The decline principally reflects lower product margins and volumes, reduced earnings from merchandise sales and higher operating expenses.

CORPORATE

Corporate expenses were \$92 million in 2002, \$85 million in 2001 and \$73 million in 2000. The increase in 2001 principally reflects higher incentive and deferred compensation costs. Although such costs were down in 2002, the effects were more than offset by higher administrative expenses and additional reserves for environmental, litigation and severance costs.

NET INTEREST AND OTHER FINANCIAL COSTS

The following table summarizes the components of net interest and other financial costs.

| (In millions) | 2002 | 2001 | 2000 |
|--|-------|-------|-------|
| ----- | | | |
| NET INTEREST AND OTHER FINANCIAL COSTS | | | |
| Interest expense | \$135 | \$162 | \$191 |
| Expenses on sales of accounts receivable | 4 | 8 | 6 |
| Loss on early retirement of debt | - | 5 | 6 |
| Other financial costs | 3 | 2 | 1 |
| Interest income | (4) | (2) | (10) |
| | ----- | ----- | ----- |
| | \$138 | \$175 | \$194 |
| | ===== | ===== | ===== |

The decreases in Ashland's interest expense during this period resulted principally from reductions in the average level of debt outstanding. However, lower interest rates also brought the expense down from prior year levels by \$9 million in 2002 and \$4 million in 2001. Expenses on sales of accounts receivable also reflect lower interest rates since that program was implemented in March 2000.

INCOME TAXES

Ashland's overall effective income tax rate amounted to 35.5% in 2002, 40.4% in 2001 and 39.6% in 2000. The tax rate declined in 2002 principally as a result of the accounting change for goodwill, reduced state income taxes and a lower tax rate on foreign results. The accounting change eliminated the amortization for financial reporting purposes, and most of that amortization was not deductible for income tax purposes. In addition, state income tax rates actually experienced were lower than those previously assumed in the deferred tax calculations. Those reductions resulted from changing apportionment factors related to MAP's earnings and the use of tax loss carryforwards in various jurisdictions that had not been recognized in prior years due to uncertainties as to their ultimate realization.

DISCONTINUED OPERATIONS AND ACCOUNTING CHANGES

During 2000, Ashland spun-off the majority of its shares of Arch Coal common stock to Ashland's shareholders. Ashland subsequently sold its remaining Arch Coal shares in a public offering in February 2001. Any net income or loss associated with Arch Coal (including the costs of the spin-off) is included in discontinued operations. The loss of \$218 million in 2000 associated with Arch Coal included \$203 million related to asset impairment and restructuring costs. The net gain of \$19 million in 2001 represents an after-tax gain of \$33 million on the sale of the Arch Coal shares, less after-tax charges of \$14 million from reserves related to other discontinued operations.

As a result of the adoption of FAS 142, Ashland recognized an impairment loss of \$12 million after income taxes in 2002 related to the goodwill of Ashland Distribution. In addition, the cumulative effect of the change in the method of accounting for derivatives by MAP resulted in an after-tax charge to Ashland of \$5 million in 2001.

FINANCIAL POSITION
LIQUIDITY

Cash flows from operations, a major source of Ashland's liquidity, amounted to \$188 million in 2002, \$829 million in 2001 and \$484 million in 2000. Such amounts include cash distributions from MAP of \$196 million in 2002, \$658 million in 2001 and \$279 million in 2000. MAP operates on a calendar year basis and is organized as a limited liability company that has elected to be taxed as a partnership. As a result, Ashland pays income taxes on most of its share of the taxable earnings reported by MAP in the following year, creating additional variability in Ashland's cash flows from year to year. Income taxes paid by Ashland related to MAP's earnings amounted to \$239 million in 2002, \$157 million in 2001 and \$54 million in 2000.

Cash flows from operations for 2000 were increased by proceeds of \$150 million from the sale of receivables (reflected as part of the change in operating assets and liabilities). Over the last three years, cash flows from operations have exceeded Ashland's capital requirements for net property additions and dividends by nearly \$750 million, providing additional funds for debt reductions, stock purchases and acquisitions.

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 two revolving credit agreements providing for up to \$425 million in borrowings, neither of which has been used. Furthermore, Ashland has access to the commercial paper markets and various uncommitted lines of credit. While the revolving credit agreements contain a covenant limiting new borrowings based on Ashland's stockholders' equity, these agreements would have permitted an additional \$1.4 billion of borrowings at September 30, 2002. Additional permissible borrowings are increased (decreased) by 150% of any increase (decrease) in stockholders' equity.

At September 30, 2002, working capital (excluding debt due within one year) amounted to \$615 million, compared to \$788 million at the end of 2001. Ashland's working capital is affected by its use of the LIFO method of inventory valuation. That method valued inventories below their replacement costs by \$65 million at September 30, 2002, and \$70 million at September 30, 2001. Liquid assets (cash, cash equivalents and accounts receivable) amounted to 78% of current liabilities at September 30, 2002, compared to 94% at the end of 2001.

CAPITAL RESOURCES

Property additions amounted to \$622 million during the last three years and are summarized in the Information by Industry Segment on page 61. For that period, APAC accounted for 48% of Ashland's capital expenditures, while Ashland Specialty Chemical accounted for an additional 28%. Capital used for acquisitions (including assumed debt and companies acquired through the issuance of common stock) amounted to \$705 million during the last three years, of which \$623 million was invested in APAC, \$79 million in Ashland Specialty Chemical and \$3 million in Valvoline. A summary of the capital employed in Ashland's operations follows.

| (In millions) | 2002 | 2001 | 2000 |
|----------------------------|---------|---------|---------|
| CAPITAL EMPLOYED | | | |
| APAC | \$1,039 | \$1,047 | \$1,156 |
| Ashland Distribution | 459 | 470 | 574 |
| Ashland Specialty Chemical | 610 | 612 | 597 |
| Valvoline | 343 | 389 | 333 |
| Refining and Marketing | 1,818 | 1,654 | 1,679 |
| | \$4,269 | \$4,172 | \$4,339 |

Long-term borrowings provided cash flows of nearly \$1.1 billion during the last three years, including the issuance of \$600 million in debt related to the acquisition of the construction operations of Superfos and \$457 million of medium-term notes. The proceeds from these long-term borrowings were used in part to retire \$984 million of long-term debt, including the \$600 million of Superfos-related debt. Debt retirements included scheduled maturities, as well as prepayments or refundings to reduce interest costs. Cash flows were supplemented as necessary by the issuance of short-term notes and commercial paper.

During 2002, Ashland reduced its total debt by \$64 million to \$1.8 billion. However, stockholders' equity also declined during 2002 by \$53 million to \$2.2 billion. Ashland's net income of \$117 million for 2002 was more than offset by cash dividends of \$76 million, common stock purchases of \$42 million and a noncash charge of \$88 million to recognize an additional pension liability. On balance, debt as a percent of capital employed was reduced slightly from 45.7% at the end of 2001 to 45.4% at September 30, 2002.

At September 30, 2002, Ashland's debt included \$151 million of floating-rate obligations, including short-term commercial paper of \$10 million and \$141 million of long-term debt, and the interest rates on an additional \$153 million of fixed-rate, medium-term notes were effectively

converted to floating rates through interest rate swap agreements. In addition, Ashland's costs under its sale of receivables program and various operating leases are based on the

floating-rate interest costs on \$268 million of third-party debt underlying those transactions. As a result, Ashland was exposed to fluctuations in short-term interest rates on \$572 million of debt obligations at September 30, 2002.

Ashland and its subsidiaries are lessees of office buildings, retail outlets, transportation and off-road construction equipment, warehouses and storage facilities, and other equipment, facilities and properties under leasing agreements that expire at various dates. Capitalized lease obligations are not significant and are included in long-term debt. Aggregate maturities of long-term debt and minimum rental payments under operating leases are summarized below for each of the periods shown.

| (In millions) | Total | 2003 | 2004-2005 | 2006-2007 | After 2007 |
|--------------------------------|----------------|--------------|--------------|--------------|----------------|
| CONTRACTUAL OBLIGATIONS | | | | | |
| Long-term debt | \$1,797 | \$191 | \$464 | \$185 | \$ 957 |
| Operating leases | 262 | 47 | 73 | 47 | 95 |
| | <u>\$2,059</u> | <u>\$238</u> | <u>\$537</u> | <u>\$232</u> | <u>\$1,052</u> |

Under various operating leases, Ashland has guaranteed the residual value of the underlying leased property. If Ashland had cancelled those leases as of September 30, 2002, its maximum obligations under the related residual value guarantees would have amounted to \$137 million. Ashland does not expect to incur any significant charge to earnings under these guarantees, \$74 million of which relates to real estate. These lease agreements are with unrelated third party lessors and Ashland has no additional contractual or other commitments to any parties to the leases.

Ashland has also guaranteed 38% of MAP's payments for certain crude oil purchases, up to a maximum guarantee of \$86 million. At September 30, 2002, Ashland's contingent liability under this guarantee amounted to \$72 million. Ashland has not made and does not expect to make any payments under this guarantee.

During 2000, Ashland entered into a five-year agreement to sell, on an ongoing basis and with limited recourse, up to a \$200 million undivided interest in a designated pool of accounts receivable. Under the terms of the agreement, new receivables are added to the pool and collections reduce the pool. Since inception, interests totaling \$150 million have been sold on a continuous basis. Ashland retains a credit interest in these receivables and addresses its risk of loss on this retained interest in its allowance for doubtful accounts. Receivables sold exclude defaulted accounts (as defined) or concentrations over certain limits with any one customer.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is a widely accepted financial indicator of a company's ability to incur and service debt. Ashland's EBITDA, which represents operating income plus depreciation, depletion and amortization, amounted to \$558 million in 2002, \$1.1 billion in 2001 and \$908 million in 2000. EBITDA should not be considered in isolation or as an alternative to net income, operating income, cash flows from operations, or a measure of profitability, liquidity or performance under generally accepted accounting principles.

From time to time, Ashland's Board of Directors has authorized the purchase of shares of Ashland common stock in the open market. As of September 30, 2002, Ashland could purchase an additional 2.7 million shares under previous authorizations. The number of shares ultimately purchased and the prices Ashland will pay for its stock are subject to periodic review by management.

During 2003, Ashland expects capital expenditures of approximately \$165 million. Ashland anticipates meeting its capital requirements during 2003 for property additions, dividends and scheduled debt repayments of \$191 million from internally generated funds. However, external financing may be necessary to provide funds for acquisitions or other corporate purposes.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The preparation of Ashland's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Significant items that are subject to such estimates and assumptions include long-lived assets, employee benefit obligations, reserves for asbestos litigation and environmental remediation, and income recognized under construction contracts. Although management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, actual results could differ significantly from the estimates under different assumptions or conditions. Management has reviewed the estimates

affecting these items with the Audit Committee of Ashland's Board of Directors.

LONG-LIVED ASSETS

The cost of plant and equipment is depreciated by the straight-line method over the estimated useful lives of the assets. Useful lives are based on historical experience and are adjusted when changes in planned use, technological advances or other factors show that a different life would be more appropriate. Such costs are periodically reviewed

for recoverability when impairment indicators are present. Such indicators include, among other factors, operating losses, unused capacity, market value declines and technological obsolescence. Recorded values of plant and equipment that are not expected to be recovered through undiscounted future net cash flows are written down to current fair value, which is generally determined from estimated discounted future net cash flows (assets held for use) or net realizable value (assets held for sale). Although circumstances can change considerably over time, Ashland is not aware of any impairment indicators that would necessitate periodic reviews on any significant asset within its plant and equipment at this time.

Goodwill and other intangible assets with indefinite lives are subject to annual impairment tests. As a result of Ashland's initial impairment test under FAS 142, the entire goodwill of \$14 million of Ashland Distribution was written off in 2002. Ashland's reporting units are generally synonymous with its industry segments, except that the individual operating divisions of Ashland Specialty Chemical are also considered reporting units under FAS 142. Since market prices of Ashland's reporting units are not readily available, management makes various estimates and assumptions in determining the estimated fair values of those units. Fair values are based principally on EBITDA multiples of peer group companies for each of these reporting units. Except for the goodwill of Ashland Distribution, the tests indicated that the fair values of each of Ashland's remaining reporting units with significant goodwill were in excess of their carrying values by at least 20%.

EMPLOYEE BENEFIT OBLIGATIONS

Ashland and its subsidiaries sponsor noncontributory, defined benefit pension plans that cover substantially all employees. Benefits under these plans are generally based on employees' years of service and compensation during the years immediately preceding their retirement. In addition, these companies also sponsor other postretirement benefit plans, which provide health care and life insurance benefits for eligible employees who retire or are disabled. Retiree contributions to Ashland's health care plans are adjusted periodically, and the plans contain other cost-sharing features, such as deductibles and coinsurance. Life insurance plans are generally noncontributory.

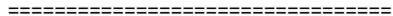
The principal assumptions used to determine Ashland's pension and other postretirement benefit costs are the discount rate, the salary adjustment rate and the expected return on plan assets. Nearly all of Ashland's retiree health care plans contain a cap that limits Ashland's contributions to base year per capita costs, plus annual increases of up to 4.5% per year. Ashland believes that medical inflation will continue at a rate in excess of 4.5% for the immediate future and, as a result, no explicit assumption was required as to the expected rate of future medical inflation.

The discount rates used to determine the present value of future pension payments, medical costs and life insurance benefits are based on the yields on high-quality, fixed-income investments (such as Moody's Aa-rated corporate bonds), as adjusted for the longer duration of Ashland's pension and other postretirement benefit obligations. The present values of Ashland's future pension and other postretirement obligations were determined using discount rates of 6.75% at September 30, 2002, and 7.25% at September 30, 2001. Ashland's expense under these plans is determined using the discount rate as of the beginning of the fiscal year, which amounted to 7.25% for 2002, 7.75% for both 2001 and 2000, and will be 6.75% for 2003.

The salary adjustment rate and the expected return on plan assets were assumed to be 5% and 9% for each of the last three years, and those factors will also be used to determine Ashland's costs for 2003. The salary assumption has been indicative of actual results for the last few years, but actual returns on plan assets have been below the expected amounts during two of the last three years. For 2002, the pension plan assets generated a loss of 6.7%, compared to a loss of 7.1% in 2001 and income of 12.3% in 2000. However, the expected return on plan assets is designed to be a long-term assumption that will be subject to considerable year-to-year variability by its inherent nature. Ashland has generated compounded annual investment returns of 2.1% and 7.3% on its pension plan assets over the last five and ten year periods. Although those returns are well below the long-term assumption, they were measured with the ending point amidst a two-year period of declining stock prices that accompanied depressed economic conditions. For the five and ten year periods that ended in September 2000 prior to this adverse investment climate, the compounded annual investment returns on Ashland's pension plan assets were 11.4% and 12.4%.

Shown below are the estimated increases in pension and other postretirement costs that would have resulted from a 1% change in the principal assumptions for each of the last three years.

| (In millions) | 2002 | 2001 | 2000 |
|--|------|------|------|
| INCREASE IN PENSION COSTS FROM | | | |
| Decrease in the discount rate | \$21 | \$15 | \$14 |
| Increase in the salary adjustment rate | 10 | 6 | 6 |
| Decrease in the expected return on plan assets | 5 | 5 | 4 |
| INCREASE IN OTHER POSTRETIREMENT COSTS FROM | | | |



ASBESTOS-RELATED LITIGATION

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Those claims result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation (Riley), a former subsidiary. Ashland's reserve for asbestos claims amounted to \$202 million at September 30, 2002, and reflects the estimated costs on an undiscounted basis that will be incurred over an extended period to resolve open claims.

The reserve for asbestos claims is based on assumptions and estimates derived from currently known facts. However, projecting future events, such as the average cost of resolving the open claims, is subject to numerous variables that are extremely difficult to predict. These variables include the type and severity of the disease alleged by each claimant, dismissal rates, future costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards.

Insurance provides reimbursements for most of the litigation defense and claim settlement costs incurred, and coverage-in-place agreements exist with the insurance carriers that provide substantially all of the coverage that is currently being accessed. The amounts not recoverable are generally due from insurers that are insolvent, rather than as a result of uninsured claims or the exhaustion of the insurance coverage. At September 30, 2002, the receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to \$196 million, including \$24 million related to costs previously incurred.

Ashland believes that insurance will cover the majority of the costs that will be incurred on open and future asbestos claims. Equitas Limited (Equitas) and other London companies currently provide about 59% of the insurance coverage, and this percentage could decline over time to around 44% if higher layers of coverage provided by other carriers have to be accessed. The remaining 41% of the coverage is currently provided by five companies, all of which are rated A or higher by A. M. Best Company. Depending upon the level of costs that are ultimately incurred, the non-London coverage could ultimately expand to about 25 insurance companies or groups. Companies or groups that provide about 90% of this coverage are also rated A or higher.

Ashland has not recognized a reserve for future asbestos claims that may be asserted. Although additional claim filings are expected, Ashland does not have sufficient information to make a reasonable estimate of the number of new claims that might be filed. Furthermore, any predictions about the other variables discussed previously are subject to even greater uncertainty as the projection period lengthens. Ashland has retained the services of professional advisors to assist management in the estimation of projected liabilities and probable insurance recoveries for future asbestos claims. Results of that effort are expected to be available during the quarter ending March 31, 2003.

Although coverage limits are resolved in the coverage-in-place agreement with Equitas and the other London companies, there is a disagreement with these companies over the timing of recoveries. Depending upon the assumptions made with respect to the projected payments to settle future claims, an unfavorable resolution of this disagreement could materially affect the present value of additional insurance recoveries from those companies. Until such time as this disagreement is resolved, Ashland will use the less favorable interpretation of this agreement in estimating such insurance recoveries.

ENVIRONMENTAL REMEDIATION

Ashland is subject to various federal, state and local environmental laws and regulations that require environmental assessment or remediation efforts (collectively environmental remediation) at multiple locations. At September 30, 2002, such locations included 97 waste treatment or disposal sites where Ashland has been identified as a potentially responsible party under Superfund or similar state laws, approximately 140 current and former operating facilities (including certain facilities conveyed to MAP) and about 1,220 service station properties. Ashland's reserves for environmental remediation amounted to \$169 million at September 30, 2002, and reflect its estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs, in determining the estimated reserves for environmental remediation.

Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Ashland regularly adjusts its reserves as environmental remediation continues.

None of the remediation locations is individually material to Ashland as

its largest reserve for any site is less than \$10 million. As a result, Ashland's exposure to adverse developments with respect to any individual site is not

expected to be material, and these sites are in various stages of ongoing remediation. Although environmental remediation could have a material effect on results of operations if a series of adverse developments occurs in a particular quarter or fiscal year, Ashland believes that the chance of such developments occurring in the same quarter or fiscal year is remote.

CONSTRUCTION CONTRACTS

Income related to construction contracts is generally recognized by the units-of-production method, which is a variation of the percentage-of-completion method. Construction jobs by their very nature are subject to numerous risks that could create variances from expectations. Such risks include changes in raw material and other costs, adverse weather conditions and the performance of subcontractors and other entities. Income is only known for certain after a job is completed, and the extent of completion can be difficult to assess in certain circumstances.

The extent of completion for each production phase is determined by reference to material quantities, labor hours, subcontract costs or other factors that are believed to be most indicative of the progress made under each phase of a project. Revenues earned are computed by reference to the extent of completion and either the contract or detailed analyses of revenues and expenses by production phase that supported the related construction contract or bid proposal. These detailed analyses also serve as early indicators as to whether a construction contract may ultimately be completed at a loss. Any anticipated losses on such contracts are charged against operations as soon as such losses are determined to be probable and estimable.

Assumptions concerning the extent of completion can have a significant affect on the income recognized on an individual construction project in any period. However, the effects of individual assumptions on APAC's reported results are mitigated to a large extent by the significant number of jobs in various stages of completion at any point in time.

DERIVATIVE INSTRUMENTS

Ashland selectively uses unleveraged interest rate swap agreements to obtain greater access to the lower borrowing costs normally available on floating-rate debt, while minimizing refunding risk through the issuance of long-term, fixed-rate debt. Ashland's intent is to maintain its floating-rate exposure between 25% and 45% of total interest-bearing obligations. At September 30, 2002, Ashland held interest rate swaps that effectively converted the interest rates on \$153 million of fixed-rate, medium-term notes to floating rates based upon three-month LIBOR. The swaps have been designated as fair value hedges, and since the critical terms of the debt instruments and the swaps match, the hedges are assumed to be perfectly effective, with the changes in fair value of the debt and swaps offsetting.

Ashland regularly uses commodity-based and foreign currency derivative instruments to manage its exposure to price fluctuations associated with the purchase and sale of natural gas in its energy services business and certain transactions denominated in foreign currencies. In addition, Ashland opportunistically enters into petroleum crackspread futures to economically hedge or enhance its equity earnings and cash distributions from MAP. Although certain of these instruments could be designated as qualifying for hedge accounting treatment, Ashland has not elected to do so. Therefore, the fair value of the derivatives is recorded on the balance sheet, with the offsetting gain or loss recognized in earnings during the period of change. The potential loss from a hypothetical 10% adverse change in commodity prices or foreign currency rates on Ashland's open commodity-based and foreign currency derivative instruments at September 30, 2002, would not significantly affect Ashland's consolidated financial position, results of operations, cash flows or liquidity.

MAP uses commodity-based futures, forwards, swaps and options to reduce the effects of price fluctuations on purchases and sales of crude oil, natural gas and refined products. MAP has not elected to designate these derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of these derivatives are recognized in earnings during the period of change, impacting Ashland's equity income from MAP accordingly.

OUTLOOK

Ashland's strategy has consistently been to strengthen its wholly owned businesses, maintain a strong financial position and manage its investment in MAP for growth in earnings and cash distributions. In October 2002, management announced the following eight-point plan to bring this strategy into sharper focus and improve Ashland's profitability.

- o Identify and divest assets that cannot achieve desired market strength as part of Ashland.
- o Increase revenues and profits, largely through organic means, by expanding in existing or adjacent product and geographic markets, primarily in APAC and Ashland Specialty Chemical.
- o Reduce debt over time to a target of 35% of capital employed from a current level of about 45%. In the near term, debt reduction will be emphasized over stock repurchases and growth investments.
- o Reduce general and administrative expenses by \$25 million a year.

- o Improve returns from Ashland Distribution or pursue strategic alternatives for this business.
- o Increase returns from APAC, achieving a 10% after-tax return on capital employed by fiscal 2004.
- o Capture value from the MAP investment through cash distributions.
- o Improve organizational effectiveness by using common processes across all of Ashland's businesses to improve operating efficiency.

In October, APAC announced a strategic reorganization of operations to become more competitive in each of its markets and more efficient. APAC's first priority is to complete this effort and finish implementing its ongoing business process redesign initiative. In addition, Ashland Distribution has completely redesigned the way it goes to market by restructuring its sales organization, consolidating its marketing into regional territories and changing its processes to become more efficient and customer service oriented.

At September 30, 2002, APAC's construction backlog amounted to \$1.7 billion, compared to \$1.6 billion at the end of 2001. Public sector work in the backlog increased 5% during the year from \$1.5 billion to \$1.6 billion, and the public funding outlook remains positive. Private contract work declined from \$149 million at the end of 2001 to \$136 million this year, reflecting the weaker economy.

Ashland's sales and operating revenues are normally subject to seasonal variations. Although APAC tends to enjoy a relatively long construction season, most of its operating income is generated during the construction period of May to October. In addition, MAP experiences demand increases for gasoline during the summer driving season, for propane and distillate during the winter heating season and for asphalt during the construction season. The following table compares operating income by quarter for the three years ended September 30, 2002 (amounts for each quarter do not necessarily total to results for the year due to rounding).

| (In millions) | 2002 | 2001 | 2000 |
|-----------------------------------|-------|-------|-------|
| ----- | | | |
| QUARTERLY OPERATING INCOME (LOSS) | | | |
| December 31 | \$ 98 | \$144 | \$111 |
| March 31 | (1) | 87 | 90 |
| June 30 | 137 | 369 | 268 |
| September 30 | 104 | 251 | 203 |
| | ===== | | |

EFFECTS OF INFLATION AND CHANGING PRICES

Ashland's financial statements are prepared on the historical cost method of accounting and, as a result, do not reflect changes in the purchasing power of the U.S. dollar. Although annual inflation rates have been low in recent years, Ashland's results are still affected by the cumulative inflationary trend from prior years.

In the capital-intensive industries in which Ashland operates, replacement costs for its properties would generally exceed their historical costs. Accordingly, depreciation, depletion and amortization expense would be greater if it were based on current replacement costs. However, since replacement facilities would reflect technological improvements and changes in business strategies, such facilities would be expected to be more productive than existing facilities, mitigating part of the increased expense.

Ashland uses the LIFO method to value a substantial portion of its inventories to provide a better matching of revenues with current costs. However, LIFO values such inventories below their replacement costs.

Monetary assets (such as cash, cash equivalents and accounts receivable) lose purchasing power as a result of inflation, while monetary liabilities (such as accounts payable and indebtedness) result in a gain, because they can be settled with dollars of diminished purchasing power. Ashland's monetary liabilities exceed its monetary assets, which results in net purchasing power gains and provides a hedge against the effects of future inflation.

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis (MD&A) 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 various information in the sections entitled Capital Resources, Application of Critical Accounting Policies, Derivative Instruments and Outlook. Estimates as to operating performance and earnings are based on a number of assumptions, including those mentioned in MD&A. Such estimates are also based upon internal forecasts and analyses of current and future market conditions and trends, management plans and strategies, weather, operating efficiencies and economic conditions, such as prices, supply and demand, and cost of raw materials. Although Ashland believes its expectations are based on reasonable assumptions, it cannot assure the expectations reflected in MD&A will be achieved. This forward-looking information may prove to be inaccurate and actual results may differ significantly from those anticipated if one or more of the underlying assumptions or expectations proves to be inaccurate or is unrealized, or if other unexpected conditions or events occur. Other factors and risks affecting Ashland are contained in Risks and Uncertainties in Note A to the Consolidated Financial Statements and in Ashland's Form 10-K for the fiscal year ended September 30, 2002. Ashland undertakes no obligation to subsequently update or revise these forward-looking statements.

Ashland Inc. and Consolidated Subsidiaries
 STATEMENTS OF CONSOLIDATED INCOME
 Years Ended September 30

| (In millions except per share data) | 2002 | 2001 | 2000 |
|--|---------|---------|---------|
| REVENUES | | | |
| Sales and operating revenues | \$7,543 | \$7,719 | \$7,961 |
| Equity income - Note D | 181 | 754 | 394 |
| Other income | 68 | 74 | 81 |
| | ----- | ----- | ----- |
| | 7,792 | 8,547 | 8,436 |
| COSTS AND EXPENSES | | | |
| Cost of sales and operating expenses | 6,049 | 6,319 | 6,434 |
| Selling, general and administrative expenses | 1,185 | 1,127 | 1,094 |
| Depreciation, depletion and amortization | 220 | 250 | 237 |
| | ----- | ----- | ----- |
| | 7,454 | 7,696 | 7,765 |
| OPERATING INCOME | | | |
| | 338 | 851 | 671 |
| Net interest and other financial costs - Note E | (138) | (175) | (194) |
| | ----- | ----- | ----- |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 200 | 676 | 477 |
| Income taxes - Note J | (71) | (273) | (189) |
| | ----- | ----- | ----- |
| INCOME FROM CONTINUING OPERATIONS | 129 | 403 | 288 |
| Results from discontinued operations (net of income taxes) - Note N | - | 19 | (218) |
| | ----- | ----- | ----- |
| INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES | 129 | 422 | 70 |
| Cumulative effect of accounting changes (net of income taxes) - Note A | (12) | (5) | - |
| | ----- | ----- | ----- |
| NET INCOME | \$ 117 | \$ 417 | \$ 70 |
| | ===== | ===== | ===== |
| EARNINGS PER SHARE - NOTE A | | | |
| Basic | | | |
| Income from continuing operations | \$ 1.86 | \$ 5.79 | \$ 4.06 |
| Results from discontinued operations | - | .27 | (3.07) |
| Cumulative effect of accounting changes | (.17) | (.07) | - |
| | ----- | ----- | ----- |
| Net income | \$ 1.69 | \$ 5.99 | \$.99 |
| | ===== | ===== | ===== |
| Diluted | | | |
| Income from continuing operations | \$ 1.83 | \$ 5.73 | \$ 4.05 |
| Results from discontinued operations | - | .26 | (3.07) |
| Cumulative effect of accounting changes | (.16) | (.06) | - |
| | ----- | ----- | ----- |
| Net income | \$ 1.67 | \$ 5.93 | \$.98 |
| | ===== | ===== | ===== |

See Notes to Consolidated Financial Statements.

Ashland Inc. and Consolidated Subsidiaries
CONSOLIDATED BALANCE SHEETS
September 30

| (In millions) | 2002 | 2001 |
|---|---------|---------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 90 | \$ 236 |
| Accounts receivable (less allowances for doubtful accounts of \$35 million in 2002 and \$34 million in 2001) | 1,089 | 1,201 |
| Inventories - Note A | 485 | 495 |
| Deferred income taxes - Note J | 122 | 134 |
| Other current assets | 139 | 171 |
| | ----- | ----- |
| | 1,925 | 2,237 |
| INVESTMENTS AND OTHER ASSETS | | |
| Investment in Marathon Ashland Petroleum LLC (MAP) - Note D | 2,350 | 2,387 |
| Goodwill | 521 | 528 |
| Other noncurrent assets | 512 | 539 |
| | ----- | ----- |
| | 3,383 | 3,454 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Cost | | |
| APAC | 1,358 | 1,290 |
| Ashland Distribution | 360 | 359 |
| Ashland Specialty Chemical | 906 | 887 |
| Valvoline | 379 | 374 |
| Corporate | 115 | 120 |
| | ----- | ----- |
| | 3,118 | 3,030 |
| Accumulated depreciation, depletion and amortization | (1,701) | (1,590) |
| | ----- | ----- |
| | 1,417 | 1,440 |
| | ----- | ----- |
| | \$6,725 | \$7,131 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Debt due within one year | | |
| Commercial paper | \$ 10 | \$ - |
| Current portion of long-term debt | 191 | 85 |
| Trade and other payables | 1,285 | 1,429 |
| Income taxes | 25 | 20 |
| | ----- | ----- |
| | 1,511 | 1,534 |
| NONCURRENT LIABILITIES | | |
| Long-term debt (less current portion) - Note E | 1,606 | 1,786 |
| Employee benefit obligations - Note O | 509 | 412 |
| Deferred income taxes - Note J | 256 | 448 |
| Reserves of captive insurance companies | 166 | 173 |
| Other long-term liabilities and deferred credits | 504 | 552 |
| Commitments and contingencies - Notes F and M | | |
| | ----- | ----- |
| | 3,041 | 3,371 |
| STOCKHOLDERS' EQUITY - NOTES E, K AND L | | |
| Preferred stock, no par value, 30 million shares authorized | - | - |
| Common stock, par value \$1.00 per share, 300 million shares authorized | | |
| Issued - 68 million shares in 2002 and 69 million shares in 2001 | 68 | 69 |
| Paid-in capital | 338 | 363 |
| Retained earnings | 1,961 | 1,920 |
| Accumulated other comprehensive loss | (194) | (126) |
| | ----- | ----- |
| | 2,173 | 2,226 |
| | ----- | ----- |
| | \$6,725 | \$7,131 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements.

Ashland Inc. and Consolidated Subsidiaries
 STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

| (In millions) | Common stock | Paid-in capital | Retained earnings | Accumulated other comprehensive loss | Total |
|---|--------------|-----------------|-------------------|--------------------------------------|---------|
| BALANCE AT OCTOBER 1, 1999 | \$ 72 | \$464 | \$1,710 | \$ (46) | \$2,200 |
| Total comprehensive income(1) | | | 70 | (26) | 44 |
| Dividends | | | | | |
| Cash, \$1.10 per common share | | | (78) | | (78) |
| Spin-off of Arch Coal shares | | | (123) | | (123) |
| Issued common stock under | | | | | |
| Stock incentive plans | | 8 | | | 8 |
| Acquisitions of other companies | | 3 | | | 3 |
| Repurchase of common stock | (2) | (87) | | | (89) |
| ----- | | | | | |
| BALANCE AT SEPTEMBER 30, 2000 | 70 | 388 | 1,579 | (72) | 1,965 |
| Total comprehensive income(1) | | | 417 | (54) | 363 |
| Cash dividends, \$1.10 per common share | | | (76) | | (76) |
| Issued common stock under | | | | | |
| stock incentive plans | 1 | 22 | | | 23 |
| Repurchase of common stock | (2) | (47) | | | (49) |
| ----- | | | | | |
| BALANCE AT SEPTEMBER 30, 2001 | 69 | 363 | 1,920 | (126) | 2,226 |
| Total comprehensive income(1) | | | 117 | (68) | 49 |
| Cash dividends, \$1.10 per common share | | | (76) | | (76) |
| Issued common stock under | | | | | |
| stock incentive plans | | 16 | | | 16 |
| Repurchase of common stock | (1) | (41) | | | (42) |
| ----- | | | | | |
| BALANCE AT SEPTEMBER 30, 2002 | \$ 68 | \$338 | \$1,961 | \$(194) | \$2,173 |
| ===== | | | | | |

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

| (In millions) | 2002 | 2001 | 2000 |
|---------------------------------------|--------|-------|------|
| Net income | \$ 117 | \$417 | \$70 |
| Minimum pension liability adjustment | (144) | (57) | 2 |
| Related tax benefit (expense) | 56 | 22 | (1) |
| Unrealized translation gains (losses) | 19 | (21) | (37) |
| Related tax benefit | 1 | 2 | 10 |
| ----- | | | |
| Total comprehensive income | \$ 49 | \$363 | \$44 |
| ===== | | | |

At September 30, 2002, the accumulated other comprehensive loss of \$194 million (after tax) was comprised of net unrealized translation losses of \$63 million and a minimum pension liability of \$131 million.

See Notes to Consolidated Financial Statements.

Ashland Inc. and Consolidated Subsidiaries
 STATEMENTS OF CONSOLIDATED CASH FLOWS
 Years Ended September 30

| (In millions) | 2002 | 2001 | 2000 |
|---|---------|-------|--------|
| CASH FLOWS FROM OPERATIONS | | | |
| Income from continuing operations | \$ 129 | \$403 | \$288 |
| Expense (income) not affecting cash | | | |
| Depreciation, depletion and amortization | 220 | 250 | 237 |
| Deferred income taxes | (119) | 152 | 111 |
| Equity income from affiliates | (181) | (754) | (394) |
| Distributions from equity affiliates | 201 | 664 | 282 |
| Other items | - | 5 | (19) |
| Change in operating assets and liabilities(1) | (62) | 109 | (21) |
| | ----- | ----- | ----- |
| | 188 | 829 | 484 |
| CASH FLOWS FROM FINANCING | | | |
| Proceeds from issuance of long-term debt | 55 | 52 | 988 |
| Proceeds from issuance of common stock | 11 | 15 | 5 |
| Repayment of long-term debt | (140) | (169) | (675) |
| Repurchase of common stock | (42) | (49) | (89) |
| Increase (decrease) in short-term debt | 10 | (245) | 63 |
| Dividends paid | (76) | (76) | (78) |
| | ----- | ----- | ----- |
| | (182) | (472) | 214 |
| CASH FLOWS FROM INVESTMENT | | | |
| Additions to property, plant and equipment | (185) | (205) | (232) |
| Purchase of operations - net of cash acquired | (15) | (91) | (590) |
| Proceeds from sale of operations | - | 9 | 50 |
| Other - net | 26 | 13 | 71 |
| | ----- | ----- | ----- |
| | (174) | (274) | (701) |
| CASH PROVIDED (USED) BY CONTINUING OPERATIONS | | | |
| | (168) | 83 | (3) |
| Cash provided (used) by discontinued operations | 22 | 86 | (40) |
| | ----- | ----- | ----- |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (146) | 169 | (43) |
| Cash and cash equivalents - beginning of year | 236 | 67 | 110 |
| | ----- | ----- | ----- |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 90 | \$236 | \$ 67 |
| | ===== | ===== | ===== |
| DECREASE (INCREASE) IN OPERATING ASSETS(1) | | | |
| Accounts receivable | \$ 112 | \$ 70 | \$ 67 |
| Inventories | 11 | 5 | - |
| Deferred income taxes | 18 | - | (28) |
| Other current assets | 31 | 29 | (27) |
| Investments and other assets | 33 | (170) | (92) |
| INCREASE (DECREASE) IN OPERATING LIABILITIES(1) | | | |
| Trade and other payables | (133) | 67 | 112 |
| Income taxes | (17) | 2 | (13) |
| Noncurrent liabilities | (117) | 106 | (40) |
| | ----- | ----- | ----- |
| CHANGE IN OPERATING ASSETS AND LIABILITIES | \$ (62) | \$109 | \$(21) |
| | ===== | ===== | ===== |

(1) Excludes changes resulting from operations acquired or sold.

See Notes to Consolidated Financial Statements.

Ashland Inc. and Consolidated Subsidiaries
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Ashland and its majority owned subsidiaries. Investments in joint ventures and 20% to 50% owned affiliates are accounted for on the equity method.

RISKS AND UNCERTAINTIES

The preparation of Ashland's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Significant items that are subject to such estimates and assumptions include long-lived assets, employee benefit obligations, reserves for asbestos litigation and environmental remediation, and income recognized under construction contracts. Although management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, actual results could differ significantly from the estimates under different assumptions or conditions.

Ashland's results, including those of Marathon Ashland Petroleum LLC (MAP), are affected by domestic and international economic, political, legislative, regulatory and legal actions, as well as weather conditions. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, and changes in the prices of crude oil, petroleum products and petrochemicals, can have a significant effect on operations. Political actions may include changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries, including military conflict, embargoes, internal instability or actions or reactions of the U.S. government in anticipation of, or in response to, such actions. While Ashland maintains reserves for anticipated liabilities and carries various levels of insurance, Ashland could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings relating to asbestos, environmental remediation or other matters. In addition, climate and weather can significantly affect Ashland's results from several of its operations, such as APAC's construction activities and MAP's refined product sales.

INVENTORIES

| (In millions) | 2002 | 2001 |
|---|--------------|--------------|
| Chemicals and plastics | \$367 | \$374 |
| Construction materials | 68 | 74 |
| Petroleum products | 58 | 54 |
| Other products | 51 | 57 |
| Supplies | 6 | 6 |
| Excess of replacement costs over LIFO carrying values | (65) | (70) |
| | <u>\$485</u> | <u>\$495</u> |

Chemicals, plastics, petroleum products and supplies with a replacement cost of \$321 million at September 30, 2002, and \$330 million at September 30, 2001, are valued using the last-in, first-out (LIFO) method. The remaining inventories are stated generally at the lower of cost (using the first-in, first-out [FIFO] or average cost method) or market.

LONG-LIVED ASSETS, GOODWILL AND OTHER INTANGIBLE ASSETS

The cost of plant and equipment is depreciated by the straight-line method over the estimated useful lives of the assets. Such costs are periodically reviewed for recoverability when impairment indicators are present. Such indicators include, among other factors, operating losses, unused capacity, market value declines and technological obsolescence. Recorded values of plant and equipment that are not expected to be recovered through undiscounted future net cash flows are written down to current fair value, which is generally determined from estimated discounted future net cash flows (assets held for use) or net realizable value (assets held for sale).

As of October 1, 2001, Ashland adopted Financial Accounting Standards Board Statement No. 142 (FAS 142), "Goodwill and Other Intangible Assets." Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are subject to annual impairment tests. Prior to the adoption of FAS 142, Ashland's goodwill was amortized by the straight-line method over periods generally ranging from 15 to 40 years, and goodwill amortization amounted to \$42 million in 2001 and \$29 million in 2000. The amount for 2001 included charges of \$10 million for write-downs related to certain operations. Results from these operations consistently had been well below the levels that were expected when they were acquired, necessitating the impairment review and resulting write-downs.

When MAP was formed, Ashland's investment exceeded its underlying equity in

the net assets of that company. That excess investment included \$245 million that was accounted for as part of the carrying value of MAP's plant and equipment, and is being amortized on a straight-line basis over 15 years at a rate of \$16 million a year. The remainder was accounted for as goodwill and was being amortized on a straight-line basis over 20 years at a rate of \$10 million

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a year prior to the adoption of FAS 142. At September 30, 2002, Ashland's investment exceeds its equity in the net assets of MAP by \$323 million, of which \$167 million represents plant and equipment that will continue to be amortized, and \$156 million represents goodwill.

As a result of the adoption of FAS 142, it was determined that the goodwill of Ashland Distribution was impaired. Accordingly, an impairment loss of \$14 million (\$12 million net of income taxes) was recorded as a cumulative effect of accounting change as of October 1, 2001. Due to the nonamortization of goodwill, Ashland's reported results for 2002 are not comparable with previous years. The following table presents pro forma information assuming that Ashland adopted FAS 142 as of October 1, 1999.

| (In millions) | 2002 | 2001 | 2000 |
|-----------------------------------|--------|--------|--------|
| Income from continuing operations | \$ 129 | \$ 448 | \$ 320 |
| Earnings per share | | | |
| Basic | 1.86 | 6.44 | 4.52 |
| Diluted | 1.83 | 6.37 | 4.51 |

All of Ashland's intangible assets are subject to amortization. These intangible assets (included in other noncurrent assets) and the related amortization expense are not material to Ashland's consolidated financial position or results of operations.

Following is a progression of goodwill by segment for the year ended September 30, 2002.

| (In millions) | APAC | Ashland Distribution | Ashland Specialty Chemical | Valvoline | Total |
|----------------------------------|-------|-------------------------|----------------------------------|-----------|-------|
| Balance at October 1, 2001 | \$419 | \$14 | \$92 | \$3 | \$528 |
| Goodwill acquired | 1 | - | 1 | 2 | 4 |
| Impairment losses | - | (14) | - | - | (14) |
| Currency translation adjustments | - | - | 3 | - | 3 |
| Balance at September 30, 2002 | \$420 | \$ - | \$96 | \$5 | \$521 |

ENVIRONMENTAL COSTS

Accruals for environmental costs are recognized when it is probable that a liability has been incurred and the amount of that liability can be reasonably estimated. Such costs are charged to expense if they relate to the remediation of conditions caused by past operations or are not expected to mitigate or prevent contamination from future operations. Accruals are recorded at undiscounted amounts based on experience, assessments and current technology, without regard to any third-party recoveries and are regularly adjusted as environmental assessments and remediation efforts continue.

EARNINGS PER SHARE

Following is the computation of basic and diluted earnings per share (EPS) from continuing operations.

| (In millions except per share data) | 2002 | 2001 | 2000 |
|--|--------|--------|--------|
| NUMERATOR | | | |
| Numerator for basic and diluted EPS - Income from continuing operations | \$ 129 | \$ 403 | \$ 288 |
| DENOMINATOR | | | |
| Denominator for basic EPS - Weighted average common shares outstanding | 69 | 69 | 71 |
| Common shares issuable upon exercise of stock options | 1 | 1 | - |
| Denominator for diluted EPS - Adjusted weighted average shares and assumed conversions | 70 | 70 | 71 |
| BASIC EPS FROM CONTINUING OPERATIONS | \$1.86 | \$5.79 | \$4.06 |
| DILUTED EPS FROM CONTINUING OPERATIONS | \$1.83 | \$5.73 | \$4.05 |

STOCK INCENTIVE PLANS

Ashland accounts for its stock options using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations. The disclosure requirements of Financial Accounting Standards Board Statement No. 123 (FAS 123), "Accounting for Stock-Based Compensation," are included in Note L. Ashland will start expensing stock options under FAS 123 effective October 1, 2002.

DERIVATIVE INSTRUMENTS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities." FAS 133 was amended by two other statements and was required to be adopted in years beginning after June 15, 2000. Because of Ashland's minimal use of derivatives, FAS 133 did not have a significant effect on Ashland's consolidated financial position or results of operations when it was adopted on October 1, 2000. MAP's adoption of FAS 133 on January 1, 2001, resulted in a \$20 million pretax loss from the cumulative effect of this accounting change. Ashland's share of the pretax loss amounted to \$8 million which, net of income tax benefits of \$3 million, resulted in a loss of \$5 million from the cumulative effect of this accounting change.

Ashland selectively uses unleveraged interest rate swap agreements to obtain greater access to the lower borrowing costs normally available on floating-rate debt, while minimizing refunding risk through the issuance of long-term, fixed-rate debt. Ashland's intent is to maintain its floating-rate exposure between 25% and 45% of total interest-bearing obligations. At September 30, 2002, Ashland held interest rate swaps that effectively converted the interest rates on \$153 million of fixed-rate, medium-term notes to floating rates based upon three-month LIBOR. The swaps have been designated as fair value hedges, and since the critical terms of the debt instruments and the swaps match, the hedges are assumed to be perfectly effective, with the changes in fair value of the debt and swaps offsetting.

Ashland regularly uses commodity-based and foreign currency derivative instruments to manage its exposure to price fluctuations associated with the purchase and sale of natural gas in its energy services business and certain transactions denominated in foreign currencies. In addition, Ashland opportunistically enters into petroleum crackspread futures to economically hedge or enhance its equity earnings and cash distributions from MAP. Although certain of these instruments could be designated as qualifying for hedge accounting treatment, Ashland has not elected to do so. Therefore, the fair value of the derivatives is recorded on the balance sheet, with the offsetting gain or loss recognized in earnings during the period of change.

MAP uses commodity-based futures, forwards, swaps and options to reduce the effects of price fluctuations on purchases and sales of crude oil, natural gas and refined products. MAP has not elected to designate these derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of these derivatives are recognized in earnings during the period of change, impacting Ashland's equity income from MAP accordingly.

OTHER

Cash equivalents include highly liquid investments maturing within three months after purchase.

Income related to construction contracts is generally recognized by the units-of-production method, which is a variation of the percentage-of-completion method. Any anticipated losses on such contracts are charged against operations as soon as such losses are determined to be probable and estimable.

Advertising costs (\$79 million in 2002, \$67 million in 2001 and \$67 million in 2000) and research and development costs (\$38 million in 2002, \$36 million in 2001 and \$33 million in 2000) are expensed as incurred.

In April 2002, the Financial Accounting Standards Board issued Statement No. 145 (FAS 145), under which gains and losses on early retirement of debt are generally no longer shown as extraordinary items in the income statement. Ashland adopted the statement as of October 1, 2001, the beginning of its fiscal year. As a result of the reclassification of losses on early retirement of debt to interest and other financial costs, income from continuing operations was reduced by \$3 million (\$.04 per share) in 2001 and \$4 million (\$.05 per share) in 2000.

Certain prior year amounts have been reclassified in the consolidated financial statements and accompanying notes to conform to 2002 classifications.

NOTE B - INFORMATION BY INDUSTRY SEGMENT

Ashland's operations are conducted primarily in the United States and are managed along industry segments, which include APAC, Ashland Distribution, Ashland Specialty Chemical, Valvoline, and Refining and Marketing. Information by industry segment is shown on pages 60 and 61.

The APAC group of companies performs contract construction work, such as paving, repairing and resurfacing highways, streets, airports, residential and commercial developments, sidewalks, and driveways; grading and base work; and excavation and related activities in the construction of bridges and structures, drainage facilities and underground utilities in 14 southern and midwestern states. APAC also produces and sells construction materials, such as hot-mix asphalt, crushed stone and other aggregate, and ready-mix concrete.

Ashland Distribution distributes chemicals, plastics, fiber reinforcements and fine ingredients in North America and plastics in Europe, and provides environmental and energy management services.

Ashland Specialty Chemical manufactures composites, adhesives, and casting binder chemicals for use in the transportation and construction industries. Ashland Specialty Chemical also manufactures water treatment chemicals for use in the general industrial and merchant marine markets. In addition, the company manufactures high purity chemicals and provides services to the microelectronics industry.

Valvoline is a marketer of premium-branded automotive and commercial oils, automotive chemicals, appearance products and automotive services, with sales in more than 140 countries. Valvoline is engaged in the "fast oil change" business through owned and franchised service centers operating under the Valvoline Instant Oil Change name.

The Refining and Marketing segment includes Ashland's 38% ownership interest in Marathon Ashland Petroleum LLC (MAP) and other activities associated with refining and marketing. MAP was formed January 1, 1998, combining the major elements of the refining, marketing and transportation operations of Ashland and Marathon Oil Company. MAP has seven refineries with a combined crude oil refining capacity of 935,000 barrels per calendar day, 88 light products and asphalt terminals in the Midwest and Southeast United States, about 5,900 retail marketing outlets in 17 states and significant pipeline holdings. Ashland accounts for its investment in MAP using the equity method.

Information about Ashland's domestic and foreign operations follows. Ashland has no material operations in any individual foreign country.

| (In millions) | Revenues from external customers | | | Property, plant and equipment | |
|---------------|-------------------------------------|----------------|----------------|----------------------------------|----------------|
| | 2002 | 2001 | 2000 | 2002 | 2001 |
| United States | \$6,766 | \$7,526 | \$7,344 | \$1,275 | \$1,299 |
| Foreign | 1,026 | 1,021 | 1,092 | 142 | 141 |
| | <u>\$7,792</u> | <u>\$8,547</u> | <u>\$8,436</u> | <u>\$1,417</u> | <u>\$1,440</u> |

NOTE C - RELATED PARTY TRANSACTIONS

Ashland sells chemicals and lubricants to Marathon Ashland Petroleum LLC (MAP) and purchases petroleum products from MAP. Such transactions are in the ordinary course of business at negotiated prices comparable to those of transactions with other customers and suppliers. In addition, Ashland leases certain facilities to MAP, and provides certain information technology and administrative services to MAP. For the year ended September 30, 2002, Ashland's sales to MAP amounted to \$24 million, its purchases from MAP amounted to \$217 million, and its costs charged to MAP amounted to \$6 million. Comparable amounts for the year ended September 30, 2001, were \$22 million, \$258 million, and \$6 million, and for the year ended September 30, 2000, were \$15 million, \$261 million, and \$8 million. Ashland's transactions with other affiliates and related parties were not significant.

Ashland has entered into revolving credit agreements providing for short-term loans, at Ashland's discretion, to and from MAP at competitive rates. Under MAP's borrowing agreement, Ashland may loan up to \$190 million to MAP. Under Ashland's borrowing agreement, MAP could invest up to 38% of its surplus cash balances with Ashland. No loans were outstanding under either agreement at September 30, 2002, and 2001. Under these agreements, Ashland paid interest expense to MAP of \$4 million in 2001 and \$5 million in 2000. Interest expense paid to MAP in 2002 and interest income received from MAP in all three years was not significant.

Ashland has guaranteed 38% of MAP's payments for certain crude oil purchases, up to a maximum guarantee of \$86 million. At September 30, 2002, Ashland's contingent liability under this guarantee amounted to \$72 million. Ashland has not made and does not expect to make any payments under this guarantee.

NOTE D - UNCONSOLIDATED AFFILIATES

Affiliated companies accounted for on the equity method include Marathon Ashland Petroleum LLC (MAP) and various other companies. See Note B for a description of MAP. Summarized financial information reported by these affiliates and a summary of the amounts recorded in Ashland's consolidated financial statements follow. MAP is organized as a limited liability company 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 that will be incurred by its parents. At September 30, 2002, Ashland's retained earnings included \$157 million of undistributed earnings from unconsolidated affiliates accounted for on the equity method.

| (In millions) | MAP | Other affiliates | Total |
|------------------------------|----------|---------------------|---------|
| <hr/> | | | |
| SEPTEMBER 30, 2002 | | | |
| Financial position | | | |
| Current assets | \$ 3,425 | \$165 | |
| Current liabilities | (2,200) | (85) | |
| | <hr/> | | |
| Working capital | 1,225 | 80 | |
| Noncurrent assets | 4,572 | 125 | |
| Noncurrent liabilities | (461) | (106) | |
| | <hr/> | | |
| Stockholders' equity | \$ 5,336 | \$ 99 | |
| | <hr/> | | |
| Results of operations | | | |
| Sales and operating revenues | \$25,063 | \$262 | |
| Income from operations | 511 | 23 | |
| Net income | 502 | 15 | |
| Amounts recorded by Ashland | | | |
| Investments and advances | 2,350(1) | 48 | \$2,398 |
| Equity income | 176 | 5 | 181 |
| Distributions received | 196 | 5 | 201 |
| | <hr/> | | |
| SEPTEMBER 30, 2001 | | | |
| Financial position | | | |
| Current assets | \$ 3,485 | \$ 80 | |
| Current liabilities | (2,214) | (55) | |
| | <hr/> | | |
| Working capital | 1,271 | 25 | |
| Noncurrent assets | 4,431 | 77 | |
| Noncurrent liabilities | (364) | (15) | |
| | <hr/> | | |
| Stockholders' equity | \$ 5,338 | \$ 87 | |
| | <hr/> | | |
| Results of operations | | | |
| Sales and operating revenues | \$28,865 | \$207 | |
| Income from operations | 2,042 | 21 | |
| Net income | 2,022 | 12 | |
| Amounts recorded by Ashland | | | |
| Investments and advances | 2,387 | 45 | \$2,432 |
| Equity income | 749 | 5 | 754 |
| Distributions received | 658 | 6 | 664 |
| | <hr/> | | |
| SEPTEMBER 30, 2000 | | | |
| Results of operations | | | |
| Sales and operating revenues | \$27,657 | \$181 | |
| Income from operations | 1,084 | 21 | |
| Net income | 1,092 | 13 | |
| Amounts recorded by Ashland | | | |
| Equity income | 389 | 5 | \$ 394 |
| Distributions received | 279 | 3 | 282 |
| | <hr/> | | |

(1) At September 30, 2002, Ashland's investment exceeds its equity in the net assets of MAP by \$323 million, of which \$167 million represents plant and equipment that will continue to be amortized, and \$156 million represents goodwill. Straight-line amortization of this excess investment against equity income amounted to \$16 million in 2002 and \$26 million in 2001 and 2000 (see Note A).

NOTE E - DEBT

| (In millions) | 2002 | 2001 |
|---|---------|---------|
| Medium-term notes, due 2003-2025, interest at a weighted average rate of 7.3% at September 30, 2002 (2.4% to 10.4%) | \$ 765 | \$ 845 |
| 8.80% debentures, due 2012 | 250 | 250 |
| 7.83% medium-term notes, Series J, due 2005 | 229 | 229 |
| Pollution control and industrial revenue bonds, due 2003-2022, interest at a weighted average rate of 5.7% at September 30, 2002 (1.6% to 7.2%) | 201 | 201 |
| 6.86% medium-term notes, Series H, due 2009 | 150 | 150 |
| 6.625% senior notes, due 2008 | 150 | 150 |
| Other | 52 | 46 |
| Total long-term debt | 1,797 | 1,871 |
| Current portion of long-term debt | (191) | (85) |
| Long-term debt (less current portion) | \$1,606 | \$1,786 |

Aggregate maturities of long-term debt are \$191 million in 2003, \$68 million in 2004, \$396 million in 2005, \$60 million in 2006 and \$125 million in 2007. Interest payments on all indebtedness amounted to \$138 million in 2002, \$167 million in 2001 and \$189 million in 2000. The weighted average interest rate on short-term borrowings outstanding was 1.9% at September 30, 2002. No short-term borrowings were outstanding at September 30, 2001.

Ashland has two revolving credit agreements providing for up to \$425 million in borrowings, neither of which has been used. The agreement providing for \$250 million in borrowings expires on June 2, 2004. The agreement providing for \$175 million in borrowings expires on June 6, 2003. Both agreements contain a covenant limiting new borrowings based on Ashland's stockholders equity. However, these agreements would have permitted an additional \$1.4 billion of borrowings at September 30, 2002. Additional permissible borrowings are increased (decreased) by 150% of any increase (decrease) in stockholders' equity.

NET INTEREST AND OTHER FINANCIAL COSTS

| (In millions) | 2002 | 2001 | 2000 |
|---|-------|-------|-------|
| Interest expense | \$135 | \$162 | \$191 |
| Expenses on sales of accounts receivable (see Note G) | 4 | 8 | 6 |
| Loss on early retirement of debt | - | 5 | 6 |
| Other financial costs | 3 | 2 | 1 |
| Interest income | (4) | (2) | (10) |
| | \$138 | \$175 | \$194 |

NOTE F - LEASES

Ashland and its subsidiaries are lessees of office buildings, retail outlets, transportation and off-road construction equipment, warehouses and storage facilities, and other equipment, facilities and properties under leasing agreements that expire at various dates. Under various operating leases, Ashland has guaranteed the residual value of the underlying leased property. If Ashland had cancelled those leases as of September 30, 2002, its maximum obligations under the related residual value guarantees would have amounted to \$137 million. Ashland does not expect to incur any significant charge to earnings under these guarantees, \$74 million of which relates to real estate. These lease agreements are with unrelated third party lessors and Ashland has no additional contractual or other commitments to any parties to the leases. Capitalized lease obligations are not significant and are included in long-term debt. Future minimum rental payments at September 30, 2002, and rental expense under operating leases follow.

| (In millions) | (In millions) | 2002 | 2001 | 2000 |
|--------------------------------|----------------|--------------------------|-------|-------|
| Future minimum rental payments | Rental expense | | | |
| 2003 | \$ 47 | | | |
| 2004 | 40 | | | |
| 2005 | 33 | | | |
| 2006 | 25 | | | |
| 2007 | 22 | | | |
| Later years | 95 | | | |
| | \$262 | | | |
| | | Minimum rentals | | |
| | | (including rentals under | | |
| | | short-term leases) | \$106 | \$119 |
| | | Contingent rentals | 3 | 5 |
| | | Sublease rental income | (2) | (2) |
| | | | \$107 | \$118 |

NOTE G - SALE OF ACCOUNTS RECEIVABLE

On March 15, 2000, Ashland entered into a five-year agreement to sell, on an ongoing basis with limited recourse, up to a \$200 million undivided interest in a designated pool of accounts receivable. Under the terms of the agreement, new receivables are added to the pool and collections reduce the pool. Since inception, interests totaling \$150 million have been sold on a continuous basis. Ashland retains a credit interest in these receivables and addresses its risk of loss on this retained interest in its allowance for doubtful accounts. Receivables sold exclude defaulted accounts (as defined) or concentrations over certain limits with any one customer. The proceeds from the initial sale were reflected as a reduction of accounts receivable on Ashland's balance sheet and as cash flows from operations (included in change in operating assets and liabilities) on Ashland's cash flow statement. The costs of these sales are based on the buyer's short-term borrowing rates and approximated 2.2% at September 30, 2002, and 3.5% at September 30, 2001.

NOTE H - FINANCIAL INSTRUMENTS

DERIVATIVE INSTRUMENTS

Ashland uses interest rate swaps and commodity-based and foreign currency derivative instruments as described in Note A. Open contracts other than interest rate swaps were not significant at September 30, 2002, and 2001.

FAIR VALUES

The carrying amounts and fair values of Ashland's significant financial instruments at September 30, 2002, and 2001, are shown below. The fair values of cash and cash equivalents, investments of captive insurance companies and commercial paper approximate their carrying amounts. The fair values of long-term debt are based on quoted market prices or, if market prices are not available, the present values of the underlying cash flows discounted at Ashland's incremental borrowing rates. The fair values of interest rate swaps are based on quoted market prices.

| (In millions) | 2002 | | 2001 | |
|---|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| ----- | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 90 | \$ 90 | \$ 236 | \$ 236 |
| Interest rate swaps | 11 | 11 | 3 | 3 |
| Investments of captive insurance companies(1) | 3 | 3 | 20 | 20 |
| Liabilities | | | | |
| Commercial paper | 10 | 10 | - | - |
| Long-term debt (including current portion) | 1,797 | 1,958 | 1,871 | 2,023 |
| | ===== | | | |

(1) Included in other noncurrent assets in the Consolidated Balance Sheets.

NOTE I - ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

In October 1999, Ashland completed its tender offer for Superfos a/s, a Denmark based industrial company. In November 1999, in a series of transactions, Ashland sold the businesses of Superfos, other than its U.S. construction operations, to a unit of Industri Kapital, a European private equity fund. Ashland's net cost for the U.S. construction business of Superfos was approximately \$533 million, of which \$315 million was assigned to goodwill and was being amortized on a straight-line basis over a 20-year period through September 30, 2001. In addition, several smaller acquisitions were made by APAC and Ashland Specialty Chemical in 2000, two of which included the issuance of \$3 million in Ashland common stock.

During 2001, Ashland Specialty Chemical acquired Neste Polyester's unsaturated polyester resins and gelcoats business and assets from Dynea Oy. Several smaller acquisitions were also completed by APAC and Ashland Specialty Chemical in 2001. During 2002, several small acquisitions were made by APAC, Ashland Specialty Chemical and Valvoline. These acquisitions were accounted for as purchases and did not have a significant effect on Ashland's consolidated financial statements.

DIVESTITURES

During 2001, APAC sold certain grading and utilities construction operations. During 2000, APAC sold certain concrete and block plants and Ashland Distribution sold its plastics compounding business in Italy. None of these divestitures had a significant effect on Ashland's consolidated financial statements.

NOTE J - INCOME TAXES

A summary of the provision for income taxes related to continuing operations follows.

| (In millions) | 2002 | 2001 | 2000 |
|---------------|-------|-------|-------|
| Current(1) | | | |
| Federal | \$151 | \$ 89 | \$ 55 |
| State | 22 | 13 | 6 |
| Foreign | 17 | 19 | 17 |
| | ----- | ----- | ----- |
| | 190 | 121 | 78 |
| Deferred | (119) | 152 | 111 |
| | ----- | ----- | ----- |
| | \$ 71 | \$273 | \$189 |
| | ===== | ===== | ===== |

(1) Income tax payments amounted to \$158 million in 2002, \$103 million in 2001 and \$114 million in 2000.

Deferred income taxes are provided for income and expense items recognized in different years for tax and financial reporting purposes. Ashland has not recorded deferred income taxes on the undistributed earnings of certain foreign subsidiaries and 50% owned foreign corporate joint ventures. Management intends to indefinitely reinvest such earnings, which amounted to \$96 million at September 30, 2002. Because of significant foreign tax credits, it is not practicable to determine the U.S. federal income tax liability, if any, that might be incurred if those earnings were distributed. Temporary differences that give rise to significant deferred tax assets and liabilities follow.

| (In millions) | 2002 | 2001 |
|---|-------|-------|
| Employee benefit obligations | \$204 | \$177 |
| Environmental, self-insurance and litigation reserves | 134 | 148 |
| Compensation accruals | 53 | 61 |
| Uncollectible accounts receivable | 19 | 20 |
| Other items | 54 | 59 |
| | ----- | ----- |
| Total deferred tax assets | 464 | 465 |
| Property, plant and equipment | 186 | 173 |
| Investment in unconsolidated affiliates | 412 | 606 |
| | ----- | ----- |
| Total deferred tax liabilities | 598 | 779 |
| | ----- | ----- |
| Net deferred tax liability | \$134 | \$314 |
| | ===== | ===== |

The U.S. and foreign components of income from continuing operations before income taxes and a reconciliation of the statutory federal income tax with the provision for income taxes follow.

| (In millions) | 2002 | 2001 | 2000 |
|---|-------|-------|-------|
| Income from continuing operations before income taxes | | | |
| United States | \$114 | \$605 | \$417 |
| Foreign | 86 | 71 | 60 |
| | ----- | ----- | ----- |
| | \$200 | \$676 | \$477 |
| | ===== | ===== | ===== |
| Income taxes computed at U.S. statutory rate (35%) | \$ 70 | \$236 | \$167 |
| Increase (decrease) in amount computed resulting from | | | |
| State income taxes | 1 | 22 | 14 |
| Net impact of foreign results | - | 3 | - |
| Nondeductible goodwill amortization | - | 12 | 7 |
| Other items | - | - | 1 |
| | ----- | ----- | ----- |
| Income taxes | \$ 71 | \$273 | \$189 |
| | ===== | ===== | ===== |

NOTE K - CAPITAL STOCK

From time to time, Ashland's Board of Directors has authorized the purchase of shares of Ashland common stock in the open market. As of September 30, 2002, Ashland could purchase an additional 2.7 million shares under previous authorizations.

Under Ashland's Shareholder Rights Plan, each common share is accompanied by one right to purchase one-thousandth share of preferred stock for \$140. Each one-thousandth share of preferred stock will be entitled to dividends and to vote on an equivalent basis with one common share. The rights are neither exercisable nor separately transferable from the common shares unless a party acquires or tenders for more than 15% of Ashland's common stock. If any party acquires more than 15% of Ashland's common stock or acquires Ashland in a business combination, each right (other than those held by the acquiring party) will entitle the holder to purchase preferred stock of Ashland or the acquiring company at a substantial discount. The rights expire on May 16, 2006, and Ashland's Board of Directors can amend certain provisions of the Plan or redeem the rights at any time prior to their becoming exercisable.

At September 30, 2002, 500,000 shares of cumulative preferred stock are reserved for potential issuance under the Shareholder Rights Plan and 7.5 million common shares are reserved for issuance under outstanding stock options.

NOTE L - STOCK INCENTIVE PLANS

Ashland has stock incentive plans under which key employees or directors can purchase shares of common stock under stock options or restricted stock awards. Stock options are granted to employees at a price equal to the fair market value of the stock on the date of grant and become exercisable over periods of one to four years. Unexercised options lapse 10 years after the date of grant. Restricted stock awards entitle employees or directors to purchase shares at a nominal cost, to vote such shares and to receive any dividends thereon. However, such shares are subject to forfeiture upon termination of service before the restriction period ends.

As discussed in Note A, Ashland accounts for its stock incentive plans in accordance with APB 25. Ashland has not recognized compensation expense for stock options, because the exercise price of the options equals the market price of the underlying stock on the date of grant, which is the measurement date. If the alternative method of accounting for stock incentive plans prescribed by FAS 123 had been followed, Ashland's net income and earnings per share would have been reduced to the pro forma amounts shown in the following table. The fair value per share of options granted was determined using the Black-Scholes option pricing model with the indicated assumptions.

| | 2002 | 2001 | 2000 |
|--|--------|--------|--------|
| Pro forma | | | |
| Net income (in millions) | \$ 113 | \$ 414 | \$ 66 |
| Basic earnings per share | 1.63 | 5.94 | .93 |
| Diluted earnings per share | 1.61 | 5.88 | .92 |
| Weighted average fair value per share of options granted | \$5.35 | \$7.38 | \$7.26 |
| Assumptions (weighted average) | | | |
| Risk-free interest rate | 2.9% | 4.1% | 6.1% |
| Expected dividend yield | 3.8% | 3.0% | 3.3% |
| Expected volatility | 26.7% | 24.4% | 22.9% |
| Expected life (in years) | 5.0 | 5.0 | 5.0 |

A progression of activity and various other information relative to stock options is presented in the following table.

| | 2002 | | 2001 | | 2000 | |
|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|---------------|--------------------------------------|
| (In thousands except per share data) | Common shares | Weighted avg. option price per share | Common shares | Weighted avg. option price per share | Common shares | Weighted avg. option price per share |
| Outstanding - beginning of year(1) | 6,735 | \$38.41 | 6,380 | \$38.01 | 6,381 | \$38.34 |
| Granted | 1,210 | 29.05 | 1,001 | 36.38 | 506 | 32.96 |
| Exercised | (413) | 31.34 | (572) | 30.06 | (195) | 30.75 |
| Canceled | (50) | 38.54 | (74) | 41.04 | (312) | 41.26 |
| Outstanding - end of year(1) | 7,482 | \$37.28 | 6,735 | \$38.41 | 6,380 | \$38.01 |
| Exercisable - end of year | 5,537 | \$39.34 | 4,803 | \$39.36 | 4,684 | \$38.53 |

(1) Shares of common stock available for future grants of options or awards amounted to 3,727,000 at September 30, 2002, and 4,812,000 at September 30, 2001. Exercise prices per share for options outstanding at September 30, 2002, ranged from \$23.88 to \$33.88 for 2,591,000 shares, from \$35.88 to \$43.13 for 3,554,000 shares, and from \$44.20 to \$53.38 for 1,337,000 shares. The weighted average remaining contractual life of the options was 6.2 years.

NOTE M - LITIGATION, CLAIMS AND CONTINGENCIES

ASBESTOS-RELATED LITIGATION

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

A summary of asbestos claims activity follows. Because claims are frequently filed and settled in large groups, the amount and timing of settlements, and the number of open claims, can fluctuate significantly from period to period. Over the last 17 years, Riley has been dismissed as a defendant in 55% of the resolved claims.

| (In thousands) | 2002 | 2001 | 2000 |
|---------------------------------|------|------|------|
| Open claims - beginning of year | 167 | 118 | 93 |
| New claims filed | 45 | 52 | 37 |
| Claims settled | (15) | (2) | (9) |
| Claims dismissed | (37) | (1) | (3) |
| Open claims - end of year | 160 | 167 | 118 |

Amounts spent on litigation defense and claim settlements totaled \$38 million in 2002, \$15 million in 2001 and \$11 million in 2000. Insurance provides reimbursements for most of these costs, and coverage-in-place agreements exist with the insurance carriers that provide substantially all of the coverage that is currently being accessed. The amounts not recoverable are generally due from insurers that are insolvent, rather than as a result of uninsured claims or the exhaustion of the insurance coverage.

In previous years, Ashland recognized a net reserve for the estimated litigation defense and claim settlement costs to settle open claims that would not be recovered from insolvent insurance carriers. However, the reserve and related receivable are now presented on a gross basis in consolidated balance sheet at September 30, 2001, to conform to the 2002 presentation. This change did not result from an increase in expected asbestos exposure, and had no effect on net income or stockholders' equity. Under this presentation, the reserve for asbestos claims amounted to \$202 million at September 30, 2002, and \$199 million at September 30, 2001. Such reserve reflects the estimated costs on an undiscounted basis that will be incurred over an extended period to resolve open claims. In addition, the receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to \$196 million at September 30, 2002, and \$178 million at September 30, 2001.

The reserve for asbestos claims is based on assumptions and estimates derived from currently known facts. However, projecting future events, such as the average cost of resolving the open claims, is subject to numerous variables that are extremely difficult to predict. These variables include the type and severity of the disease alleged by each claimant, dismissal rates, future costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards.

Ashland believes that insurance will cover the majority of the costs that will be incurred on open and future asbestos claims. Equitas Limited (Equitas) and other London companies currently provide about 59% of the insurance coverage, and this percentage could decline over time to around 44% if higher layers of coverage provided by other carriers have to be accessed. The remaining 41% of the coverage is currently provided by five companies, all of which are rated A or higher by A. M. Best Company. Depending upon the level of costs that are ultimately incurred, the non-London coverage could ultimately expand to about 25 insurance companies or groups. Companies or groups that provide about 90% of this coverage are also rated A or higher.

Ashland has not recognized a reserve for future asbestos claims that may be asserted. Although additional claim filings are expected, Ashland does not have sufficient information to make a reasonable estimate of the number of new claims that might be filed. Furthermore, any predictions about the other variables discussed previously are subject to even greater uncertainty as the projection period lengthens. Ashland has retained the services of professional advisors to assist management in the estimation of projected liabilities and probable insurance recoveries for future asbestos claims. Results of that effort are expected to be available during the quarter ending March 31, 2003.

Although coverage limits are resolved in the coverage-in-place agreement with Equitas and the other London companies, there is a disagreement with these companies over the timing of recoveries. Depending upon the assumptions made with respect to the projected payments to settle future claims, an unfavorable resolution of this disagreement could materially affect the present value of additional insurance recoveries from those companies. Until such time as this disagreement is resolved, Ashland will use the less favorable interpretation of this agreement in estimating such insurance recoveries.

ENVIRONMENTAL PROCEEDINGS

Ashland is subject to various federal, state and local environmental laws and regulations that require environmental assessment or remediation efforts (collectively environmental remediation) at multiple locations. At September 30, 2002, such locations included 97 waste treatment or disposal sites where Ashland has been identified as a potentially responsible party under Superfund or similar state laws, approximately 140 current and former operating facilities (including certain operating facilities conveyed to MAP) and about 1,220 service station properties. Ashland's reserves for environmental remediation amounted to \$169 million at September 30, 2002, and \$176 million at September 30, 2001. Such amounts reflect Ashland's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs, in determining the estimated reserves for environmental remediation.

Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Ashland regularly adjusts its reserves as environmental remediation continues.

None of the remediation locations is individually material to Ashland, as its largest reserve for any site is less than \$10 million. As a result, Ashland's exposure to adverse developments with respect to any individual site is not expected to be material, and these sites are in various stages of ongoing remediation. Although environmental remediation could have a material effect on results of operations if a series of adverse developments occurs in a particular quarter or fiscal year, Ashland believes that the chance of such developments occurring in the same quarter or fiscal year is remote.

OTHER LEGAL PROCEEDINGS

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

NOTE N - DISCONTINUED OPERATIONS

On March 16, 2000, Ashland's Board of Directors approved a spin-off of 17.4 million shares of its Arch Coal Common Stock to Ashland's shareholders of record on March 24, 2000, in the form of a taxable dividend. The shares were distributed on the basis of .246097 of a share of Arch Coal for each Ashland share outstanding. The spin-off resulted in a charge to retained earnings of \$123 million, with no gain or loss recorded. Ashland sold its remaining 4.7 million Arch Coal shares in a public offering during February 2001 for \$86 million (after underwriting commissions). In 2002, Ashland received \$22 million in current tax benefits from capital loss carrybacks generated by the sale, which are included in "Cash provided (used) by discontinued operations" on the Statements of Consolidated Cash Flows. Ashland's net income (loss) associated with Arch Coal and other discontinued operations are summarized below.

| (In millions) | 2002 | 2001 | 2000 |
|---|------|------|------------|
| <hr/> | | | |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS | | | |
| Arch Coal | | | |
| Equity loss | \$ - | \$ - | \$(246)(1) |
| Administrative expenses | - | - | (1) |
| Reserves related to other discontinued operations | - | (23) | - |
| GAIN (LOSS) ON DISPOSAL OF ARCH COAL | | | |
| Gain on sale of stock | - | 49 | - |
| Costs related to the spin-off | - | - | (5) |
| <hr/> | | | |
| INCOME (LOSS) BEFORE INCOME TAXES | - | 26 | (252) |
| INCOME TAXES | | | |
| Income (loss) from discontinued operations | - | 9 | 32 |
| Gain (loss) on disposal of Arch Coal | - | (16) | 2 |
| <hr/> | | | |
| RESULTS FROM DISCONTINUED OPERATIONS | \$ - | \$19 | \$(218) |
| <hr/> | | | |

(1) Includes a net loss of \$203 million related to asset impairment

and restructuring costs, largely due to the write-down of assets at Arch's Dal-Tex and Hobet 21 mining operations and certain coal reserves in central Appalachia.

NOTE 0 - EMPLOYEE BENEFIT PLANS

PENSION AND OTHER POSTRETIREMENT PLANS

Ashland and its subsidiaries sponsor noncontributory, defined benefit pension plans that cover substantially all employees. Benefits under these plans are generally based on employees' years of service and compensation during the years immediately preceding their retirement. For certain plans, 50% of employees' leveraged employee stock ownership plan (LESOP) accounts are coordinated with and used to partially fund their pension benefits. Ashland's objective is to fully fund the accumulated benefit obligations of its qualified plans, and determines the level of its contributions annually to achieve that objective over time. Ashland's contributions of \$103 million to its pension plans during 2002 exceeded the amounts required under federal laws and regulations by \$48 million. These additional contributions were made to partially mitigate the adverse effects of the reduction in the discount rate and depressed investment returns on the funded status of its qualified plans.

Ashland and its subsidiaries also sponsor other postretirement benefit plans, which provide health care and life insurance benefits for eligible employees who retire or are disabled. Retiree contributions to Ashland's health care plans are adjusted periodically, and the plans contain other cost-sharing features, such as deductibles and coinsurance. Life insurance plans are generally noncontributory. Ashland funds the costs of benefits as they are paid.

Summaries of the changes in the benefit obligations and plan assets (primarily listed stocks and debt securities) and of the funded status of the plans follow.

| (In millions) | Pension benefits | | | | Other postretirement benefits | |
|---|------------------|---------------------|-----------------|---------------------|-------------------------------|-------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | Qualified plans | Non-qualified plans | Qualified plans | Non-qualified plans | | |
| CHANGE IN BENEFIT OBLIGATIONS | | | | | | |
| Benefit obligations at October 1 | \$715 | \$103 | \$595 | \$ 87 | \$333 | \$269 |
| Service cost | 42 | 1 | 35 | 2 | 12 | 11 |
| Interest cost | 52 | 7 | 46 | 7 | 23 | 22 |
| Retiree contributions | - | - | - | - | 8 | 7 |
| Benefits paid | (30) | (4) | (28) | (5) | (33) | (28) |
| Other-primarily actuarial loss | 95 | 2 | 67 | 12 | 18 | 52 |
| Benefit obligations at September 30 | \$874 | \$109 | \$715 | \$103 | \$361 | \$333 |
| CHANGE IN PLAN ASSETS | | | | | | |
| Value of plan assets at October 1 | \$518 | \$ - | \$506 | \$ - | \$ - | \$ - |
| Actual return on plan assets | (42) | - | (40) | - | - | - |
| Employer contributions | 103 | 4 | 76 | 5 | 25 | 21 |
| Retiree contributions | - | - | - | - | 8 | 7 |
| Benefits paid | (30) | (4) | (28) | (5) | (33) | (28) |
| Other | 2 | - | 4 | - | - | - |
| Value of plan assets at September 30 | \$551 | \$ - | \$518 | \$ - | \$ - | \$ - |
| FUNDED STATUS OF THE PLANS | | | | | | |
| Unfunded accumulated obligation | \$150 | \$ 98 | \$ 53 | \$ 91 | \$361 | \$333 |
| Provision for future salary increases | 173 | 11 | 144 | 12 | - | - |
| Excess of obligations over plan assets | 323 | 109 | 197 | 103 | 361 | 333 |
| Unrecognized actuarial loss | (354) | (43) | (186) | (44) | (72) | (56) |
| Unrecognized prior service credit (cost) | (2) | - | (3) | - | 15 | 24 |
| Net liability recognized | \$(33) | \$ 66 | \$ 8 | \$ 59 | \$304 | \$301 |
| BALANCE SHEET LIABILITIES (ASSETS) | | | | | | |
| Prepaid benefit costs | \$ - | - | \$ (4) | - | \$ - | \$ - |
| Accrued benefit liabilities | 250 | - | 144 | - | 304 | 301 |
| Intangible assets | (2) | - | (2) | - | - | - |
| Accumulated other comprehensive loss | (215) | - | (71) | - | - | - |
| Net liability recognized | \$ 33 | - | \$ 67 | - | \$304 | \$301 |
| ASSUMPTIONS AS OF SEPTEMBER 30 | | | | | | |
| Discount rate | 6.75% | - | 7.25% | - | 6.75% | 7.25% |
| Salary adjustment rate | 5.00 | - | 5.00 | - | - | - |
| Expected return on plan assets | 9.00 | - | 9.00 | - | - | - |

The following table details the components of pension and other postretirement benefit costs.

| (In millions) | Pension benefits | | | Other postretirement benefits | | |
|---------------------------------|------------------|------|------|-------------------------------|------|------|
| | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 |
| Service cost | \$43 | \$37 | \$37 | \$12 | \$11 | \$ 9 |
| Interest cost | 59 | 53 | 47 | 23 | 22 | 19 |
| Expected return on plan assets | (47) | (48) | (39) | - | - | - |
| Other amortization and deferral | 19 | 4 | 5 | (6) | (6) | (9) |
| | \$74 | \$46 | \$50 | \$29 | \$27 | \$19 |

Ashland amended nearly all of its retiree health care plans in 1992 to place a cap on its contributions and to adopt a cost-sharing method based upon years of service. The cap limits Ashland's contributions to base year per capita costs, plus annual increases of up to 4.5% per year. These amendments reduced Ashland's obligations under its retiree health care plans, with the reduction amortized to income over approximately 12 years. The remaining credit at September 30, 2002, amounted to \$14 million, and the amortization to income will amount to \$8 million in 2003 and \$6 million in 2004.

OTHER PLANS

Ashland sponsors a qualified savings plan to assist eligible employees in providing for retirement or other future needs. Under that plan, Ashland contributes up to 4.2% of a participating employee's earnings. Company contributions amounted to \$17 million in 2002, \$16 million in 2001 and \$15 million in 2000.

NOTE P - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table presents quarterly financial information and per share data relative to Ashland's common stock. Amounts for the December 2001 quarter have been restated to include the cumulative effect of accounting change for the adoption of FAS 142. Amounts for the September 2001 quarter have been restated for the adoption of FAS 145. See Note A for further explanations.

| Quarters ended (In millions except per share data) | December 31 | | March 31 | | June 30 | | September 30 | |
|---|-------------|---------|----------|---------|---------|---------|--------------|---------|
| | 2001(1) | 2000 | 2002(1) | 2001 | 2002 | 2001 | 2002 | 2001 |
| Sales and operating revenues | \$1,812 | \$1,878 | \$1,598 | \$1,659 | \$2,047 | \$2,053 | \$2,086 | \$2,129 |
| Operating income (loss) | 98 | 144 | (1) | 87 | 137 | 369 | 104 | 251 |
| Income (loss) from continuing operations | 38 | 59 | (21) | 26 | 65 | 197 | 47 | 122 |
| Net income (loss) | 27 | 59 | (21) | 46 | 65 | 197 | 47 | 116 |
| Basic earnings (loss) per share | | | | | | | | |
| Continuing operations | \$.55 | \$.84 | \$ (.31) | \$.37 | \$.94 | \$ 2.82 | \$.68 | \$ 1.75 |
| Net income (loss) | .38 | .84 | (.31) | .66 | .94 | 2.82 | .68 | 1.66 |
| Diluted earnings (loss) per share | | | | | | | | |
| Continuing operations | \$.54 | \$.84 | \$ (.31) | \$.37 | \$.93 | \$ 2.79 | \$.68 | \$ 1.73 |
| Net income (loss) | .38 | .84 | (.31) | .66 | .93 | 2.79 | .68 | 1.64 |
| Common cash dividends per share | \$.275 | \$.275 | \$.275 | \$.275 | \$.275 | \$.275 | \$.275 | \$.275 |
| Market price per common share | | | | | | | | |
| High | \$46.54 | \$36.24 | \$46.98 | \$41.35 | \$45.61 | \$44.25 | \$41.20 | \$44.05 |
| Low | 37.60 | 30.63 | 43.04 | 34.39 | 37.11 | 37.15 | 26.29 | 35.53 |

(1) MAP maintains an inventory valuation reserve to reduce the LIFO cost of its inventories to their net realizable values. Adjustments in that reserve are recognized quarterly based on changes in petroleum product prices, creating non-cash charges or credits to Ashland's earnings. A pretax charge of \$29 million (\$18 million after tax, or \$.26 per share) was recognized in the December 2001 quarter and reversed in the March 2002 quarter as a result of these adjustments.

Ashland Inc. and Consolidated Subsidiaries
INFORMATION BY INDUSTRY SEGMENT
Years Ended September 30

| (In millions) | 2002 | 2001 | 2000 |
|------------------------------|---------|---------|---------|
| REVENUES | | | |
| Sales and operating revenues | | | |
| APAC | \$2,652 | \$2,624 | \$2,505 |
| Ashland Distribution | 2,535 | 2,849 | 3,214 |
| Ashland Specialty Chemical | 1,290 | 1,248 | 1,283 |
| Valvoline | 1,152 | 1,092 | 1,077 |
| Intersegment sales(1) | | | |
| Ashland Distribution | (20) | (26) | (38) |
| Ashland Specialty Chemical | (64) | (66) | (78) |
| Valvoline | (2) | (2) | (2) |
| | ----- | ----- | ----- |
| | 7,543 | 7,719 | 7,961 |
| Equity income | | | |
| Ashland Specialty Chemical | 4 | 4 | 4 |
| Valvoline | 1 | 1 | 1 |
| Refining and Marketing | 176 | 749 | 389 |
| | ----- | ----- | ----- |
| | 181 | 754 | 394 |
| Other income | | | |
| APAC | 12 | 13 | 21 |
| Ashland Distribution | 17 | 15 | 9 |
| Ashland Specialty Chemical | 26 | 27 | 30 |
| Valvoline | 6 | 6 | 7 |
| Refining and Marketing | 2 | 7 | 6 |
| Corporate | 5 | 6 | 8 |
| | ----- | ----- | ----- |
| | 68 | 74 | 81 |
| | ----- | ----- | ----- |
| | \$7,792 | \$8,547 | \$8,436 |
| | ===== | ===== | ===== |
| OPERATING INCOME | | | |
| APAC | \$ 122 | \$ 55 | \$ 140 |
| Ashland Distribution | 1 | 35 | 70 |
| Ashland Specialty Chemical | 87 | 58 | 95 |
| Valvoline | 77 | 81 | 78 |
| Refining and Marketing(2) | 143 | 707 | 361 |
| Corporate | (92) | (85) | (73) |
| | ----- | ----- | ----- |
| | \$ 338 | \$ 851 | \$ 671 |
| | ===== | ===== | ===== |
| ASSETS | | | |
| APAC | \$1,498 | \$1,574 | \$1,654 |
| Ashland Distribution | 884 | 961 | 1,047 |
| Ashland Specialty Chemical | 944 | 944 | 888 |
| Valvoline | 611 | 642 | 573 |
| Refining and Marketing | 2,409 | 2,452 | 2,352 |
| Corporate(3) | 379 | 558 | 311 |
| | ----- | ----- | ----- |
| | \$6,725 | \$7,131 | \$6,825 |
| | ===== | ===== | ===== |

| (In millions) | 2002 | 2001 | 2000 |
|---|----------------|----------------|----------------|
| INVESTMENT IN EQUITY AFFILIATES | | | |
| APAC | \$ (2) | \$ - | \$ 10 |
| Ashland Specialty Chemical | 41 | 36 | 40 |
| Valvoline | 9 | 9 | 7 |
| Refining and Marketing | 2,350 | 2,387 | 2,295 |
| | <u>\$2,398</u> | <u>\$2,432</u> | <u>\$2,352</u> |
| EXPENSE (INCOME) NOT AFFECTING CASH | | | |
| Depreciation, depletion and amortization | | | |
| APAC | \$ 114 | \$ 133 | \$ 129 |
| Ashland Distribution | 21 | 27 | 23 |
| Ashland Specialty Chemical | 50 | 56 | 49 |
| Valvoline | 24 | 23 | 23 |
| Corporate | 11 | 11 | 13 |
| | <u>220</u> | <u>250</u> | <u>237</u> |
| Other noncash items(4) | | | |
| APAC | 24 | 14 | 9 |
| Ashland Distribution | 1 | (1) | (3) |
| Ashland Specialty Chemical | 5 | 5 | 3 |
| Valvoline | (2) | 4 | - |
| Refining and Marketing | (168) | 21 | (17) |
| Corporate | 41 | 24 | (12) |
| | <u>(99)</u> | <u>67</u> | <u>(20)</u> |
| | <u>\$ 121</u> | <u>\$ 317</u> | <u>\$ 217</u> |
| ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT | | | |
| APAC | \$ 107 | \$ 92 | \$ 98 |
| Ashland Distribution | 12 | 15 | 18 |
| Ashland Specialty Chemical | 38 | 57 | 82 |
| Valvoline | 21 | 29 | 25 |
| Corporate | 7 | 12 | 9 |
| | <u>\$ 185</u> | <u>\$ 205</u> | <u>\$ 232</u> |

- (1) Intersegment sales are accounted for at prices that approximate market value.
- (2) Includes Ashland's equity income from MAP, amortization related to Ashland's excess investment in MAP, and other activities associated with refining and marketing.
- (3) Includes cash, cash equivalents and other unallocated assets.
- (4) Includes deferred income taxes, equity income from affiliates net of distributions, and other items not affecting cash.

Ashland Inc. and Consolidated Subsidiaries
FIVE-YEAR SELECTED FINANCIAL INFORMATION
Years Ended September 30

| (In millions except per share data) | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---------|---------|---------|---------|---------|
| SUMMARY OF OPERATIONS | | | | | |
| Revenues | | | | | |
| Sales and operating revenues | \$7,543 | \$7,719 | \$7,961 | \$6,801 | \$6,534 |
| Equity income | 181 | 754 | 394 | 351 | 304 |
| Other income | 68 | 74 | 81 | 101 | 70 |
| Costs and expenses | | | | | |
| Cost of sales and operating expenses | (6,049) | (6,319) | (6,434) | (5,346) | (5,299) |
| Selling, general and administrative expenses | (1,185) | (1,127) | (1,094) | (1,054) | (1,006) |
| Depreciation, depletion and amortization | (220) | (250) | (237) | (228) | (181) |
| Operating income | 338 | 851 | 671 | 625 | 422 |
| Net interest and other financial costs | (138) | (175) | (194) | (140) | (130) |
| Income from continuing operations before income taxes | 200 | 676 | 477 | 485 | 292 |
| Income taxes | (71) | (273) | (189) | (194) | (114) |
| Income from continuing operations | 129 | 403 | 288 | 291 | 178 |
| Results from discontinued operations | - | 19 | (218) | (1) | 25 |
| Income before cumulative effect of accounting changes | 129 | 422 | 70 | 290 | 203 |
| Cumulative effect of accounting changes | (12) | (5) | - | - | - |
| Net income | \$ 117 | \$ 417 | \$ 70 | \$ 290 | \$ 203 |
| BALANCE SHEET INFORMATION | | | | | |
| Current assets | \$1,925 | \$2,237 | \$2,139 | \$2,063 | \$1,832 |
| Current liabilities | 1,511 | 1,534 | 1,712 | 1,401 | 1,367 |
| Working capital | \$ 414 | \$ 703 | \$ 427 | \$ 662 | \$ 465 |
| Total assets | \$6,725 | \$7,131 | \$6,825 | \$6,478 | \$6,136 |
| Debt due within one year | \$ 201 | \$ 85 | \$ 327 | \$ 219 | \$ 125 |
| Long-term debt (less current portion) | 1,606 | 1,786 | 1,899 | 1,627 | 1,507 |
| Stockholders' equity | 2,173 | 2,226 | 1,965 | 2,200 | 2,137 |
| Capital employed | \$3,980 | \$4,097 | \$4,191 | \$4,046 | \$3,769 |
| CASH FLOW INFORMATION | | | | | |
| Cash flows from operations | \$ 188 | \$ 829 | \$ 484 | \$ 383 | \$ 354 |
| Additions to property, plant and equipment | 185 | 205 | 232 | 248 | 274 |
| Cash dividends | 76 | 76 | 78 | 81 | 84 |
| COMMON STOCK INFORMATION | | | | | |
| Diluted earnings per share | | | | | |
| Income from continuing operations | \$ 1.83 | \$ 5.73 | 4.05 | \$ 3.90 | \$ 2.31 |
| Net income | 1.67 | 5.93 | .98 | 3.89 | 2.63 |
| Cash dividends per share | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 |

LIST OF SUBSIDIARIES

Subsidiaries of Ashland Inc. ("AI") at September 30, 2002, included the companies listed below. Ashland has numerous unconsolidated affiliates, which are primarily accounted for on the equity method, and majority-owned consolidated subsidiaries in addition to the companies listed below. Such affiliates and subsidiaries are not listed below since they would not constitute a significant subsidiary considered in the aggregate as a single entity.

| Company ----- | Jurisdiction of Incorporation ----- | Immediate Parent* ----- |
|--|---|---------------------------------|
| APAC-Alabama, Inc..... | Delaware | AHI |
| APAC-Arkansas, Inc..... | Delaware | AHI |
| APAC-Carolina, Inc..... | Delaware | AHI |
| APAC-Florida, Inc..... | Delaware | AHI |
| APAC-Georgia, Inc..... | Georgia | AHI |
| APAC Holdings, Inc. ("AHI")..... | Delaware | AI |
| APAC-Kansas, Inc..... | Delaware | AHI |
| APAC-Mississippi, Inc..... | Delaware | AHI |
| APAC-Missouri, Inc..... | Delaware | AHI |
| APAC-Oklahoma, Inc..... | Delaware | AHI |
| APAC-Tennessee, Inc..... | Delaware | AHI |
| APAC-Texas, Inc..... | Delaware | AHI |
| APAC-Virginia, Inc..... | Delaware | AHI |
| ASH GP LLC ("ASH GP")..... | Delaware | AIHI |
| Ashland ACT Korea Limited..... | Korea | AHBV |
| Ashland Canada Corp. | Nova Scotia, Canada | ACHBV |
| Ashland Canada Holdings B.V. ("ACHBV")..... | Netherlands | AHBV |
| Ashland Chemical Hispania, S.L..... | Spain | AI |
| Ashland France SAS..... | France | AHBV 99% - ASBV 1% |
| Ashland Holdings B.V. ("AHBV")..... | Netherlands | ATCV |
| Ashland International Holdings, Inc. ("AIHI")..... | Delaware | AI |
| Ashland Italia S.p.A..... | Italy | ATCV 95% - AOCV 5% |
| Ashland Nederland B.V..... | Netherlands | AHBV |
| Ashland Services B.V. ("ASBV")..... | Netherlands | AHBV |
| Ashland UK Limited..... | United Kingdom | AHBV |
| Ashmont Insurance Company, Inc. | Vermont | AI |
| AshOne C.V. ("AOCV") | Netherlands | AI 10% - AIHI 89% - ASH GP 1% |
| AshTwo C.V. ("ATCV")..... | Netherlands | AIHI 10% - AOCV 89% - ASH GP 1% |
| Marathon Ashland Petroleum LLC..... | Delaware | AI 38% |
| Valvoline (Australia) Pty. Ltd..... | Australia | AHBV |

*100% of the voting securities are owned by the immediate parent except as otherwise indicated.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-52125) pertaining to the Ashland Inc. Deferred Compensation and Stock Incentive Plan for Non-Employee Directors, in the Registration Statement (Form S-8 No. 2-95022) pertaining to the Ashland Inc. Amended Stock Incentive Plan for Key Employees, in the Registration Statement (Form S-8 No. 33-32612) pertaining to the Ashland Inc. Employee Savings Plan, in the Registration Statement (Form S-8 No. 33-26101) pertaining to the Ashland Inc. Long-Term Incentive Plan, in the Registration Statement (Form S-8 No. 33-55922) pertaining to the Ashland Inc. 1993 Stock Incentive Plan, in the Registration Statement (Form S-8 No. 33-49907) pertaining to the Ashland Inc. Leveraged Employee Stock Ownership Plan, in the Registration Statement (Form S-8 No. 33-62901) pertaining to the Ashland Inc. Deferred Compensation Plan, in the Registration Statement (Form S-8 No. 333-33617) pertaining to the Ashland Inc. 1997 Stock Incentive Plan, in the Registration Statement (Form S-3 No. 333-78675) pertaining to the registration of 68,925 shares of Ashland Inc. Common Stock, in the Registration Statement (Form S-3 No. 333-36842) pertaining to the registration of 96,600 shares of Ashland Inc. Common Stock, in the Registration Statement (Form S-3 No. 333-54762) pertaining to the registration of 149,300 shares of Ashland Inc. Common Stock, in the Registration Statement (Form S-3 No. 333-82830) pertaining to the registration of 265,100 shares and in the Registration Statement (Form S-3 No. 333-69138) pertaining to the offering of \$600,000,000 of Debt Securities, Preferred Stock, Depository Shares, Common Stock and/or Warrants of Ashland Inc., of our report dated November 6, 2002, with respect to the consolidated financial statements and schedule of Ashland Inc. and consolidated subsidiaries included in this Annual Report (Form 10-K) for the year ended September 30, 2002.

Cincinnati, Ohio
November 26, 2002

EXHIBIT 24
POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned Directors and Officers of ASHLAND INC., a Kentucky corporation, which is about to file an Annual Report on Form 10-K with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, hereby constitutes and appoints JAMES J. O'BRIEN, DAVID L. HAUSRATH and LINDA L. FOSS, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power to act without the others to sign and file such Annual Report and the exhibits thereto and any and all other documents in connection therewith, and any such amendments thereto, with the Securities and Exchange Commission, and to do and perform any and all acts and things requisite and necessary to be done in connection with the foregoing as fully as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Dated: November 7, 2002

/s/ James J. O'Brien

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

/s/ Bernadine P. Healy

Bernadine P. Healy, Director

/s/ J. Marvin Quin

J. Marvin Quin, Senior Vice President
and Chief Financial Officer

/s/ Mannie L. Jackson

Mannie L. Jackson, Director

/s/ Kenneth L. Aulen

Kenneth L. Aulen, Administrative Vice
President, Contoller and Principal
Accounting Officer

/s/ Patrick F. Noonan

Patrick F. Noonan, Director

/s/ Samuel C. Butler

Samuel C. Butler, Director

/s/ Jane C. Pfeiffer

Jane C. Pfeiffer, Director

/s/ Frank C. Carlucci

Frank C. Carlucci, Director

/s/ William L. Rouse, Jr.

William L. Rouse, Jr., Director

/s/ Ernest H. Drew

Ernest H. Drew, Director

/s/ Theodore M. Solso

Theodore M. Solso, Director

/s/ James B. Farley

James B. Farley, Director

/s/ Michael J. Ward

Michael J. Ward, Director

/s/ Roger W. Hale

Roger W. Hale, Director

ASHLAND INC.
Certificate of Assistant Secretary

The undersigned hereby certifies that she is an Assistant Secretary of Ashland Inc., a Kentucky corporation (the "Corporation"), and that, as such, she is authorized to execute this Certificate on behalf of the Corporation and further certifies that:

- (a) Attached hereto as Exhibit A is a true and correct copy of an excerpt from the minutes of the meeting of the Board of Directors of the Corporation held on November 7, 2002, setting forth certain actions taken at such meeting, and the powers and authorities granted pursuant to such actions have at all times been in effect without amendment, waiver, rescission or modification since November 7, 2002.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Corporation on this 2nd day of December, 2002.

/s/ Linda L. Foss

Linda L. Foss
Assistant Secretary

[SEAL]

Exhibit A
Annual Report on Form 10-K

RESOLVED, that the Corporation's Annual Report to the Securities and Exchange Commission (the "SEC") on Form 10-K (the "Form 10-K") in the form previously circulated to the Board in preparation for this meeting be, and it hereby is, approved with such changes as the Chief Executive Officer, any Vice President, the Secretary or the Corporation's counsel ("Authorized Persons") shall approve, the execution and filing of the Form 10-K with the SEC to be conclusive evidence of such approval; provided, however, that without derogating from the binding effect of the above, it is understood that an Authorized Person shall cause the distribution prior to the filing with the SEC, of a copy of such Form 10-K to the directors in substantially that form which is to be filed with the SEC and that each director shall have the opportunity to review with and comment to an Authorized Person prior to such filing;

FURTHER RESOLVED, that the Authorized Persons be, and each of them hereby is, authorized to file with the SEC the Form 10-K and any amendments thereto on Form 10-K/A and/or any other applicable form; and

FURTHER RESOLVED, that the Authorized Persons be, and each of them hereby is, authorized to take all such further actions as in their judgment may be necessary or advisable to accomplish the purposes of the foregoing resolutions.

ASHLAND INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Ashland Inc. (the "Company") on Form 10-K for the year ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James J. O'Brien, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James J. O'Brien

James J. O'Brien
Chief Executive Officer
December 3, 2002

ASHLAND INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Ashland Inc. (the "Company") on Form 10-K for the year ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Marvin Quin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ J. Marvin Quin

J. Marvin Quin
Chief Financial Officer
December 3, 2002