

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1999

Commission file number 1-2918

ASHLAND INC.
(a Kentucky corporation)

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

Telephone Number: (606) 815-3333

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

At January 31, 2000, there were 71,030,583 shares of Registrant's Common Stock outstanding. One Right to purchase one-thousandth of a share of Series A Participating Cumulative Preferred Stock accompanies each outstanding share of Registrant's Common Stock.

PART I - FINANCIAL INFORMATION

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(In millions except per share data)	Three months ended December 31	
	1999	1998
REVENUES		
Sales and operating revenues	\$ 1,897	\$ 1,646

Equity income (loss)	(200)	(40)
Other income	14	27
	-----	-----
	1,711	1,633
COSTS AND EXPENSES		
Cost of sales and operating expenses	1,537	1,299
Selling, general and administrative expenses	244	267
Depreciation, depletion and amortization	57	51
	-----	-----
	1,838	1,617
	-----	-----
OPERATING INCOME (LOSS)	(127)	16
Interest expense (net of interest income)	(43)	(33)
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(170)	(17)
Income taxes	4	6
	-----	-----
NET INCOME (LOSS)	\$ (166)	\$ (11)
	=====	=====
EARNINGS (LOSS) PER SHARE - Note A		
Basic	\$ (2.32)	\$ (.14)
Diluted	\$ (2.32)	\$ (.14)
DIVIDENDS PAID PER COMMON SHARE	\$.275	\$.275

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)	December 31 1999	September 30 1999	December 31 1998

ASSETS			

CURRENT ASSETS			
Cash and cash equivalents	\$ 46	\$ 110	\$ 91
Accounts receivable	1,274	1,242	1,109
Allowance for doubtful accounts	(24)	(23)	(21)
Note receivable from Industri Kapital - Note E	285	-	-
Inventories - Note A	522	464	471
Deferred income taxes	99	107	96
Other current assets	124	159	107
	-----	-----	-----
	2,326	2,059	1,853
INVESTMENTS AND OTHER ASSETS			
Investment in Marathon Ashland Petroleum LLC (MAP)	2,140	2,172	1,958
Investment in Arch Coal	178	417	419
Cost in excess of net assets of companies acquired	503	220	212
Other noncurrent assets	291	264	338
	-----	-----	-----
	3,112	3,073	2,927
PROPERTY, PLANT AND EQUIPMENT			
Cost	2,902	2,649	2,472
Accumulated depreciation, depletion and amortization	(1,390)	(1,357)	(1,289)
	-----	-----	-----
	1,512	1,292	1,183
	-----	-----	-----
	\$ 6,950	\$ 6,424	\$ 5,963
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			

CURRENT LIABILITIES			
Debt due within one year	\$ 544	\$ 219	\$ 225
Trade and other payables	1,033	1,135	1,051
Income taxes	87	42	120
	-----	-----	-----
	1,664	1,396	1,396
NONCURRENT LIABILITIES			
Long-term debt (less current portion)	2,198	1,627	1,511
Employee benefit obligations	421	418	454
Deferred income taxes	139	226	7
Reserves of captive insurance companies	179	175	175
Other long-term liabilities and deferred credits	377	382	357
Commitments and contingencies - Note D	-	-	-
	-----	-----	-----
	3,314	2,828	2,504
COMMON STOCKHOLDERS' EQUITY			
	1,972	2,200	2,063
	-----	-----	-----
	\$ 6,950	\$ 6,424	\$ 5,963
	=====	=====	=====

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

(In millions)	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
BALANCE AT OCTOBER 1, 1998	\$ 76	\$ 602	\$ 1,501	\$ (42)	\$ 2,137
Total comprehensive income (loss) (1)			(11)	(1)	(12)
Dividends			(20)		(20)
Issued common stock under					
Stock incentive plans		5			5
Acquisitions of other companies		7			7
Repurchase of common stock	(1)	(53)			(54)
BALANCE AT DECEMBER 31, 1998	\$ 75	\$ 561	\$ 1,470	\$ (43)	\$ 2,063
BALANCE AT OCTOBER 1, 1999	\$ 72	\$ 464	\$ 1,710	\$ (46)	\$ 2,200
Total comprehensive income (loss) (1)			(166)	(6)	(172)
Dividends			(19)		(19)
Issued common stock for					
acquisitions of other companies		1			1
Repurchase of common stock	(1)	(37)			(38)
BALANCE AT DECEMBER 31, 1999	\$ 71	\$ 428	\$ 1,525	\$ (52)	\$ 1,972

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

(In millions)	Three months ended December 31	
	1999	1998
Net income (loss)	\$ (166)	\$ (11)
Unrealized translation adjustments	(10)	1
Related tax benefit	4	-
Unrealized gains (losses) on securities	-	(1)
Related tax benefit	-	-
Gains on securities included in net income	-	(2)
Related tax expense	-	1
Total comprehensive income (loss)	\$ (172)	\$ (12)

At December 31, 1999, the accumulated other comprehensive loss was comprised of net unrealized translation losses of \$42 million and a minimum pension liability of \$10 million.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions)	Three months ended December 31	
	1999	1998
CASH FLOWS FROM OPERATIONS		
Net income (loss)	\$ (166)	\$ (11)
Expense (income) not affecting cash		
Depreciation, depletion and amortization	57	51
Deferred income taxes	(38)	(37)
Equity loss (income) from affiliates	200	40
Distributions from equity affiliates	70	106
Change in operating assets and liabilities (1)	(132)	(76)
	(9)	73
CASH FLOWS FROM FINANCING		

Proceeds from issuance of long-term debt	636	-
Proceeds from issuance of common stock	-	3
Repayment of long-term debt	(40)	(21)
Repurchase of common stock	(38)	(54)
Increase in short-term debt	296	109
Dividends paid	(19)	(20)
	-----	-----
	835	17
CASH FLOWS FROM INVESTMENT		
Additions to property, plant and equipment	(65)	(48)
Purchase of operations - net of cash acquired (2)	(825)	(8)
Investment purchases (3)	(4)	(42)
Investment sales and maturities (3)	1	64
Other - net	3	1
	-----	-----
	(890)	(33)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(64)	57
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	110	34
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 46	\$ 91
	=====	=====

- (1) Excludes changes resulting from operations acquired or sold.
- (2) Amounts exclude acquisitions through the issuance of common stock of \$1 million in 1999 and \$7 million in 1998. The 1999 amount is expected to be reduced by \$285 million in the March 2000 quarter upon the redemption of the note receivable from Industri Kapital received in connection with the sale of the non-U.S. construction operations of Superfos.
- (3) Represents primarily investment transactions of captive insurance companies.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

INTERIM FINANCIAL REPORTING

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Although such statements are subject to any year-end audit adjustments which may be necessary, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 1999. Results of operations for the quarter ended December 31, 1999, are not necessarily indicative of results to be expected for the year ending September 30, 2000.

INVENTORIES

(In millions)	December 31 1999	September 30 1999	December 31 1998
Chemicals and plastics	\$ 394	\$ 358	\$ 376
Construction materials	73	55	41
Petroleum products	54	45	53
Other products	52	55	48
Supplies	6	5	9
Excess of replacement costs over LIFO carrying values	(57)	(54)	(56)
	-----	-----	-----
	\$ 522	\$ 464	\$ 471
	=====	=====	=====

EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (EPS). No shares are added to the diluted computation for assumed exercises of stock options, since their effect is antidilutive in the event of a loss.

(In millions except per share data)	Three months ended December 31	
	1999	1998

NUMERATOR		
Numerator for basic and diluted EPS - Net income (loss)	\$ (166)	\$ (11)
	=====	=====
DENOMINATOR		
Denominator for basic EPS - Weighted average common shares outstanding	72	75
Common shares issuable upon exercise of stock options	-	-
	-----	-----
Denominator for diluted EPS - Adjusted weighted average shares and assumed conversions	72	75
	=====	=====
BASIC EARNINGS (LOSS) PER SHARE	\$ (2.32)	\$ (.14)
DILUTED EARNINGS (LOSS) PER SHARE	\$ (2.32)	\$ (.14)

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

NOTE B - UNUSUAL ITEMS

During the quarter ended December 31, 1999, Ashland recognized a charge related to asset impairment and restructuring costs recorded by 58-percent owned Arch Coal, Inc. The charge is largely due to the write-down of assets at Arch Coal's Dal-Tex and Hobet 21 mining operations and certain coal reserves in central Appalachia.

Marathon Ashland Petroleum LLC (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. No adjustments to the reserve were required during the December 1999 quarter.

The following tables show the effects of these unusual items on Ashland's operating income, net income and diluted earnings per share for the periods ended December 31, 1999, and 1998.

(In millions except per share data)	Three months ended December 31	
	1999	1998

Operating income before unusual items	\$ 108	\$ 109
Arch Coal asset impairment write-down and restructuring costs	(235)	-
MAP inventory valuation adjustments	-	(93)
	-----	-----
Operating income (loss) as reported	\$ (127)	\$ 16
	=====	=====
Net income before unusual items	\$ 37	\$ 46
Arch Coal asset impairment write-down and restructuring costs	(203)	-
MAP inventory valuation adjustments	-	(57)
	-----	-----

Net income (loss) as reported	\$ (166)	\$ (11)
	=====	=====
Diluted earnings per share before unusual items	\$.52	\$.62
Impact of unusual items	(2.84)	(.76)
	-----	-----
Diluted earnings (loss) per share as reported	\$ (2.32)	\$ (.14)
	=====	=====

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

NOTE C - UNCONSOLIDATED AFFILIATES

Ashland is required by Rule 3-09 of Regulation S-X to file separate financial statements for its two significant unconsolidated affiliates, Marathon Ashland Petroleum LLC (MAP) and Arch Coal, Inc. Such financial statements for the year ended December 31, 1998, were filed on a Form 10-K/A on March 17, 1999. Financial statements for the year ended December 31, 1999, will be filed by means of a Form 10-K/A on or before March 30, 2000. Unaudited income statement information for these companies is shown below.

MAP is organized as a limited liability company (LLC) that has elected to be taxed as a partnership. Therefore, the parents are responsible for income taxes applicable to their share of MAP's taxable income. The net income reflected below for MAP does not include any provision for income taxes which will be incurred by its parents.

(In millions)	Three months ended December 31	
	1999	1998

MAP		
Sales and operating revenues	\$ 6,003	\$ 4,698
Income (loss) from operations	106	(91)
Net income (loss)		
Including inventory valuation adjustments	111	(88)
Excluding inventory valuation adjustments	111	156
Ashland's equity income (loss)		
Including inventory valuation adjustments	36	(40)
Excluding inventory valuation adjustments	36	53
Arch Coal		
Sales and operating revenues	\$ 356	\$ 394
Income (loss) from operations	(374)	14
Net income (loss)		
Including asset impairment and restructuring costs	(348)	-
Excluding asset impairment and restructuring costs	(4)	-
Ashland's equity income (loss)		
Including asset impairment and restructuring costs	(237)	(1)
Excluding asset impairment and restructuring costs	(2)	(1)

NOTE D - LITIGATION, CLAIMS AND CONTINGENCIES

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

Environmental reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the ultimate costs of required remediation efforts. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate

cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Reserves are regularly adjusted as environmental assessments and remediation efforts proceed.

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

NOTE D - LITIGATION, CLAIMS AND CONTINGENCIES (continued)

Ashland was a defendant in a series of cases involving more than 600 former workers at the Lockheed aircraft manufacturing facility in Burbank, California. The plaintiffs alleged personal injuries resulting from exposure to chemicals sold to Lockheed by Ashland, and inadequate labeling of such chemicals. The parties have executed an agreement to fully resolve and settle this matter, which is subject to approval by the court. Ashland believes the settlement amount, which is not material to Ashland, will be covered by insurance.

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

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

NOTE E - ACQUISITIONS

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. In the November transactions, Ashland received from Industri Kapital a short-term note for \$285 million, which is expected to be redeemed by the end of the March 2000 quarter. Ashland's net cost for the U.S. construction business of Superfos was approximately \$537 million.

Primarily as a result of this acquisition, APAC's total assets increased from \$996 million at September 30, 1999, to \$1.583 billion at December 31, 1999. APAC's capital employed increased from \$663 million at September 30, 1999, to \$1.196 billion at December 31, 1999. For Ashland's fiscal year ended September 30, 1999, the U.S. construction operations of Superfos generated sales and operating revenues of \$557 million and operating income of \$30 million.

The acquisition was funded with short-term debt and a \$600 million, floating-rate bank credit agreement that matures in increasing payments between 2000 and 2004. As a result of this new debt and the \$203 million charge to earnings resulting from Arch Coal's asset impairment write-down and restructuring costs (see Note B), Ashland's debt amounted to 58% of capital employed at December 31, 1999. Ashland intends to reduce debt upon redemption of the \$285 million note in the March 2000 quarter.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
INFORMATION BY INDUSTRY SEGMENT

(In millions)	Three months ended December 31	
	1999	1998
REVENUES		
Sales and operating revenues		
APAC	\$ 605	\$ 428
Ashland Distribution	768	706
Ashland Specialty Chemical	314	309
Valvoline	239	234
Intersegment sales		
Ashland Distribution	(10)	(8)
Ashland Specialty Chemical	(19)	(22)
Valvoline	-	(1)
	1,897	1,646
Equity income (loss)		
Ashland Specialty Chemical	1	1
Refining and Marketing	36	(40)
Arch Coal	(237)	(1)
	(200)	(40)
Other income		
APAC	2	2
Ashland Distribution	2	2
Ashland Specialty Chemical	6	5
Valvoline	1	2
Refining and Marketing	2	9
Corporate	1	7
	14	27
	\$ 1,711	\$ 1,633
OPERATING INCOME (1)		
APAC	\$ 38	\$ 26
Ashland Distribution	13	13
Ashland Specialty Chemical	29	28
Valvoline	11	11
Refining and Marketing	33	(41)
Arch Coal	(238)	(1)
Corporate	(13)	(20)
	\$ (127)	\$ 16

(1) See Note B to the Condensed Consolidated Financial Statements for a discussion of unusual items.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
INFORMATION BY INDUSTRY SEGMENT

	Three months ended December 31	
	1999	1998
OPERATING INFORMATION		
APAC		
Construction backlog at December 31 (millions)	\$ 1,210	\$ 770
Hot mix asphalt production (million tons)	8.8	6.8
Aggregate production (million tons)	6.4	5.2
Ready-mix concrete production (thousand cubic yards)	597	332
Ashland Distribution (1)		
Sales per shipping day (millions)	\$ 12.6	\$ 11.4
Gross profit as a percent of sales	15.5%	15.7%
Ashland Specialty Chemical (1)		
Sales per shipping day (millions)	\$ 5.1	\$ 5.0
Gross profit as a percent of sales	36.0%	36.1%
Valvoline lubricant sales (thousand barrels per day)	11.3	11.5
Refining and Marketing (2)		
Refined products sold (thousand barrels per day)	1,320	1,239

Crude oil refined (thousand barrels per day)	824	862
Merchandise sales (millions)	\$ 543	\$ 487
Arch Coal (2)		
Tons sold (millions)	28.4	26.5
Tons produced (millions)	28.6	24.8

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

(2) Amounts represent 100 percent of the volumes of MAP or Arch Coal.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Ashland recorded a net loss of \$166 million for the quarter ended December 31, 1999, compared to a net loss of \$11 million for the quarter ended December 31, 1998. Excluding unusual items described in Note B to the Condensed Consolidated Financial Statements, net income amounted to \$37 million in the 1999 period, compared to \$46 million in the 1998 period. The decline was due to higher crude oil prices and continued weakness in eastern coal markets, which affected Ashland's equity investments, and increased interest expense resulting from debt incurred to purchase the U.S. construction operations of Superfos a/s. Combined operating income from Ashland's wholly owned businesses was up 17%. The increase came primarily from APAC, which benefited from the Superfos acquisition and a change in estimated depreciable lives and salvage values for APAC's construction equipment. Operating income from Ashland Distribution, Ashland Specialty Chemical and Valvoline was comparable to prior year results.

APAC

Operating income from APAC's construction operations totaled \$38 million for the December 1999 quarter, up \$12 million from the December 1998 quarter. Results reflect 10 weeks of operations and \$6 million in operating income from the recently acquired U.S. construction operations of Superfos (see Note E to the Condensed Consolidated Financial Statements). The integration of these new operations is proceeding as planned and further progress is expected during the winter season, typically a slower period for the construction industry. The increased earnings also reflect a \$5 million reduction in depreciation expense related to changes in the estimated useful lives and salvage values of APAC's construction equipment. The construction backlog at December 31, 1999, amounted to \$1.21 billion, up 57% from the December 1998 level. The Superfos operations added \$305 million to the backlog.

As a result of the Superfos acquisition, 13 other acquisitions completed during the past year, the growth of the historical APAC businesses and the change in depreciation, Ashland expects APAC to generate operating income of roughly \$170 million in fiscal 2000, up from \$108 million in fiscal 1999.

ASHLAND DISTRIBUTION

Ashland Distribution reported operating income of \$13 million for the quarter ended December 31, 1999, even with results for last year's December quarter. General Polymers and FRP Supply continued to build on record performances achieved in fiscal 1999. Both units benefited from improved sales volumes and FRP Supply also achieved higher margins. Ashland Plastics Europe improved due to an increase in their gross profit percentage. However, results for Industrial Chemicals & Solvents declined due to higher costs for petroleum based raw materials, reflecting rising crude oil prices.

During the quarter, Ashland announced two external e-commerce alliances and successfully launched customized e-commerce web sites for Industrial Chemicals & Solvents, General Polymers and FRP Supply. Initial acceptance and growth rates are promising, and work continues on adding additional product lines to this exciting channel.

ASHLAND SPECIALTY CHEMICAL

For the quarter ended December 31, 1999, Ashland Specialty Chemical reported operating income of \$29 million, compared to \$28 million reported for the December 1998 quarter. Specialty Polymers &

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS

ASHLAND SPECIALTY CHEMICAL (CONTINUED)

Adhesives set a December quarter profit record on the strength of continued good performance in the pressure-sensitive adhesives and specialty resins product lines. Drew Industrial also achieved record December quarter results and Electronic Chemicals continued its improvement following the worldwide semiconductor recession in 1998. However, results for Composite Polymers declined due to lower margins.

VALVOLINE

Valvoline reported operating income of \$11 million for the December 1999 quarter, even with results for the December 1998 quarter. Although volumes remained strong for Valvoline's branded lubricants business, margins were adversely affected by increased prices of lube base stocks, reflecting higher crude oil prices. In addition, Valvoline Instant Oil Change declined due to higher operating costs. These declines were offset primarily by stronger fundamentals in the antifreeze business and a slight improvement in international operations.

REFINING AND MARKETING

Operating income from Refining and Marketing amounted to \$33 million for the quarter ended December 31, 1999. This compares to \$52 million for the quarter ended December 31, 1998 (excluding \$93 million in unfavorable inventory market valuation adjustments). Results for both periods include Ashland's 38% share of MAP's earnings, amortization of Ashland's excess investment in MAP, and results of certain retained refining and marketing activities. The decline in operating income was primarily due to reduced margins at both the wholesale and retail levels, as prices of refined products did not keep pace with increases in crude oil prices. In addition to the decline in refined product margins, the merchandise margin percentage for the retail operations was also down. The margin declines were partially offset by higher refined product sales volumes at both the wholesale and retail levels, and increased merchandise sales volumes for the retail operations. In addition, transportation operations showed an improvement over the prior year, due to the elimination of losses incurred by the former Scurlock Permian operations that were sold in April 1999.

During the quarter, MAP completed the purchase of certain Michigan assets from Ultramar Diamond Shamrock. This acquisition, which included 178 company-owned retail outlets, will help strengthen MAP's market position in the Midwest.

ARCH COAL

Excluding the \$235 million charge for asset impairment and restructuring costs described in Note B to the Condensed Consolidated Financial Statements, Ashland recorded a loss of \$3 million from its investment in Arch Coal for the December 1999 quarter, compared to a loss of \$1 million for the December 1998 quarter. The decline reflects extremely depressed eastern coal prices, rail service problems at Arch's eastern mines, and a difficult longwall move that reduced operating income at the Mingo Logan operation in southern West Virginia. Ashland continues to pursue spin-off alternatives for its investment in Arch, including both tax-free and taxable distributions.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

CORPORATE

Corporate expenses amounted to \$13 million in the quarter ended December 31, 1999, compared to \$20 million for the quarter ended December 31, 1998. The prior year quarter included transition costs associated with the restructuring of corporate general and administrative functions and the relocation of corporate headquarters to Covington, Ky. The current year quarter includes environmental insurance recoveries and lower incentive compensation costs.

INTEREST EXPENSE (NET OF INTEREST INCOME)

For the quarter ended December 31, 1999, interest expense (net of interest income) totaled \$43 million, compared to \$33 million for the December 1998 quarter. The increase reflects higher debt levels resulting primarily from the \$600 million, floating-rate bank credit agreement and short-term debt used to finance the acquisition of the U.S. construction operations of Superfos. Ashland intends to reduce debt in the March 2000 quarter from proceeds of the expected redemption of the \$285 million note received in connection with the sale of the non-U.S. construction operations of Superfos.

FINANCIAL POSITION

LIQUIDITY

Ashland's financial position has enabled it to obtain capital for its financing needs and to maintain investment grade ratings on its senior debt of Baa2 from Moody's and BBB from Standard & Poor's. Ashland has two revolving credit agreements providing for up to \$400 million in borrowings, neither of which was in use at December 31, 1999. Under a shelf registration, Ashland can also issue an additional \$450 million in debt and equity securities should future opportunities or needs arise. Furthermore, Ashland has access to various uncommitted lines of credit and commercial paper markets, under which \$478 million of short-term borrowings were outstanding at December 31, 1999. The revolving credit agreements contain a covenant limiting new borrowings. Primarily due to the debt incurred to finance the acquisition of the U.S. construction operations of Superfos and the \$203 million charge to earnings resulting from Arch Coal's asset impairment write-down and restructuring costs, additional debt permissible has been reduced from \$1.454 billion at September 30, 1999, to \$216 million at December 31, 1999. Ashland intends to reduce debt in the March 2000 quarter from proceeds of the expected redemption of the \$285 million note received in the Superfos transaction, thereby increasing additional debt permissible by an equal amount.

Cash flows from operations, a major source of Ashland's liquidity, amounted to a deficit of \$9 million for the quarter ended December 31, 1999, compared to \$73 million for the quarter ended December 31, 1998. The decrease reflects reduced cash distributions from

MAP and increased working capital requirements. Ashland's capital requirements for net property additions and dividends exceeded cash flows from operations by \$90 million for the quarter ended December 31, 1999.

Operating working capital (accounts and notes receivable, plus inventories, less trade and other payables) at December 31, 1999, was \$1.024 billion, compared to \$548 million at September 30, 1999, and \$508 million at December 31, 1998. Liquid assets (cash, cash equivalents, accounts and notes receivable) amounted to 95% of current liabilities at December 31, 1999, compared to 95% at September 30, 1999, and 84% at December 31, 1998. Ashland's working capital is affected by its use of the LIFO method of inventory valuation, which valued inventories \$57 million below their replacement costs at December 31, 1999.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL RESOURCES

For the quarter ended December 31, 1999, property additions amounted to \$65 million, compared to \$48 million for the same period last year. Property additions and cash dividends for the remainder of fiscal 2000 are estimated at \$225 million and \$60 million. Under Ashland's share repurchase program initiated in August 1998, Ashland had repurchased 7.3 million shares through December 31, 1999, with remaining authority to repurchase an additional 2.1 million shares. The number of shares ultimately purchased and the prices Ashland will pay for its stock are subject to periodic review by management. Ashland anticipates meeting its remaining 2000 capital requirements for property additions, dividends and scheduled debt repayments of \$63 million from internally generated funds. However, external financing may be necessary to fund common stock repurchases and acquisitions.

At December 31, 1999, Ashland's debt level amounted to \$2.742 billion, compared to \$1.846 billion at September 30, 1999. The increase reflects a \$600 million, floating-rate bank credit agreement and short-term debt incurred to finance the acquisition of the U.S. construction operations of Superfos. Common stockholders' equity decreased by \$228 million during the quarter ended December 31, 1999, reflecting the \$203 million charge to earnings resulting from Arch Coal's asset impairment write-down and restructuring costs. As a result, debt as a percent of capital employed amounted to 58% at December 31, 1999, compared to 46% at September 30, 1999. Ashland's long-term debt included \$638 million of floating-rate debt at December 31, 1999. As a result, Ashland's interest costs for the remainder of 2000 will fluctuate based on short-term interest rates on that portion of its long-term debt outstanding, as well as on any short-term notes and commercial paper.

ENVIRONMENTAL MATTERS

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

environmental reserves, see the "Miscellaneous - Environmental Matters" section of Ashland's Form 10-K.

Environmental reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the ultimate costs of required remediation efforts. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Reserves are regularly adjusted as environmental assessments and remediation efforts proceed.

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

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR 2000

Ashland experienced no significant Year 2000 transition problems and does not anticipate any significant problems in the future.

FORWARD LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, with respect to Ashland's operating performance and earnings. Estimates as to operating performance and earnings are based upon a number of assumptions, including (among others) prices, supply and demand, market conditions, cost of raw materials, weather and operating efficiencies. Although Ashland believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations reflected herein will be achieved. This forward-looking information may prove to be inaccurate, and actual results may differ significantly from those anticipated. Other factors and risks affecting Ashland are contained in Ashland's Form 10-K for the fiscal year ended September 30, 1999.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Environmental Proceedings - (1) As of December 31, 1999, Ashland had been identified as a "potentially responsible party" ("PRP") under Superfund or similar state laws for potential joint and several liability for clean-up costs in connection with alleged releases of hazardous substances in connection with 89 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. Ashland carefully monitors the investigatory and remedial activity at many of these sites. Based on its experience with site remediation, its familiarity with current environmental laws and regulations, its analysis of the specific hazardous substances at issue, the existence of other financially viable PRPs and its current estimates of investigatory, clean-up and monitoring costs at each site, Ashland believes that its liability at these sites, either individually or in the aggregate, after taking into account its insurance coverage and established financial reserves, will not have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity. However, such matters could have a material effect on Ashland's results of operations in a particular quarter or fiscal year as they develop or as new issues are identified. Estimated costs for these matters are recognized in accordance with generally accepted accounting principles governing the likelihood that costs will be incurred and Ashland's ability to reasonably estimate future costs.

(2) Pursuant to a 1990 Agreed Order with the Commonwealth of Kentucky's Natural Resources and Environmental Protection Cabinet ("NREPC"), Ashland has conducted source investigation and remedial activities related to hydrocarbon contamination of the groundwater beneath the Catlettsburg, Kentucky refinery, operated since 1998 by Marathon Ashland Petroleum LLC ("MAP"). In 1999, Ashland and the NREPC initiated negotiations for a new Agreed Order which would identify future investigative efforts and establish timetables for strategic remedial activities. This Order is also expected to include a monetary penalty. In connection with the formation of MAP, Ashland agreed to retain responsibility for this matter. Because discussions are ongoing, Ashland is unable to predict what the final penalty amount might be. However, the penalty amount is not expected to have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity.

Lockheed Litigation - Ashland was a defendant in a series of cases involving more than 600 former workers at the Lockheed aircraft manufacturing facility in Burbank, California. The plaintiffs alleged personal injuries resulting from exposure to chemicals sold to Lockheed by Ashland, and inadequate labeling of such chemicals. The parties have executed an agreement to fully resolve and settle this matter, which is subject to approval by the court. Ashland believes the settlement amount, which is not material to Ashland, will be covered by insurance.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended December 31, 1999, Ashland issued an additional 24,613 shares of its Common Stock, par value \$1.00 per share in connection with the acquisition of Crowell Constructors, Inc. which closed on February 12, 1999. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and the regulations thereunder.

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

- (a) Ashland's Annual Meeting of Shareholders was held on January 27, 2000, at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky at 10:30 a.m.
- (b) Ashland's shareholders at said meeting elected three directors (Paul W. Chellgren, Patrick F. Noonan, Jane C. Pfeiffer) to serve a three-year term and one director (Theodore M. Solso) to serve a one-year term.

Votes		

	Affirmative	Withheld
	-----	-----
- Paul W. Chellgren	60,376,783	4,132,767
- Patrick F. Noonan	59,642,322	4,867,228
- Jane C. Pfeiffer	61,099,263	3,410,287
- Theodore M. Solso	61,233,483	3,276,067

Directors who continued in office: Frank C. Carlucci, James B. Farley, Bernadine P. Healy, M.D., W. L. Rouse, Jr., Samuel C. Butler, Ernest H. Drew and Mannie L. Jackson.

- (c) Ashland's shareholders at said meeting ratified the appointment of Ernst & Young LLP as independent auditors for fiscal year 2000 by a vote of 63,128,619 affirmative, to 1,073,518 negative and 307,413 abstention votes.
- (d) Ashland's shareholders at said meeting approved the Ashland Inc. Incentive Plan by a vote of 55,193,588 affirmative, to 8,255,757 negative and 1,060,205 abstention votes.
- (e) The results of voting on a shareholder proposal to spin-off Ashland Chemical, APAC and Valvoline as three separate companies were 50,678,646 negative, to 8,398,101 affirmative, 1,123,893 abstention votes and 4,308,910 broker non-votes.
- (f) The results on a shareholder proposal recommending that the Board of Directors engage the services of a nationally recognized investment banker to explore alternatives to enhance the value of Ashland were 39,290,327 negative, to 19,770,843 affirmative, 1,139,470 abstention votes and 4,308,910 broker non-votes.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.2 By-laws of Ashland, as amended to January 26, 2000
- 10.1 Ashland Inc. Incentive Plan
- 12 Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends
- 27 Financial Data Schedule

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(b) Reports on Form 8-K

A report on Form 8-K was filed on October 6, 1999 to announce that a tax-free spin-off would be Ashland's preferred alternative for its investment in Arch Coal. The report also noted that Ashland is reviewing its alternatives with respect to a change in its ownership in MAP.

A report on Form 8-K was filed on October 12, 1999 to announce that shareholders representing more than 90% of the share capital of Superfos a/s accepted Ashland's September 27, 1999 offer and that Ashland will implement the tender offer.

A report on Form 8-K was filed on January 24, 2000 to announce that Ashland continues to pursue spin-off alternatives for its investment in Arch Coal, including both tax-free and taxable distributions.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Ashland Inc.

(Registrant)

Date:

/s/ Kenneth L. Aulen

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

Date:

/s/ David L. Hausrath

David L. Hausrath
Vice President and General Counsel

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EXHIBIT INDEX

Exhibit No.	Description
-----	-----
3.2	By-laws of Ashland, as amended to January 26, 2000
10.1	Ashland Inc. Incentive Plan
12	Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends
27	Financial Data Schedule

BY-LAWS
OF
ASHLAND INC.

ARTICLE I

OFFICES

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

ARTICLE II

MEETINGS OF SHAREHOLDERS

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

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

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

A special meeting of the shareholders shall be called by the Secretary on the written request of the holders of not less than one-third of all the shares entitled to vote at such meeting. Such request shall set forth: (i) the action proposed to be taken at such meeting and the reasons for the action; (ii) the name and address of each of such holders who intends to propose action be taken at such meeting; (iii) a representation that each is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at such meeting to propose the action specified in the request; (iv) any material interest of any shareholder in such action; and (v) in the event that any proposed action consists of or includes a proposal to amend either the articles of

incorporation or the By-laws of the Corporation, the language of the proposed amendment. The Secretary shall determine the place (within or without the Commonwealth of Kentucky), date and hour of such meeting. The Secretary may refuse to call a special meeting unless the request is made in compliance with the foregoing procedure.

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

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

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

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

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

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

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

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

SECTION 10. Voting. Except as otherwise expressly required by law, these By-laws, or the articles of incorporation, each shareholder entitled to vote shall, at each meeting of the shareholders, have one vote (except that at each election for directors each such shareholder shall have the

right to cast as many votes in the aggregate as the shareholder shall be entitled to vote under the articles of incorporation multiplied by the number of directors to be elected at such election; and each shareholder may cast the whole number of votes for one candidate, or distribute such votes among two or more candidates), in person or by proxy, for each share of the Corporation held by the shareholder and registered in the shareholder's name on the books of the Corporation:

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

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

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

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

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

ARTICLE III

BOARD OF DIRECTORS

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

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

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

SECTION 3. Nomination. Nominations for the election of directors may be made by the Board or by any shareholder entitled to vote for the election of directors. Any shareholder entitled to vote for the election of directors at a meeting may nominate a person or persons for election as directors only if written notice of such shareholder's intent to make such nomination is given, either by personal delivery or by United States mail, postage prepaid, to the Secretary, not later than (i) with respect to an election to be held at an annual meeting of shareholders, ninety days in advance of such meeting (provided that if the annual meeting of shareholders is held earlier than the last Thursday in January, such notice must be given within ten days after the first public disclosure, which may include any public filing with the Securities and Exchange Commission, of the date of the annual meeting) and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors,

the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a shareholder of record of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated, or intended to be nominated by the Board; (e) the consent of each nominee to serve as a director of the Corporation if so elected; and (f) a representation as to whether or not the shareholder will solicit proxies in support of the shareholder's nominee(s). The chairman of any meeting of shareholders to elect directors and the Board may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure or if the shareholder fails to comply with the representations set forth in the notice.

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

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

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

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

SECTION 6. Meetings.

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

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

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

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

(E) Notice of Meetings. Notices of regular meetings of the Board or of any adjourned meeting need not be given.

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

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

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

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

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

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

ARTICLE IV

OFFICERS

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

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

In addition, the Board may elect such other officers as it deems necessary or appropriate and such other officers shall have such powers,

authority, and duties as may be delegated or assigned to such officer, from time to time, by the Board, the Chairman of the Board, or the President.

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

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

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

SECTION 3. Resignation, Removal and Vacancies. Any officer may resign at any time by giving written notice to the Chairman of the Board, the President or the Secretary, and such resignation shall be effective when the notice is delivered, unless the notice specifies a later effective date. All officers and agents elected or appointed shall be subject to removal at any time by the Board with or without cause. All appointed officers may be removed at any time by the Chairman of the Board acting jointly with the President or any Executive or Senior Vice President, by written designation filed with the Secretary. A vacancy in any office may be filled for the unexpired portion of the term in the same manner as provided for election or appointment to such office.

SECTION 4. Duties and Functions.

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

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

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

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

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

(F) Controller. The Controller shall maintain adequate records of all assets, liabilities and transactions of the Corporation; shall see that adequate audits thereof are currently and regularly made; shall have general supervision of the preparation of the Corporation's balance sheets, income accounts and other financial statements or records; and shall

perform such other duties as shall, from time to time, be assigned to him, by the Board, the Chairman of the Board or the President. These duties and powers shall extend to all subsidiary corporations and, so far as the Board, the Chairman of the Board or the President may deem practicable, to all affiliated corporations.

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

(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. INCENTIVE PLAN
(November 4, 1999)

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 Restricted Stock, 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. 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.

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

(C) "Beneficiary" shall mean the person, persons, trust or trusts designated by a Participant 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 a Participant's or Outside Director's death.

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

(E) "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 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, 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.

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

(G) "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.

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

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

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

(K) "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.

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

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

(N) "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.

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

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

(Q) "Performance Goals" shall mean performance goals as may be established in writing by the Committee which may be based on earnings, stock price, return on equity, return on investment, total return to shareholders, economic 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.

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

(S) "Performance Unit Award" shall mean an award made pursuant to Section 8, the payment of which is contingent upon the achievement of the Performance Goals for the particular Performance Period.

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

(U) "Plan" shall mean this Ashland Inc. Incentive Plan.

(V) "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 Participants 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 6.

(W) "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.

(X) "Restricted Stock Award" shall mean an Award of Restricted Stock pursuant to Section 6 of the Plan.

(Y) "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.

(Z) "Retirement" shall mean retirement of a Participant 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.

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

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

SECTION 3. STOCK SUBJECT TO THE PLAN

There will be reserved for issuance under the Plan an aggregate of 2,000,000 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 Restricted Stock and Merit Awards. Such shares shall be authorized but unissued shares of Common Stock. If any Award under the 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 the Plan.

SECTION 4. ADMINISTRATION

The Plan shall be administered by the Committee. The Committee shall have no authority regarding the granting of Restricted Stock to Outside Directors, as such grants are fixed pursuant to subsection (B) of Section 6 of the Plan.

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 Restricted Stock Awards 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 Participant 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 Restricted Stock Awards granted or to be granted to Outside Directors pursuant to Subsection (B) of Section 6 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.

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 subsection (B) of Section 6 of the Plan, to individuals who are duly elected Outside Directors of the Company.

SECTION 6. RESTRICTED STOCK AWARDS

A. Awards to Employees

The 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 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 such 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 Restricted Stock Award hereunder, the 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 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 the Plan, each person who is hereafter duly appointed or elected as an Outside Director and who does not receive an award under the Ashland Inc. 1997 Stock Incentive Plan 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 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 from the Board at age 70, (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 Restricted Stock Award made 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 Participants, shall be determined by the Committee and, unless otherwise determined by the 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 6. The 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 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, 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 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) unless otherwise determined and directed by the Committee, 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 7. INCENTIVE AWARDS

(A) Any Participant may receive one or more Incentive Awards as the 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 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 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 200% 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 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 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 Committee to be delivered in shares of such Incentive Award) by (y) the Fair Market Value on the date the Board approves the 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 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 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 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 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 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 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 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 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 Committee. The amount of such payment shall be determined by the Committee and shall be based on the original amount of such Performance Unit Award adjusted to reflect the attainment of the Performance Goals during the Performance Period. Payment may be made in one or more installments and may be made wholly in cash, wholly in shares of Common Stock or a combination thereof as determined by the 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 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 Committee's decision to pay the Performance Unit Award or on such other date as the Board shall determine. Any payment may be subject to such restrictions and conditions as the Committee may determine.

SECTION 9. MERIT AWARDS

Any Participant may receive a Merit Award of Common Stock under the Plan for such reasons and in such amounts as the Committee may from time to time determine. As a condition to any such Merit Award, the 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. CONTINUED EMPLOYMENT

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, the Company or interfere in any way with the right of the Company to terminate the Participant's employment at any time.

SECTION 11. CHANGE IN CONTROL

(A) Any Restricted Stock Award shall become fully vested from and after the date of a Change in Control for the full number of awarded shares less such number as may have been theretofore acquired under the 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 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 Committee, in its sole judgment, may make adjustments to any Performance Unit Award as may be appropriate to reflect such Change in Control.

SECTION 12. 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 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 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 Participant 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. AMENDMENT AND TERMINATIONS

The Committee may amend, alter or terminate this Plan at any time without the prior approval of the Board; provided, however, that (i) the Committee may not, without approval by the Board and the shareholders, materially increase the benefits provided to Participants under the Plan

and (ii) any amendment with respect to Restricted Stock granted to Outside Directors must be approved by the full Board.

Termination of the Plan shall not affect any Awards made hereunder which are outstanding on the date of termination and such Awards shall continue to be subject to the terms of the Plan notwithstanding its termination.

SECTION 15. MISCELLANEOUS PROVISIONS

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

(B) A Participant'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 a Participant'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 Participant or Outside Director in the Plan shall be subject to any obligation or liability of such individual; provided, however, that a Participant's or Outside Director's rights and interest under the Plan may, subject to the discretion and direction of the Committee, be made transferable by such Participant or Outside Director during his or her lifetime. Except as specified in Section 6, 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 Participant 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 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 Participant 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 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 shall be submitted to the shareholders of the Company for their approval and adoption on January 27, 2000, or such other date fixed for the next meeting of shareholders or any adjournment or postponement thereof. The Plan shall not be effective and no Award shall be made hereunder unless and until the Plan has been approved and adopted at a meeting of the Company's shareholders.

SECTION 17. 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 RATIOS OF EARNINGS TO FIXED CHARGES
AND EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS
(In millions)

	Years Ended September 30					Three Months Ended December 31	
	1995	1996	1997	1998	1999	1998	1999
EARNINGS							
Income (loss) from continuing operations	\$ 14	\$ 136	\$ 192	\$ 203	\$ 290	\$ (11)	\$ (166)
Income taxes	(1)	72	127	114	192	(6)	(4)
Interest expense	153	154	148	133	141	33	47
Interest portion of rental expense	35	44	48	40	35	9	9
Amortization of deferred debt expense	1	1	1	1	1	-	1
Undistributed earnings of unconsolidated affiliates	(8)	(21)	(19)	(77)	-	145	270
Amounts related to significant affiliates*							
Earnings (losses)	49	57	47	59	41	9	(251)
Dividends	(9)	(5)	(12)	(10)	(10)	(2)	(2)
	\$ 234	\$ 438	\$ 532	\$ 463	\$ 690	\$ 177	\$ (96)
	=====	=====	=====	=====	=====	=====	=====
FIXED CHARGES							
Interest expense	\$ 153	\$ 154	\$ 148	\$ 133	\$ 141	\$ 33	\$ 47
Interest portion of rental expense	35	44	48	40	35	9	9
Amortization of deferred debt expense	1	1	1	1	1	-	1
Capitalized interest	-	-	1	-	-	-	-
Fixed charges of significant affiliates*	32	29	25	29	61	15	14
	\$ 221	\$ 228	\$ 223	\$ 203	\$ 238	\$ 57	\$ 71
	=====	=====	=====	=====	=====	=====	=====
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS							
Preferred dividend requirements	\$ 19	\$ 19	\$ 9	\$ -	\$ -	\$ -	\$ -
Ratio of pretax to net income**	.90	1.53	1.66	-	-	-	-
Preferred dividends on a pretax basis	17	29	16	-	-	-	-
Fixed charges	221	228	223	203	238	57	71
	\$ 238	\$ 257	\$ 239	\$ 203	\$ 238		
	=====	=====	=====	=====	=====	=====	=====
 \$ 57 \$ 71							
	=====	=====	=====	=====	=====	=====	=====
RATIO OF EARNINGS TO FIXED CHARGES	1.06	1.92	2.39	2.28	2.90	3.13	****
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS	***	1.70	2.23	2.28	2.90	3.13	****

* Significant affiliates are companies accounted for on the equity method that are 50% or greater owned or whose indebtedness has been directly or indirectly guaranteed by Ashland or its consolidated subsidiaries.

** Computed as income from continuing operations before income taxes divided by income from continuing operations, which adjusts dividends on preferred stock to a pretax basis.

*** Combined fixed charges and preferred stock dividends exceeded earnings (as defined) by \$4 million.

**** Fixed charges exceeded earnings (as defined) by \$167 million.

<ARTICLE> 5

<LEGEND>

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

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