

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1997

Commission file number 1-2918

ASHLAND INC.  
(a Kentucky corporation)

I.R.S. No. 61-0122250  
1000 Ashland Drive  
Russell, Kentucky 41169

Telephone Number: (606) 329-3333

Securities Registered Pursuant to Section 12(b):

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

Securities Registered Pursuant to Section 12(g): None

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

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

At October 31, 1997, based on the New York Stock Exchange closing price, the aggregate market value of voting stock held by non-affiliates of the Registrant was approximately \$3,174,811,812. In determining this amount, Ashland Inc. has assumed that directors, certain of its executive officers, and persons known to it to be the beneficial owners of more than five percent of its common stock are affiliates. Such assumption shall not be deemed conclusive for any other purpose.

At October 31, 1997, there were 75,019,275 shares of Registrant's common stock outstanding.

Documents Incorporated by Reference

Portions of Registrant's Annual Report to Shareholders for the fiscal year ended September 30, 1997 are incorporated by reference into Parts I and II.

Portions of Registrant's definitive Proxy Statement for its January 29, 1998 Annual Meeting of Shareholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

Ashland Inc. is a Kentucky corporation, organized on October 22, 1936, with its principal executive offices located at 1000 Ashland Drive, Russell, Kentucky 41169 (Mailing Address: P.O. Box 391, Ashland, Kentucky 41114) (Telephone: (606) 329-3333). The terms "Ashland" and the "Company" as used herein include Ashland Inc. and its consolidated subsidiaries, except where the context indicates otherwise.

Ashland's businesses are grouped into five industry segments: Chemical, Valvoline, APAC, Refining and Marketing and Coal. Financial information about these segments for the five fiscal years ended September 30, 1997 is set forth on Pages 62 and 63 of Ashland's Annual Report to Shareholders for the fiscal year ended September 30, 1997 ("Annual Report").

Ashland Chemical distributes industrial chemicals, solvents, thermoplastics and resins, and fiberglass materials, and manufactures and sells a wide variety of specialty chemicals and certain petrochemicals. Valvoline is a marketer of branded, packaged motor oil and automotive chemicals, antifreeze, filters, rust preventives and coolants. In addition, Valvoline is engaged in the "fast oil change" business through outlets operating under the Valvoline Instant Oil Change(R) and Valvoline Rapid Oil Change(R) names.

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

Refining and Marketing operations are conducted by Ashland Petroleum and SuperAmerica. Ashland Petroleum is an independent petroleum refiner and a supplier of petroleum products to the transportation and commercial fleet industries, other industrial customers and independent marketers, and to SuperAmerica for retail distribution. In addition, Ashland Petroleum gathers and transports crude oil and petroleum products and distributes petroleum products under the Ashland(R) brand name. SuperAmerica operates combination gasoline and merchandise stores under the SuperAmerica(R) and Rich(R) brand names.

Ashland's coal operations are conducted by Arch Coal, Inc., which is 54% owned by Ashland and is publicly traded, and which produces and markets bituminous coal in Central Appalachia, the Illinois Basin and the Hanna Basin in Wyoming for sale to domestic and foreign electric utility and industrial customers.

At September 30, 1997, Ashland and its consolidated subsidiaries had approximately 37,200 employees (excluding contract employees).

CORPORATE DEVELOPMENTS

In May 1997, USX Corporation and Ashland announced the signing of a letter of intent to pursue a combination of the major elements of the petroleum supply, refining, marketing and transportation operations of USX's Marathon Group and Ashland. USX-Marathon would own a 62 percent ownership interest and Ashland would own a 38 percent ownership interest in the joint venture to be known as Marathon Ashland Petroleum LLC. The joint venture is expected to be formed following regulatory reviews, execution of definitive agreements and approval by the Ashland and USX Boards of Directors.

On July 1, 1997, Ashland sold the domestic exploration and production assets of Blazer Energy Corporation (formerly Ashland Exploration, Inc.) to the Norwegian energy company, Statoil, through its U.S. energy management subsidiary, The Eastern Group, for \$566 million. Ashland has entered into an agreement to sell its Nigerian exploration and production operations, which is subject to the approval of the Nigerian government and other conditions. For further information, see Note B to the Consolidated Financial Statements on Page 50 in Ashland's Annual Report.

On July 1, 1997, Ashland Coal, Inc. and Arch Mineral Corporation merged into a new, publicly traded corporation, named Arch Coal, Inc. Ashland owns 54% of the new company. The merger created the sixth largest coal company in the United States by tons mined. For further information relating to Arch Coal, see "Coal".

## CHEMICAL

Ashland Chemical Company, a division of Ashland, is engaged in the manufacture, distribution and sale of a wide variety of chemical and plastic products. Ashland Chemical owns and operates 34 manufacturing facilities and participates in 12 manufacturing joint ventures in 10 states and 14 foreign countries. In addition, Ashland Chemical owns or leases approximately 100 distribution facilities in North America and 25 distribution facilities in 17 foreign countries. Ashland Chemical is comprised of the following operations:

### DISTRIBUTION

**INDUSTRIAL CHEMICALS & SOLVENTS DIVISION ("IC&S")** - IC&S markets chemical products, ingredients and solvents to industrial chemical users in major markets through distribution centers in the United States, Canada, Mexico and Puerto Rico. It distributes approximately 3,500 chemical products made by many of the nation's leading chemical manufacturers and a growing number of off-shore producers, as well as petrochemicals from Ashland's refineries. It specializes in supplying mixed truckloads and less-than-truckload quantities to many industries, including the paint and coatings, inks, adhesives, polymer, rubber, industrial and institutional compounding, automotive, appliance and paper industries. It also offers customers chemical waste collection, disposal and recycling services, working in cooperation with major chemical waste services companies.

**FINE INGREDIENTS DIVISION** - This division (formerly part of the IC&S division) distributes cosmetic and pharmaceutical specialty chemicals, and food-grade and nutritional additives and ingredients across North America.

**FRP SUPPLY DIVISION** - This division markets to customers in the reinforced plastics and cultured marble industries mixed truckload and less-than-truckload quantities of polyester resins, fiberglass and other specialty reinforcements, catalysts and allied products from more than 50 distribution locations throughout North America.

**GENERAL POLYMERS DIVISION** - This division markets a broad range of thermoplastic injection molding and extrusion materials to processors in the plastics industry through distribution locations in the United States, Canada, Mexico and Puerto Rico. It also provides plastic material transfer and packaging services and less-than-truckload quantities of packaged thermoplastics. The basic resins business unit markets bulk thermoplastic resins to a variety of proprietary processors in North America.

**ASHLAND PLASTICS EUROPE** - This division (formerly known as the Ashland Plastics Division) markets a broad range of thermoplastics to processors in Europe, including Finland, Norway, Sweden and Germany. Ashland Plastics has distribution centers located in Belgium, France, Italy, the Netherlands, Ireland, Spain, and the United Kingdom. The division has compounding manufacturing facilities located in Italy and Spain.

### SPECIALTY CHEMICALS

**COMPOSITE POLYMERS DIVISION** - This division manufactures and sells a broad range of chemical-resistant, fire-retardant and general-purpose grades of unsaturated polyester and vinyl ester resins for the reinforced plastics industry. Key markets include the transportation, construction and marine industries. It has manufacturing plants in Jacksonville, Arkansas; Colton and Los Angeles, California; Bartow, Florida; Ashtabula, Ohio; Philadelphia and Neville Island, Pennsylvania; and Benicarlo, Spain.

In September 1997, the company reached an agreement in principle to purchase the unsaturated polyester resins business of Buna Sow Leuna Olefinverگرد GmbH (BSL). The agreement is subject to the execution of a definitive agreement and is expected to close by the first calendar quarter of 1998. This acquisition will add a manufacturing facility in Schkopau, Germany.

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

**DREW AMEROID MARINE DIVISION** - This division supplies specialty chemicals for water and fuel treatment and general maintenance as well as refrigeration services, sealing products, welding and refrigerant products and fire fighting and safety services to the world's merchant marine fleet. Drew Ameroid Marine currently provides shipboard technical service for more than 10,000 vessels from more than 30 locations serving 700 ports throughout the world.

ELECTRONIC CHEMICALS DIVISION - This division manufactures and sells a variety of ultra-high purity chemicals for the worldwide semiconductor manufacturing industry through various manufacturing locations and also custom blends and packages high-purity liquid chemicals to customer specifications. It has manufacturing plants in Newark, California; Milan, Italy; Easton, Pennsylvania; Dallas, Texas, and Campbell, California. In addition, it also enters into long-term agreements to provide complete chemical management services, including purchasing, warehousing and delivering chemicals for in-plant use, for major facilities of large consumers of high-purity chemicals. Ashland Chemical is currently building a new, ultra-high purity manufacturing and packaging facility in Pueblo, Colorado, targeted for completion in spring 1998.

FOUNDRY PRODUCTS DIVISION - This division manufactures and sells foundry chemicals worldwide, including sand-binding resin systems, refractory coatings, release agents, engineered sand additives, riser sleeves, and die lubricants. The division purchased the remaining 50% ownership interest in its Brazilian affiliate, Ashland Bentonit Resinas, Ltda., from Bentonit Uniao Nordeste, S.A. in September 1997. This division serves the global metal casting industry from 22 locations in 18 countries.

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

#### PETROCHEMICALS

This division markets aromatic and aliphatic solvents manufactured at facilities located at the Catlettsburg, Kentucky refinery. It also manufactures maleic anhydride at Neal, West Virginia, and Neville Island, Pennsylvania, and methanol near Plaquemine, Louisiana. The division formed an Energy Services business unit in July 1997 to provide industrial and commercial businesses with expert management of their total energy requirements. The new business will source and supply natural gas, electricity and natural gas liquids.

#### OTHER MATTERS

MELAMINE CHEMICALS, INC. ("MCI") - In October 1997, MCI and Borden Chemicals Inc. ("Borden") announced that a definitive agreement had been reached providing for Borden to tender for all of the outstanding shares of MCI for \$20.50 per share. Ashland tendered its 1,275,000 shares under the terms of the offer and received \$26,137,500 for such shares.

DUBLIN, OHIO HEADQUARTERS TECHNICAL CENTER EXPANSION - Ashland Chemical is constructing a 115,000-square-foot facility to expand its Technical Center in Dublin, Ohio. The project is targeted for completion in late calendar year 1998.

For information relating to the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") and the Superfund Amendments and Reauthorization Act of 1986 ("SARA") (CERCLA and SARA hereinafter sometimes referred to collectively as "Superfund"), and the Resource Conservation and Recovery Act ("RCRA"), see "Miscellaneous-Governmental Regulation and Action-Environmental Protection."

#### VALVOLINE

The Valvoline Company, a division of Ashland, is a marketer of automotive and industrial oils, automotive chemicals, and automotive and environmental services, with sales in more than 140 countries. The Valvoline(R) trademark was federally registered in 1873 and is the oldest trademark for a lubricating oil in the United States. See also "Refining and Marketing." Valvoline has diversified its operations in recent years and is comprised of the following business units:

NORTH AMERICAN PRODUCTS - Valvoline's largest division, North American, markets automotive, commercial, and industrial lubricants and automotive chemicals to a broad network of North American customers. Valvoline branded motor oil is one of the top selling brands in the U.S. private passenger car and light truck market.

North American markets Zerex(R) antifreeze and Pyroil(R) automotive chemicals. Zerex(R) is the second-leading antifreeze brand in the U.S. This division also markets R-12, an automotive refrigerant that was phased out of production in 1995. R-12 is being replaced in the market by new-generation refrigerants.

The domestic commercial/fleet group continued its strategic alliance with the Cummins Engine Company to distribute heavy-duty lubricants to the commercial market.

VALVOLINE INTERNATIONAL - Valvoline International markets Valvoline(R) branded products and TECTYL(R) rust preventives worldwide through company-owned affiliates or divisions in Australia, Denmark, Great Britain, the Netherlands, Sweden, Germany, Switzerland, Austria, France, Italy, Belgium and South Africa. Licensees and distributors market products in other parts of Europe, Central and South America, the Far East, the Middle East and certain African countries. Joint ventures have been established in Argentina, Ecuador, Thailand and India. Packaging and blending plants and distribution centers in Australia, Canada, Denmark, Sweden, Great Britain, the Netherlands and the United States supply international customers.

VALVOLINE INSTANT OIL CHANGE(R) ("VIOC") - VIOC is one of the largest competitors in the expanding U.S. "fast oil change" service business, providing Valvoline with a significant share of the installed segment of the passenger car and light truck motor oil market. Incorporation of the Valvoline name and trademark in VIOC's name, store signage and advertising provides an ongoing Valvoline presence in the communities in which VIOC stores are located. As of September 30, 1997, 382 company-owned and 137 franchise service centers were operating in 15 and 27 states, respectively.

In 1997, the "MVP" (Maximum Vehicle Performance) program continued VIOC's industry leadership in customer-service innovation. MVP is a computer-based program that maintains service records on all customer vehicles, system-wide. MVP also contains a database on all car makes and models, which allows service recommendations based on vehicle owner's manual recommendations.

FIRST RECOVERY - As of September 30, 1997, Ecogard, Inc., through its First Recovery division, was collecting used motor oil at an annual rate of 64 million gallons from a network of automotive aftermarket retailers and service businesses in 48 states. Completing Valvoline's "total fluid management" approach to customer service, First Recovery provides an environmental service to Valvoline customers in the U.S., collecting used antifreeze and oil filters as well.

#### APAC

The APAC group of companies, which are located in 13 southern and midwestern states, perform construction work such as paving, repair and resurfacing highways, streets, airports, residential and commercial developments, sidewalks, and driveways; grading and base work; and excavation and related activities in the construction of bridges and structures, drainage facilities and underground utilities. APAC also produces and sells construction materials, such as hot-mix asphalt and ready-mix concrete, crushed stone and other aggregate and, in certain markets, concrete block and specialized construction materials, such as architectural block.

To deliver its services and products, APAC utilizes extensive aggregate-producing properties and construction equipment. It currently has 18 permanent operating quarry locations, 32 other aggregate production facilities, 34 ready-mix concrete plants, 145 hot-mix asphalt plants, and a fleet of over 9,000 mobile equipment units, including heavy construction equipment and transportation-related equipment.

Raw aggregate generally consists of sand, gravel, granite, limestone and sandstone. About 26% of the raw aggregate produced by APAC is used in APAC's own contract construction work and the production of various processed construction materials. The remainder is sold to third parties. APAC also purchases substantial quantities of raw aggregate from other producers whose proximity to the job site render it economically feasible. Most other raw materials, such as liquid asphalt, portland cement and reinforcing steel, are purchased from others. APAC is not dependent upon any one supplier or customer.

Approximately 60% of APAC's revenues are derived directly from highway and other public sector sources. The other 40% are derived from industrial and commercial customers, and other private developers, and other contractors to the public sector.

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

Total backlog at September 30, 1997 was \$693 million, compared to \$647 million at September 30, 1996. The backlog orders at September 30, 1997 are considered firm, and a major portion is expected to be filled during fiscal 1998.

REFINING AND MARKETING

Refining and Marketing operations are conducted by Ashland Petroleum and SuperAmerica. Ashland Petroleum, a division of Ashland, has responsibility for obtaining Ashland's crude oil requirements, operating Ashland's refineries, marketing the refined petroleum products and transporting and storing crude oil and refined products. SuperAmerica Group, a division of Ashland, conducts retail petroleum marketing operations under the SuperAmerica(R) and Rich(R) names. See "Corporate Developments" for information relating to the proposed joint venture with USX-Marathon.

PETROLEUM

CRUDE OIL SUPPLY - The crude oil processed in Ashland Petroleum's refineries is obtained from negotiated lease, contract and spot purchases or exchanges. During fiscal 1997, Ashland Petroleum's negotiated lease, contract and spot purchases of United States crude oil for refinery input averaged 111,392 barrels per day (1 barrel = 42 U.S. gallons), including 93,122 barrels per day acquired through Ashland's Scurlock Permian subsidiary. During fiscal 1997, Ashland Petroleum's foreign crude oil requirements were met largely through purchases from various foreign national oil companies, producing companies and traders, as well as purchases of an average of 60,800 barrels per day during fiscal 1997 from Canada through Scurlock Permian's Canadian subsidiary. Purchases of foreign crude oil (including Canada) represented 68% of Ashland Petroleum's crude oil requirements during fiscal 1997 and in fiscal 1996.

In addition to providing crude oil for Ashland Petroleum's refineries, Scurlock Permian and its Canadian subsidiary are actively engaged in purchasing, selling and trading crude oil, principally at Midland, Texas, Cushing, Oklahoma, and St. James, Louisiana, three of the major distribution points for United States crude oil, as well as major trading and distribution hubs in western Canada.

REFINING AND WHOLESALE MARKETING - Ashland Petroleum owns and operates three refineries, located in its key markets, with an aggregate rated refining capacity of 360,000 barrels of crude oil per calendar day. The Catlettsburg, Kentucky, refinery has a refining capacity of 220,000 barrels per day, and the St. Paul Park, Minnesota, and Canton, Ohio, refineries each have rated refining capacities of 70,000 barrels per day. Ashland Petroleum's refineries are complex and include crude oil atmospheric and vacuum distillation, fluid catalytic cracking, catalytic reforming, desulfurization and sulfur recovery units. Each has the capability to process a wide variety of crude oils and to produce normal refinery products, including reformulated gasoline. In addition, the Catlettsburg refinery manufactures lubricating oils and a wide range of petrochemicals.

Ashland Petroleum's principal marketing areas for gasoline and fuel oils include the Ohio River Valley, the upper Midwest, the upper Great Plains and the southeastern United States.

Ashland Petroleum's production of gasoline, kerosene and light fuel oils is sold in 20 states through wholesale channels of distribution (including company owned and exchange terminals and 17 Ashland brand bulk plants in 4 states) and at retail through Ashland(R) brand distributor locations, SuperAmerica(R) and Rich(R). Gasoline is sold at wholesale primarily to independent marketers, jobbers, and chain retailers who resell through several thousand retail outlets principally under their own names, and also under the Ashland(R) brand name. As of September 30, 1997, 37 jobbers were committed to Ashland's jobber program and 601 units had been reimaged. Ashland also supplies 46 reseller outlets using the Ashland(R) brand name. Gasoline, kerosene, distillates and aviation products are also sold to utilities, railroads, river towing companies, commercial fleet operators, airlines and governmental agencies.

Ashland Petroleum also produces asphalt cements, polymerized asphalt, asphalt emulsions and industrial asphalts and markets these products in 18 states. Additionally, Ashland Petroleum manufactures petroleum pitch, primarily used in the graphite electrode, clay target and refractory industries.

The table below shows Ashland's refining operations for the last three fiscal years.

	Years Ended September 30		
	1997	1996	1995
REFINERY INPUT (IN THOUSANDS OF BARRELS PER DAY)	362.6	372.3	353.8
REFINERY PRODUCTION (IN THOUSANDS OF BARRELS PER DAY)			
Gasoline	178.3	183.5	176.8
Distillates and Kerosene	98.0	102.1	92.5
Asphalt	29.9	30.4	31.5
Jet and Turbine Fuel	11.6	11.4	11.1
Heavy Fuel Oils	7.9	7.1	6.7
Lubricants	7.1	7.7	7.7
Other	20.7	20.0	16.8

The table below shows the average daily consolidated sales (excluding intercompany sales) of petroleum products and crude oil by Ashland Petroleum, SuperAmerica and Valvoline for the last three fiscal years. Sales of gasoline (excluding excise taxes) represented approximately 17%, 18% and 17% of Ashland's consolidated sales and operating revenues (excluding excise taxes) in fiscal years 1997, 1996 and 1995, respectively.

	Years Ended September 30		
	1997	1996	1995
CONSOLIDATED PRODUCT SALES (IN THOUSANDS OF BARRELS PER DAY)			
Gasoline	197.1	197.6	193.7
Crude Oil	108.6	116.3	112.5
Distillates and Kerosene	108.5	112.8	102.8
Asphalt	37.4	37.0	36.8
Jet and Turbine Fuel	12.4	9.6	9.6
Heavy Fuel Oils	7.5	7.0	7.1
Lubricants	13.8	14.8	15.0
Other	29.9	28.0	28.3

TRANSPORTATION AND STORAGE - Ashland owns, leases or has an ownership interest in 5,790 miles of active pipeline in 13 states. This network transports crude oil and refined products to and from terminals, refineries and other pipelines. This includes 2,545 miles of crude oil gathering lines, 2,729 miles of crude oil trunk lines, 475 miles of refined product lines and 41 miles of natural gas liquid lines.

Ashland has an 18.6% ownership interest in LOOP LLC ("LOOP"), the only U.S. deep water port facility capable of receiving crude oil from very large crude carriers and which has a capacity to off-load 1,000,000 to 1,200,000 barrels per day. Ashland also has a 21.4% ownership interest in LOCAP INC. ("LOCAP"), a pipeline operation which has a capacity of 1,200,000 barrels per day, and a 21.6% undivided ownership interest in the Capline Pipeline System, which has a nominal capacity of 1,175,000 barrels per day. LOCAP owns a pipeline connecting LOOP and the Capline System that originates at St. James, Louisiana. These port and pipeline systems provide Ashland Petroleum with access to common carrier transportation from the Louisiana Gulf Coast to Patoka, Illinois. At Patoka, the Capline System connects with other common carrier pipelines owned or leased by Ashland which provide transportation to Ashland Petroleum's refineries in Kentucky and Ohio. For summarized financial statements and information with respect to advances and transportation payments made by Ashland to LOOP and LOCAP, see Notes D and I of Notes to Consolidated Financial Statements in Ashland's Annual Report.

In addition, Ashland owns a 33% stock interest in Minnesota Pipe Line Company, which owns a crude oil pipeline in Minnesota. Minnesota Pipe Line Company provides Ashland Petroleum with access to 270,000 barrels per day nominal capacity of crude oil common carrier transportation from Clearbrook, Minnesota to Cottage Grove, Minnesota, which is in the vicinity of Ashland Petroleum's St. Paul Park, Minnesota, refinery.

Ashland Petroleum's river transportation operations include 8 towboats (6 owned, 2 leased) and 170 barges that transport crude oil and refined products on the Ohio, Mississippi and Illinois rivers, their tributaries, and the Intracoastal Waterway. In 1995, Ashland entered into an agreement with Jeffboat, a division of American Commercial Marine Service Company, to construct 42 new double-hulled inland river tank barges. As of September 30, 1997, construction on 34 of the new double-hulled units has been completed. These barges will replace current single-hulled barges owned and operated by Ashland in order to comply with requirements of the Oil Pollution Act of 1990. Displaced single-hulled units will be divested or recycled into dock floats within Ashland's system. See also "Miscellaneous - Governmental Regulation and Action - Environmental Protection."

Ashland Petroleum leases on a long-term basis two 80,000 ton deadweight tankers, which are primarily used for third party delivery of foreign crude oil to the United States. Ashland Petroleum's requirements for tankers are met by chartering tankers for individual voyages.

Ashland Petroleum leases rail cars in various sizes and capacities for movement of petroleum products and chemicals. Ashland Petroleum also owns a large number of tractor-trailers, additional trailers, and a large fleet of tank trucks and general service trucks.



Ashland Petroleum owns or has an interest in 34 terminal facilities from which it sells a wide range of petroleum products. These facilities are supplied by a combination of river barge, pipeline, truck and rail. Ashland Petroleum also owns or operates a number of other terminals that are used in connection with the transportation of petroleum products or crude oil.

OTHER MATTERS - There are traditional seasonal variations in Ashland Petroleum's sales and operating results. The seasonality that Ashland Petroleum experiences is due primarily to increased demand for gasoline during the summer driving season, higher demand for distillate during the winter heating season, and increased demand for asphalt from the road paving industry during the last six months of Ashland's fiscal year. The refining industry experiences a similar seasonality. For Ashland's fiscal years 1995 through 1997, refining margins for Ashland Petroleum have averaged \$3.69 per barrel for the six-month periods ended March 31 and \$5.19 per barrel for the six-month periods ended September 30.

For information on federal, state and local statutes and regulations relating to releases into the environment or protection of the environment, see "Miscellaneous-Governmental Regulation and Action-Environmental Protection." For information relating to certain environmental litigation, see "Legal Proceedings-Environmental Proceedings."

#### SUPERAMERICA

SUPERAMERICA(R) STORES - SuperAmerica operates 641 (497 owned and 144 leased) combination gasoline and merchandise stores in 10 states in the Ohio Valley and upper Midwest under the SuperAmerica(R) name. These stores are designed for high volume sales. SuperAmerica stores offer consumers gasoline, diesel fuel (at selected locations) and a broad mix of other goods and services, such as fresh-baked goods, automated teller machines, video rentals, automotive accessories and a line of private-label items. SuperAmerica has also added on-premise brand-name restaurants at some outlets to enhance overall profitability. At September 30, 1997, there were 81 SuperAmerica locations with branded food service.

SuperAmerica operates warehouse distribution centers in Bloomington, Minnesota, and Ashland, Kentucky, that distribute certain merchandise to its stores. SuperAmerica also operates a commissary in Russell, Kentucky, that produces sandwiches, salads and other food products for distribution to stores in the Ohio Valley. A wholly owned subsidiary of Ashland also operates a large bakery and commissary in St. Paul Park, Minnesota, under the name SuperMom's(R) that supplies baked goods, sandwiches and salads.

In addition to its product and service innovations, SuperAmerica has adopted a number of technological enhancements that improve efficiency and service. SuperAmerica has bar code scanning and home office to store satellite communication links. SuperAmerica is also one of the first in the industry to operate a data warehouse to collect and analyze data from its stores.

In addition to the 641 company-owned and leased SuperAmerica stores, SuperAmerica has 27 jobber/franchisees who operate 43 stores in Minnesota and Wisconsin. During fiscal 1997, 33 new or rebuilt SuperAmerica retail outlets were opened. During fiscal 1997, 38% of the revenues of the SuperAmerica stores (excluding excise taxes) were derived from the sale of merchandise and 62% of such revenues were derived from the sale of gasoline and diesel fuel.

RICH OIL - SuperAmerica also operates 125 (97 owned and 28 leased) retail gasoline outlets in Kentucky, Ohio and West Virginia under the Rich(R) name. These outlets are generally smaller, are located in less-densely-populated areas and generate lower gasoline volumes than the average SuperAmerica store.

#### OTHER MATTERS

For information on federal, state and local statutes and regulations relating to releases into the environment or protection of the environment, see "Miscellaneous-Governmental Regulation and Action-Environmental Protection." For information relating to certain environmental litigation, see "Legal Proceedings-Environmental Proceedings."

#### COAL

ARCH COAL, INC. ("ARCH COAL") - Ashland owns approximately 54% of Arch Coal, a publicly traded Delaware corporation (NYSE:ACI) resulting from the merger of Ashland Coal, Inc. and Arch Mineral Corporation. See "Corporate Developments" for a discussion of the July 1, 1997 merger transaction. The unaudited pro forma combined operating data below are not representative of the operating results which would have occurred had the merger occurred as of the beginning of the periods presented or dates indicated or of the operating results which may be achieved in the future.

Arch Coal is engaged in the production, transportation, processing and marketing of bituminous coal produced in Central Appalachia, the Illinois Basin and the Hanna Basin in Wyoming. Arch Coal concentrates primarily on acquiring and developing low-sulfur steam coal reserves for sale to electric utility customers in the United States and abroad. Arch Coal relies on third-party rail, barge and truck transportation to deliver coal to its domestic customers. A substantial portion of shipments to international customers are made primarily from the Dominion Terminal Associates terminal facility in Newport News, Virginia. Arch Coal subsidiaries are partners in the partnership that owns and operates this terminal.

For its fiscal year ended December 31, 1996, on a pro forma combined basis, Arch Coal and its independent operating subsidiaries sold 51.3 million tons of coal, as compared to 49.2 and 48.1 million tons sold in 1995 and 1994, respectively. Of the total number of tons sold during fiscal 1996, approximately 68% were under long term contracts, as compared to 69% for 1995 and 67% for 1994, with the balance being sold on the spot market. In fiscal 1996, Arch Coal and its independent operating subsidiaries sold 2.4 million tons of coal in the export market, compared to 3.5 million tons in 1995 and 2.2 million tons in 1994. Sales of coal represented approximately 10%, 5% and 6% of Ashland's consolidated revenues in its fiscal years ended September 30, 1997, 1996 and 1995, respectively.

For its fiscal year ended December 31, 1996, Arch Coal's independent operating subsidiaries produced approximately 47.4 million tons of coal, as compared to 46.5 and 46.6 million tons for 1995 and 1994, respectively. In addition, Arch Coal purchased for resale approximately 3.9 million tons of coal during 1996 and approximately 2.6 and 2.5 million tons of coal during 1995 and 1994.

Approximately 66%, 70% and 68% of total revenues for fiscal years 1996, 1995 and 1994, respectively, were derived from long-term contracts. In the nine months ended September 30, 1997, on a pro forma combined basis, Arch Coal sold 40.1 million tons of coal, 69% of which was sold under contracts with a duration of more than one year. During this period, 94% of Arch Coal's total sales came from the production of its subsidiaries, while the remaining coal sold came from brokerage activities. During this nine-month period, 58% of Arch Coal's production was from its surface mines and the remainder was from its underground and auger mines.

During its fiscal year ended December 31, 1996, Arch Coal's pro forma combined sales to affiliates of The Southern Company and affiliates of American Electric Power accounted for approximately 14.6% and 13.1%, respectively, of pro forma combined revenues from coal sales for such period. The loss of such customers would have a material adverse effect on Arch Coal.

As of September 30, 1997, Arch Coal estimates it owned or controlled recoverable coal reserves in the proven and probable categories of approximately 2.1 billion tons. Arch Coal believes that a majority of these reserves have a sulfur content of less than 1.6 pounds of sulfur dioxide per million Btu and a substantial portion have a sulfur content of less than 1.2 pounds of sulfur dioxide per million Btu. Ashland has not made an independent verification of this information.

Arch Coal's coal properties are owned outright and controlled by lease. Royalties paid to lessors on leased properties are either on a fixed price per ton basis or on a percentage of the gross sales price basis. Most of these leases run until the exhaustion of mineable and merchantable coal. The remaining leases have primary terms ranging from one to 40 years from the date of their execution, with many containing options to renew. Those term leases covering principal reserves under Arch Coal's current mining plans are not scheduled to expire prior to expiration of those plans in 2003 (at Arch Coal's Coal Mac, Inc. operations) and 2006 (at the balance of Arch Coal's operations). Mining plans are not necessarily indicative of the life of the mine. The extent to which reserves will eventually be mined depends upon a variety of factors, including future economic conditions and governmental actions affecting both the mining and marketability of low-sulfur steam coal.

Arch Coal's Apogee Coal Company ("Apogee") and Hobet Mining, Inc. ("Hobet") subsidiaries, are members of the Bituminous Coal Operators Association ("BCOA") and each is a signatory to a five year collective bargaining agreement with the United Mine Workers of America that expires on August 1, 1998. In the nine months ended September 30, 1997, Apogee's and Hobet's combined production represented approximately 55% of Arch Coal's total production on a pro forma combined basis. Two other Arch Coal subsidiaries are signatories to collective bargaining agreements with independent employee associations. Employees of the remainder of Arch Coal's operating subsidiaries are not represented by labor unions.

Arch Coal is subject to extensive federal and state environmental laws and regulations, including the federal Surface Mining Control and Reclamation Act of 1977, the Clean Water Act, RCRA and the Clean Air Act, as well as related federal environmental regulations and similar state enactments. In addition, the Federal Mine Safety and Health Act of 1977 ("MSHA") imposes health and safety standards on all mining operations. Regulations under MSHA are comprehensive and affect numerous aspects of mining operations, including the

training of mine personnel, mining procedures, blasting and the equipment used in mining operations. Although the cost of compliance with these laws, regulations and requirements is substantial, it is not expected to have a material adverse impact on Arch Coal's results of operations, financial condition or competitive position.

The Clean Air Act contains acid rain provisions which require substantial reductions in sulfur dioxide emissions by power plants in the United States. Typically, power plants burn low-sulfur coal as a means of reducing sulfur dioxide emissions. Because Arch Coal has significant low-sulfur coal reserves, future sales should be positively affected by stringent enforcement of sulfur dioxide emission standards.

#### MISCELLANEOUS

##### GOVERNMENTAL REGULATION AND ACTION

Ashland's operations are affected by political developments and laws and regulations, such as restrictions on production, restrictions on imports and exports, the maintenance of specified reserves, price controls, tax increases and retroactive tax claims, expropriation of property, cancellation of contract rights, environmental protection controls and laws pertaining to workers' health and safety. As discussed in part below, a number of bills have been enacted or proposed by the United States Congress and various state governments which have, or could have, a significant impact on Ashland.

GENERAL - As a refiner, Ashland is substantially affected by changes in world crude oil prices. Many world and regional events can have substantial effects on world crude oil prices and can increase volatility in world markets. Ashland expects to be able to acquire adequate supplies of crude oil at competitive prices. However, Ashland cannot predict whether foreign and United States petroleum product price levels will permit its refineries to operate on a profitable basis. Neither can it predict the effect on its operations and financial condition from possible changes in the policies of the Organization of Petroleum Exporting Countries ("OPEC") or in actions by the President of the United States and the Congress, from changes in taxes and federal regulation of the oil and gas business in the United States, or from other developments that cannot be foreseen.

The stability of Ashland's crude oil supply from foreign sources is subject to factors beyond its control, such as military conflict involving oil-producing countries, the possibility of nationalization of assets, embargoes of the type imposed by OPEC in 1973, internal instability in one or more oil-producing countries, and rapid increases in crude oil prices. Although Ashland will continue, for economic reasons, to rely upon foreign crude oil sources for a substantial portion of its crude oil supply, the extent of operation in the domestic crude oil market afforded by its Scurlock Permian subsidiary assists in offsetting the adverse effects frequently associated with market volatility. See "Refining and Marketing - Petroleum-Crude Oil Supply" for Ashland's crude oil processing requirements.

Imported crude oil is subject at present to payment of duty, which is 10.5(cents) per barrel for crudes over 25(degree) API gravity (2.1(cents) per barrel for Canadian imports) and 5.25(cents) per barrel for crudes below 25(degree) API gravity (1.05(cents) per barrel for Canadian imports). Imported crude oil is also subject to a customs users fee of .17% of the value of the crude oil. For information with respect to tax assessments on crude oil, see also "Miscellaneous Governmental Regulation and Action - Environmental Protection."

Retail marketing "divorcement" legislation and wholesale and retail pricing regulations have been adopted in some states. They are proposed from time to time in other states and at the federal level. If such legislation were adopted at the federal level or in the states where SuperAmerica sells petroleum products, it could have a material adverse impact on Ashland's results of operations.

ENVIRONMENTAL PROTECTION - Federal, state and local statutes and regulations relating to the protection of the environment have a significant impact on the conduct of Ashland's businesses. Ashland's capital and operating expenditures for air, water and solid waste control facilities for continuing operations are summarized below.

(In millions)	Years Ended September 30		
	1997	1996	1995
Capital expenditures	\$ 26	\$ 38	\$ 42
Operating expenditures	155	153	148

At September 30, 1997, Ashland's reserves for environmental assessments and remediation efforts were \$150 million, reflecting Ashland's estimates of the costs which are most likely to be incurred over an extended period to remediate identified environmental conditions for which costs are reasonably estimable.

Based on current environmental regulations, Ashland estimates capital expenditures for air, water and solid waste control facilities to be \$30 million in 1998. Expenditures for investigatory and remedial efforts in future years are subject to the uncertainties associated with environmental exposures, including identification of new environmental sites and changes in laws and regulations and their application. Such expenditures, however, are not expected to have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity. For information regarding the 1996 multimedia inspections which were conducted by the United States Environmental Protection Agency ("USEPA") at Ashland Petroleum's three refineries, see "Legal Proceedings".

Federal, state and local environmental laws and regulations have had, and will continue to have, a significant impact on the manner in which Ashland conducts its business, manages its refining, storage, pipeline and retail facilities and selects its range of refined products. A summary of the effects of the most significant of these laws and regulations is set forth below.

The USEPA and the states in which Ashland conducts petroleum marketing operations have adopted regulations and laws concerning underground storage tanks covering, among other things, registration of tanks, release detection, corrosion protection, response to releases, and closure of, and financial responsibility for, underground storage tank systems. Under RCRA, underground storage tanks used for retail distribution of petroleum products must be brought into compliance with the variety of engineering specifications and leak protection technologies by calendar year-end 1998. In anticipation of this compliance deadline, Ashland's retail petroleum marketing operations have upgraded the underground storage tanks at approximately 96% of the Company's existing marketing locations, and Ashland anticipates that the remaining locations will be brought into timely compliance.

As originally enacted, Superfund provided for the establishment of a fund to be used for a hazardous substance clean-up program, administered by the USEPA and funded by: (i) a petroleum tax on domestic crude oil and on imported crude oil equalized at 9.7(cent) per barrel plus a 5(cent) per barrel oil spill tax, as more fully described below, (ii) a chemical feedstock tax, (iii) a tax on imported chemical derivatives, (iv) an "environmental tax" based on corporate alternative minimum taxable income, and (v) the motor fuel tax to finance the new Underground Storage Tank Trust Fund. During 1996, the tax provisions of Superfund expired. As a result Ashland paid no Superfund taxes during fiscal 1997. Superfund is undergoing consideration for significant amendments, including reauthorization of the taxing provisions as well as a reevaluation of the cleanup liability allocation scheme and improved cleanup remedy selection. However, it is uncertain at this time what revisions will be formally considered by Congress, or if any such revisions will in fact be adopted.

The Oil Pollution Act of 1990 ("OPA 90") established a \$1 billion trust fund to cover cleanup-related costs of oil spills after statutory liability limits for a responsible party have been reached, or where the responsible party is otherwise unidentifiable or unable to pay. The trust fund is financed, when depleted below specified levels, through an excise tax of 5(cent) per barrel on domestic crude oil and imported petroleum oil products (pursuant to Superfund). OPA 90 subjects responsible parties to strict liability for removal costs and damages (including natural resource damages) resulting from oil spills, and requires the preparation and implementation of spill-response plans for designated vessels and facilities. Additionally, OPA 90 requires that new tank vessels entering or operating in domestic waters be double-hulled, and that existing tank vessels that are not double-hulled be retrofitted or removed from domestic service according to a phase-out schedule.

On July 1, 1994, the United States Coast Guard issued interim final regulations dealing with financial responsibility for water pollution under OPA 90 and CERCLA. The regulations require self-propelled tank vessel owners and operators to maintain evidence of financial responsibility, effective December 28, 1994, sufficient to meet their potential liability defined under OPA 90 and CERCLA for spills of oil or hazardous substances. The Director, Coast Guard National Pollution Funds Center, has granted permission to Ashland to self-insure the financial responsibility amount for liability purposes for Ashland's ocean tankers, as provided in OPA 90.

The Federal Clean Air Act required the refining industry to market cleaner-burning, reformulated gasoline ("RFG") beginning January 1, 1995, for use in nine specified metropolitan areas across the country. Ashland does not directly supply gasoline in any of the nine metropolitan areas. However, several urban locations within Ashland's marketing area have opted into the RFG program, and Ashland has been able to meet expected demand for RFG in its marketing area. The Clean Air Act also required the refining industry to supply 39 carbon monoxide (CO) non-attainment areas with gasoline containing 2.7 weight percent oxygen for four winter months each year. Upon being re-designated CO attainment, several of these areas are seeking to opt-out of the oxygenated gasoline requirements. Ashland believes it will have a continuing need to supply oxygenated gasoline only at St. Paul Park, Minnesota, whose primary market is a CO non-attainment area.

RCRA, which requires management of hazardous waste, is scheduled to be reauthorized by Congress, although timing of such reauthorization is uncertain. Reauthorization issues may include an expansion of hazardous waste program coverage, recycling, used oil, and solid waste management. These issues may be addressed in additional USEPA rulemakings unrelated to the statutory reauthorization efforts. It is anticipated that both the reauthorization and other future rulemakings will result in increased environmental compliance costs which cannot currently be estimated.

#### RESEARCH

Ashland conducts a program of research and development to invent and improve products and processes and to improve environmental controls for its existing facilities. It maintains its primary research facilities in Catlettsburg, Kentucky, and Dublin, Ohio. Research and development costs are expensed as incurred (\$29 million in 1997, \$28 million in 1996 and \$24 million in 1995).

#### COMPETITION

In all of its operations, Ashland is subject to intense competition both from companies in the respective industries in which it operates and from products of companies in other industries. In most of these segments, competition is based primarily on price, with factors such as reliability of supply, service and quality being considered. Ashland Chemical competes in a number of chemical distribution, specialty chemical and petrochemical markets. Its chemicals and solvents distribution businesses compete with national, regional and local companies throughout North America. Its plastics distribution businesses compete worldwide. Ashland Chemical's specialty chemicals businesses compete globally in selected niche markets, largely on the basis of technology and service, while holding proprietary technology in virtually all their specialty chemicals businesses. Petrochemicals are largely commodities, with pricing and quality being the most important factors. Valvoline competes primarily with domestic oil companies and, to a lesser extent, with international oil companies on a worldwide basis. Valvoline's brand recognition and increasing market share in the "fast oil change" market are important competitive factors.

The majority of the business for which APAC competes is obtained by competitive bidding. Ashland Petroleum competes primarily with other domestic refiners and, to a lesser extent, with imported products. Ashland's refineries are located close to its market areas, giving the Company a geographic advantage in supplying these areas. While some integrated competitors have sources of controlled crude production, few competitors in Ashland Petroleum's market areas are significantly crude self-sufficient. SuperAmerica competes with major oil companies, independent oil companies and independent marketers. Virtually all of SuperAmerica's refined products are supplied by Ashland Petroleum. SuperAmerica strives to provide high quality and efficient service and enjoys gasoline and merchandise sales per store exceeding the convenience store industry average, based on the 1997 National Association of Convenience Store State of the Industry Survey. The coal industry is highly competitive, and Arch Coal competes (principally in price, location and quality of coal) with a large number of other coal producers, some of which are substantially larger and have greater financial resources and larger reserve bases than Arch Coal.

#### FORWARD LOOKING STATEMENTS

This Form 10-K, and the documents incorporated by reference, contain forward-looking statements within the meaning of Section 27A of the Securities and Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including various information within the Capital Resources, Derivative Instruments and Outlook sections in Management's Discussion and Analysis in Ashland's Annual Report. Although Ashland believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such statements will be achieved. Important factors which could cause actual results to differ materially from those contained in such statements are discussed immediately below, as well as in other portions of this Form 10-K and in Note A to the Consolidated Financial Statements under risks and uncertainties in Ashland's Annual Report.

Ashland's operations are affected by domestic and international political, legislative, regulatory and legal actions. Such actions may include changes in the policies of OPEC or other developments involving or affecting oil-producing countries, including military conflict, embargoes, internal instability or actions or reactions of the government of the United States in anticipation of or in response to such developments.

Domestic and international economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, as well as changes in the availability and market prices of crude oil and petroleum products, can also have a significant effect on Ashland's operations. While Ashland maintains reserves for anticipated liabilities and carries various levels of insurance, Ashland could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings. In addition, climate and weather can significantly affect Ashland in several of its operations such as its construction, heating oil and coal businesses.

## ITEM 2. PROPERTIES

Ashland's corporate headquarters, which is leased, and the principal location of Ashland Petroleum, which is owned, are located in Russell, Kentucky. Principal offices of other major operations are located in Lexington, Kentucky (SuperAmerica and Valvoline); Dublin, Ohio (Chemical); Atlanta, Georgia (APAC); and St. Louis, Missouri (Arch Coal), all of which are leased. Ashland's principal manufacturing, marketing and other materially important physical properties are described under the appropriate segment under Item 1. Additional information concerning certain leases may be found in Note I of Notes to Consolidated Financial Statements in Ashland's Annual Report.

## ITEM 3. LEGAL PROCEEDINGS

ENVIRONMENTAL PROCEEDINGS - (1) As of September 30, 1997, Ashland had been identified as a "potentially responsible party" ("PRP") under Superfund or similar state laws for potential joint and several liability for cleanup costs in connection with alleged releases of hazardous substances in connection with 78 waste treatment or disposal sites. These sites are currently subject to ongoing investigation and remedial activities, overseen by the USEPA or a state agency, in which Ashland may be participating as a member of various PRP groups. Generally, the type of relief sought includes remediation of contaminated soil and/or groundwater, reimbursement for the costs of site cleanup or oversight expended, 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 established reserves, will not have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity. 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. For additional information regarding Superfund, see "Miscellaneous - Governmental Regulation and Action-Environmental Protection".

(2) On March 19, 1996, after consultation with the USEPA, the Kentucky Division for Air Quality issued a finding that Ashland had not demonstrated compliance with certain air regulations governing emissions of volatile organic compounds ("VOC") at its Catlettsburg, Kentucky refinery, and referred the matter to USEPA - Region IV for formal enforcement action. On May 27, 1997, Kentucky and Ashland entered into an Agreed Order resolving the issues in contention. Under the terms of the Agreed Order, Ashland agreed to pay a civil penalty and to design, construct and install additional VOC controls. Separately, the USEPA issued a Notice of Violation to Ashland regarding this matter.

(3) In the fall of 1996, the USEPA conducted multimedia inspections of Ashland's three refineries. Over the past several months, the USEPA and Ashland have engaged in discussions to resolve the issues identified during these inspections. The parties have reached a tentative agreement and have begun the process of drafting a settlement document. Resolution is expected to involve both a penalty payment and environmental projects. Ashland expects to finalize the settlement agreement before the end of calendar year 1997 or early calendar 1998.

(4) On October 24, 1996, the rock strata overlaying an abandoned underground mine adjacent to the coal-refuse impoundment used by an Arch Coal subsidiary's preparation plant failed, resulting in an accidental discharge of approximately 6.3 million gallons of water and fine coal slurry into a tributary of the Powell River in Lee County, Virginia. As a consequence, the Director of the State Water Control Board and the Department of Mines, Minerals and Energy of the Commonwealth of Virginia filed a suit in Lee County Virginia Circuit Court against the Arch Coal subsidiary, Lone Mountain Processing, Inc., alleging violations of effluent limitations and reporting violations under Lone Mountain's National Pollutant Discharge Elimination System permits under the Clean Water Act. The Commonwealth of Virginia agreed to vacate two notices of violation and a show cause order in exchange for Lone Mountain's payment to the Commonwealth of a fine of approximately \$1.4 million. A final order effectuating the settlement was entered as a judgment by the court on October 29, 1997. At the request of the USEPA and the U.S. Fish & Wildlife Service, the United States Attorney for the Western District of Virginia also has opened a criminal investigation of the 1996 incident. Arch Coal is cooperating with the investigation, the results of which are not expected until sometime in calendar 1998.

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

No matters were submitted to a vote of security holders through the solicitation of proxies or otherwise, during the quarter ended September 30, 1997.

PART II

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

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

At September 30, 1997, there were approximately 22,000 holders of record of Ashland's Common Stock. Ashland Common Stock is listed on the New York and Chicago stock exchanges (ticker symbol ASH) and has trading privileges on the Boston, Cincinnati, Pacific, Philadelphia and Amsterdam stock exchanges.

ITEM 6. SELECTED FINANCIAL DATA

There is hereby incorporated by reference the information appearing under the caption "Five-Year Selected Financial Information" on Page 61 in Ashland's Annual Report.

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

There is hereby incorporated by reference the information appearing under the caption "Management's Discussion and Analysis" on Pages 36 to 42 in Ashland's Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There is hereby incorporated by reference the information appearing under the caption "Derivative Instruments" on Page 41 in Ashland's Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

There is hereby incorporated by reference the consolidated financial statements appearing on Pages 43 through 59 and the supplemental information appearing on Pages 62 and 63 in Ashland's Annual Report.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference the information to appear under the caption "Election of Directors" in Ashland's definitive Proxy Statement for its January 29, 1998 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after September 30, 1997 ("Proxy Statement").

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

PAUL W. CHELLGREN\* (age 54) was elected as Chairman of the Board on January 30, 1997, and is Chief Executive Officer and Director of Ashland and a Director of Arch Coal, Inc., having served in such capacities since 1996, 1992 and 1997 respectively. During the past five years, he has also served as President and Chief Operating Officer of Ashland.

JOHN A. BROTHERS\* (age 57) is Executive Vice President of Ashland and has served in such capacity since January 1997. During the last five years, he has also served as Senior Vice President and Group Operating Officer - SuperAmerica Group, The Valvoline Company and Ashland Chemical Company.

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\*Member of Ashland's Executive Committee

JAMES R. BOYD\* (age 51) is Senior Vice President and Group Operating Officer of Ashland - Ashland Services Company, APAC, Inc. and a Director of Arch Coal, Inc., having served in such capacities since 1989, 1990, 1993 and 1997 respectively.

DAVID J. D'ANTONI\* (age 52) is Senior Vice President of Ashland and President of Ashland Chemical Company and has served in such capacities since 1988.

THOMAS L. FEAZELL\* (age 60) is Senior Vice President, General Counsel and Secretary of Ashland and a Director of Arch Coal, Inc. and has served in such capacities since 1992, 1981, 1992 and 1997, respectively.

D. DUANE GILLIAM\* (age 53) is Senior Vice President of Ashland and President of Ashland Petroleum Company and has served in such capacities since October 1997. During the past five years he has also served as Executive Vice President of Ashland Petroleum Company and Group Vice President for Ashland Petroleum's Scurlock Permian division.

J. MARVIN QUIN\* (age 50) is Senior Vice President and Chief Financial Officer of Ashland and a Director of Arch Coal, Inc. and has served in such capacities since 1992 and 1997, respectively.

HARRY M. ZACHEM\* (age 53) is Senior Vice President - Public Affairs and has served in such capacity since 1988.

JAMES J. O'BRIEN (age 43) is Senior Vice President of Ashland and President of The Valvoline Company and has served in such capacities since January 1997 and October 1995, respectively. During the past five years he has also served as Vice President of Ashland, Vice President of Ashland Petroleum Company, Executive Assistant to the Chief Executive Officer and Regional Manager of Ashland Chemical's General Polymers division.

JOHN F. PETTUS (age 54) is Senior Vice President of Ashland and President of SuperAmerica Group and has served in such capacities since 1989 and 1988, respectively.

CHARLES F. POTTS (age 53) is Senior Vice President of Ashland and President of APAC, Inc. and has served in such capacities since 1992.

KENNETH L. AULEN (age 48) is Administrative Vice President and Controller of Ashland and has served in such capacities since 1992. During the past five years he has also served as Auditor of Ashland.

PHILIP W. BLOCK\* (age 50) is Administrative Vice President - Human Resources of Ashland and has served in such capacity since 1992.

JOHN W. DANSBY (age 52) is Administrative Vice President and Treasurer of Ashland and has served in such capacities since 1992.

WILLIAM R. SAWRAN (age 52) is Vice President and Chief Information Officer of Ashland, and President of Ashland Services Company and has served in such capacities since 1984, with the exception of Chief Information Officer which he assumed in 1994.

WILLIAM P. TIEFEL (age 48) is Vice President of Ashland and President of Ashland Exploration Holdings, Inc. and has served in such capacities since February 1997.

FRED E. LUTZEIER (age 45) is Auditor of Ashland and has served in such capacity since December 1992. During the past five years he has also served as Vice President and Controller of Arch Mineral Corporation.

Each executive officer (other than Vice Presidents who are appointed by Ashland's management) is elected by the Board of Directors to a term of one year, or until the successor is duly elected, at the annual meeting of the Board of Directors, except in those instances where the officer is elected at other than an annual meeting of the Board of Directors, in which case the tenure will expire at the next annual meeting of the Board of Directors unless the officer is re-elected.

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\*Member of Ashland's Executive Committee



ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference the information to appear under the captions "Executive Compensation" and "Compensation of Directors" in Ashland's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference the information to appear under the caption "Compensation Committee Interlocks and Insider Participation" in Ashland's Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) DOCUMENTS FILED AS PART OF THIS REPORT

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

The consolidated financial statements and financial schedule of Ashland presented or incorporated by reference in this report are listed in the index on Page 19.

(3) Exhibits

- 3.1 - Second Restated Articles of Incorporation of Ashland, as amended to May 16, 1996 (filed as Exhibit 3.1 to Ashland's Form 8-K dated May 16, 1996, and incorporated herein by reference).
- 3.2 - Bylaws of Ashland, as amended to January 30, 1997 (filed as Exhibit 3.2 to Ashland's Form 10-Q for the quarter ended December 31, 1996, and incorporated herein by reference).
- 4.1 - Ashland agrees to provide the SEC, upon request, copies of instruments defining the rights of holders of long-term debt of Ashland, and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the SEC.
- 4.2 - Indenture, dated as of August 15, 1989, as amended and restated as of August 15, 1990, between Ashland and Citibank, N.A., as Trustee (filed as Exhibit 4(a) to Ashland's Form 10-K for the fiscal year ended September 30, 1991, and incorporated herein by reference).
- 4.3 - Rights Agreement, dated as of May 16, 1996, between Ashland Inc. and Harris Trust and Savings Bank, together with Form of Right Certificate (filed as Exhibits 4(a) and 4(c), respectively, to Ashland's Form 8-A filed with the SEC on May 16, 1996, and incorporated herein by reference).

The following Exhibits 10.1 through 10.18 are compensatory plans or arrangements or management contracts required to be filed as exhibits pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K.

- 10.1 - Amended Stock Incentive Plan for Key Employees of Ashland Inc. and its Subsidiaries (filed as Exhibit 10(c).1 to Ashland's Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference).
- 10.2 - Ashland Inc. Deferred Compensation and Stock Incentive Plan for Non-Employee Directors.
- 10.3 - Ashland Inc. Director Retirement Plan (filed as Exhibit 10(c).3 to Ashland's Form 10-K for the fiscal year ended September 30, 1988, and incorporated herein by reference).
- 10.4 - Ninth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Key Executive Employees.
- 10.5 - Ashland Inc. Amended Performance Unit Plan (filed as Exhibit 10(c).5 to Ashland's Form 10-K for the fiscal year ended September 30, 1994, and incorporated herein by reference).

- 10.6 - Ashland Inc. Incentive Compensation Plan (filed as Exhibit 10(c).6 to Ashland's Form 10-K for the fiscal year ended September 30, 1993, and incorporated herein by reference).
- 10.7 - Ashland Inc. Director Death Benefit Program (filed as Exhibit 10(c).10 to Ashland's Form 10-K for the fiscal year ended September 30, 1990, and incorporated herein by reference).
- 10.8 - Ashland Inc. Salary Continuation Plan (filed as Exhibit 10(c).11 to Ashland's Form 10-K for the fiscal year ended September 30, 1988, and incorporated herein by reference).
- 10.9 - Forms of Ashland Inc. Executive Employment Contract between Ashland Inc. and certain executive officers of Ashland (filed as Exhibit 10(c).12 to Ashland's Form 10-K for the fiscal year ended September 30, 1989, and incorporated herein by reference).
- 10.10 - Form of Indemnification Agreement between Ashland Inc. and each member of its Board of Directors (filed as Exhibit 10(c).13 to Ashland's Form 10-K for the fiscal year ended September 30, 1990, and incorporated herein by reference).
- 10.11 - Ashland Inc. Nonqualified Excess Benefit Pension Plan.
- 10.12 - Ashland Inc. Long-Term Incentive Plan (filed as Exhibit 10(c).12 to Ashland's Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference).
- 10.13 - Ashland Inc. Directors' Charitable Award Program (filed as Exhibit 10(c).13 to Ashland's Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference).
- 10.14 - Ashland Inc. 1993 Stock Incentive Plan (filed as Exhibit 10(c).14 to Ashland's Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference).
- 10.15 - Ashland Inc. 1995 Performance Unit Plan (filed as Exhibit 10(c).15 to Ashland's Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference).
- 10.16 - Ashland Inc. Incentive Compensation Plan for Key Executives (filed as Exhibit 10(c).16 to Ashland's Form 10-K for the fiscal year ended September 30, 1996, and incorporated herein by reference).
- 10.17 - Ashland Inc. Deferred Compensation Plan.
- 10.18 - Ashland Inc. 1997 Stock Incentive Plan.
  
- 11 - Computation of Earnings Per Share (appearing on Page 22 of Ashland's Form 10-K for the fiscal year ended September 30, 1997).
- 13 - Portions of Ashland's Annual Report to Shareholders, incorporated by reference herein, for the fiscal year ended September 30, 1997.
- 21 - List of Subsidiaries.
- 23 - Consent of independent auditors.
- 24 - Power of Attorney, including resolutions of the Board of Directors.
- 27 - Financial Data Schedule.

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

(B) REPORTS ON FORM 8-K

None

SIGNATURES

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

ASHLAND INC.  
(Registrant)

By: /s/ Kenneth L. Aulen  
-----  
(Kenneth L. Aulen, Administrative  
Vice President and Controller)

Date: November 25, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant, in the capacities indicated, on November 25, 1997.

Signatures	Capacity
/s/ PAUL W. CHELLGREN ----- PAUL W. CHELLGREN	Chairman of the Board, Chief Executive Officer and Director
/s/ J. MARVIN QUIN ----- J. MARVIN QUIN	Senior Vice President and Chief Financial Officer
/s/ KENNETH L. AULEN ----- KENNETH L. AULEN	Administrative Vice President, Controller and Principal Accounting Officer
* ----- JACK S. BLANTON	Director
* ----- THOMAS E. BOLGER	Director
* ----- SAMUEL C. BUTLER	Director
* ----- FRANK C. CARLUCCI	Director
* ----- RALPH E. GOMORY	Director
* ----- MANNIE L. JACKSON	Director
* ----- PATRICK F. NOONAN	Director
* ----- JANE C. PFEIFFER	Director

\*

Director

-----  
MICHAEL D. ROSE

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Director

-----  
WILLIAM L. ROUSE , JR.

\*

Director

-----  
ROBERT B. STOBAUGH

\* BY: /S/ THOMAS L. FEAZELL

-----  
THOMAS L. FEAZELL  
ATTORNEY-IN-FACT

DATE: November 25, 1997

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

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\*The consolidated financial statements appearing on Pages 43 through 59 and the supplemental information appearing on Pages 61 through 63 in Ashland's Annual Report are incorporated by reference in this Annual Report on Form 10-K.

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

REPORT OF INDEPENDENT AUDITORS

We have audited the consolidated financial statements and schedule of Ashland Inc. and subsidiaries listed in the accompanying index to financial statements and financial schedules (Item 14(a)). These financial statements and schedule are the responsibility of Ashland's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements listed in the accompanying index to financial statements (Item 14(a)) present fairly, in all material respects, the consolidated financial position of Ashland Inc. and subsidiaries at September 30, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note A to the consolidated financial statements, in fiscal 1995 Ashland changed its method of accounting relative to impairments of long-lived assets.

ERNST & YOUNG LLP

Louisville, Kentucky  
November 5, 1997

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

(In millions)	Balance at beginning of year	Provisions charged to earnings	Reserves utilized	Other changes	Balance at end of year
=====					
YEAR ENDED SEPTEMBER 30, 1997					
Reserves deducted from asset accounts					
Accounts receivable	\$27	\$ 8	\$(10)(1)	\$ (1)	\$24
Inventories	10	2	(1)	-	11
=====					
YEAR ENDED SEPTEMBER 30, 1996					
Reserves deducted from asset accounts					
Accounts receivable	\$25	\$10	\$ (8)(1)	\$ -	\$27
Inventories	6	6	(2)	-	10
=====					
YEAR ENDED SEPTEMBER 30, 1995					
Reserves deducted from asset accounts					
Accounts receivable	\$23	\$ 9	\$ (7)(1)	\$ -	\$25
Inventories	6	3	(3)	-	6
=====					

(1) Uncollected amounts written off, net of recoveries of \$2 million in 1997, \$2 million in 1996 and \$1 million in 1995.

Ashland Inc. and Subsidiaries  
EXHIBIT 11 - COMPUTATION OF EARNINGS PER SHARE  
Years Ended September 30

(In millions except per share data)	1997	1996	1995
<b>PRIMARY EARNINGS PER SHARE</b>			
Income available to common shares			
Net income	\$ 279	\$ 211	\$ 24
Dividends on convertible preferred stock	(9)	(19)	(19)
	\$ 270	\$ 192	\$ 5
Average common shares and equivalents outstanding			
Average common shares outstanding	70	64	62
Common shares issuable upon exercise of stock options	1	1	-
	71	65	62
Earnings per share	\$3.80	\$2.97	\$ .08
<b>EARNINGS PER SHARE ASSUMING FULL DILUTION</b>			
Income available to common shares			
Net income	\$ 279	\$ 211	\$ 24
Interest on convertible debentures (net of income taxes)	-	5	-
Dividends on convertible preferred stock	-	-	(19)
	\$ 279	\$ 216	\$ 5
Average common shares and equivalents outstanding			
Average common shares outstanding	70	64	62
Common shares issuable upon			
Exercise of stock options	2	1	1
Conversion of debentures	-	3	-
Conversion of preferred stock	4	9	-
	76	77	63
Earnings per share	\$3.67	\$2.82	\$ .08



ASHLAND INC.  
DEFERRED COMPENSATION AND  
STOCK INCENTIVE PLAN FOR NON-EMPLOYEE DIRECTORS  
(Amended as of September 18, 1997)

ARTICLE I. GENERAL PROVISIONS

1. PURPOSE

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

2. DEFINITIONS

The following definitions shall be applicable throughout the Plan:

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

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

(c) "Agreement" means a written agreement setting forth the terms of an Option.

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

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

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

(g) "Change in Control" shall be deemed to occur (1) upon the approval of the shareholders of the Company (or if such approval is not required, upon the approval of the Board) of (A) any consolidation or merger of the Company 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 Common Stock outstanding at the time, without the approval of the Board, or (3) if at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's shareholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

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

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

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

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

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

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

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

(o) "Deferral Account" means the account(s) to which the

Participant's Deferred Fees are credited and from which, pursuant to Article III, Section 5, distributions are made.

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

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

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

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

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

(u) "Exercise Price" means, with respect to each share of Common Stock subject to an Option, the price at which such share may be purchased from the Company pursuant to the exercise of such Option.

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

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

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

(y) "Nonqualified Stock Option" means any Option that does not comply with the provisions of Section 422 of the Code.

(z) "Option" means the right to purchase Common Stock as provided in Article IV.

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

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

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

(dd) "Plan" means this Ashland Inc. Deferred Compensation and Stock Incentive Plan For Non-Employee Directors.

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

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

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

### 3. SHARES; ADJUSTMENTS IN EVENT OF CHANGES IN CAPITALIZATION

(a) Shares Authorized for Issuance. There shall be reserved for issuance under the Plan 500,000 shares of Common Stock, subject to adjustment pursuant to subsection (b) below; provided, however, that of such shares, only 150,000 shares shall be available for issuance in connection with the award of Options. Such shares shall be authorized but unissued shares of Common Stock. If any Option shall expire without having been exercised in full, the shares subject to the unexercised portion of such Option shall again be available for the purposes of the Plan.

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

### 4. ELIGIBILITY

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

### 5. ADMINISTRATION

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

## ARTICLE II. COMMON STOCK PROVISION

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

## ARTICLE III. DEFERRED COMPENSATION

### 1. PARTICIPANT ACCOUNTS

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

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

### 2. FINANCIAL HARDSHIP

Upon the written request of a Participant or a Participant's Personal Representative and a finding that continued deferral will result in an unforeseeable financial hardship to the Participant, the Committee or the Company (each in its sole discretion) may authorize (a) the payment of all or a part of a Participant's Deferral Account in a single installment prior to his or her ceasing to be a Director, or (b) the acceleration of payment of any multiple installments hereof. It is intended that the Committee's determinations as to whether the Participant has suffered an "unforeseeable financial emergency" shall be made consistent with the requirements under Section 457(d) of the Internal Revenue Code. If the Participant requesting a payment contemplated by subsection (a) or (b) of this Article III, Section 2 is a member of the Committee, such Participant shall abstain from the Committee's determination as to whether such payment shall be made.

### 3. ACCELERATED DISTRIBUTION

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

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

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

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

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

#### 4. MANNER OF ELECTION

(a) General. Any Director wishing to participate in the Plan may elect to do so by delivering to the Secretary of the Company an Election on a form prescribed by Corporate Human Resources designating the manner in which such Deferred Fees are to be invested in accordance with Article III, Section 1 and electing the timing and form of distribution. The timing of the filing of the appropriate form with Corporate Human Resources shall be determined by the Company or the Committee. An effective election to defer Fees may not be revoked or modified except as otherwise determined by the Company or the Committee or as stated herein.

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

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

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

#### 5. DISTRIBUTION

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

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

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

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

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

#### 6. PAYMENT COMMENCEMENT DATE

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

7. CHANGE IN CONTROL

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

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

ARTICLE IV. OPTIONS

1. OPTION GRANT

On the first business day following the Company's Annual Meeting of Shareholders in 1994 and each year thereafter until 2004, or, if no such meeting is held, on January 31 or the first business day thereafter, and each year thereafter until 2004 (such day hereinafter referred to as the "Effective Date"), each person who is a Director of the Company on the Effective Date shall be automatically granted an Option to purchase 1,000 shares of Common Stock if, but only if, the return on average common stockholders' equity of the Company for the immediately preceding fiscal year as set forth in the Company's Annual Report to Shareholders is equal to or greater than 10%.

2. OPTION TERMS

Options granted under the Plan shall be subject to the following terms and conditions:

(a) Option Designation and Agreement. Any Option granted under the Plan shall be granted as a Nonqualified Stock Option. Each Option shall be evidenced by an Agreement between the recipient and the Company containing the terms and conditions of the Option.

(b) Option Price. The Exercise Price of Common Stock issued pursuant to each Option shall be equal to Fair Market Value of the Common Stock on the Effective Date.

(c) Term of Option. No Option shall be exercisable more than ten years after the date the Option is granted.

(d) Vesting. Options granted under the Plan shall vest six months after the date of grant.

(e) Exercise. Options, to the extent they are vested, may be exercised in whole or in part at any time during the option period; provided, however, that an Option may not be exercised at any time for fewer than 50 shares (or the total remaining shares covered by the Option if fewer than 50 shares) during the term of the Option. The specified number of shares will be issued upon receipt by the Company of (i) notice from the optionee of exercise of an Option, and (ii) payment to the Company (as provided in (f) below), of the Exercise Price for the number of shares with respect to which the Option is exercised. Each such notice and payment shall be delivered or mailed by postpaid mail, addressed to the Treasurer of the Company at, Ashland Inc., 1000 Ashland Drive, Russell, Kentucky, 41169, or such other place as the Company may designate from time to time.

(f) Payment for Shares. The Exercise Price for the Common Stock shall be paid in full when the Option is exercised. The Exercise Price may be paid in whole or in part (i) in cash, (ii) in whole shares of Common Stock (which shares of Common Stock must have been owned by the Director six months or longer, and not used to effect a stock option exercise within the preceding six months, unless the Committee specifically provides otherwise) and evidenced by negotiable certificates, valued at their Fair Market Value, (iii) Attestation or (iv) by a combination of such methods of payment. In addition, a Director may exercise the Option by effecting a "cashless exercise," with a broker, of the Option. "Attestation" means the delivery to the Company of a completed Attestation Form prescribed by the Company setting forth the whole shares of Common Stock owned by the Director which the Director wishes to utilize to pay the Option price. The Common Stock listed on the Attestation Form must have been owned by the Director six months or longer, and not have been used to effect an Option exercise within the preceding six months, unless the Committee specifically provides otherwise.

(g) Termination . If a Director's service on the Board terminates by reason of (i) normal retirement from the Board at age 70, (ii) the death or Disability of such Director, (iii) a Change of Control of the Company, or (iv) voluntary early retirement to take a position in governmental service, any Option held by such Director may thereafter be exercised by the Director, or in the event of death, by his or her Beneficiary to the extent it was vested and exercisable at the time of Termination, (i) for a period equal to the number of years of completed Board service as of the date of Termination of the Director on whose behalf the Option is exercised, or (ii) until the expiration of the stated term of such Option, whichever period is the shorter. In the event of Termination for any reason other than those set forth above, any Option held by such Director may thereafter be exercised by the Director to the extent it was vested and exercisable at the time of Termination (i) for a period of one year from the date of such Termination or (ii) until the expiration of the stated term of such Option, whichever period is the shorter.

(h) Term. No Option shall be granted pursuant to the Plan on or after the tenth anniversary of the date of shareholder approval, but Option awards granted prior to such tenth anniversary may extend beyond that date until the expiration of their terms.

### 3. TRANSFER OF OPTIONS

Options granted under the Plan shall be transferable by will, by the laws of descent and distribution, and, subject to the discretion and direction of the Committee, may be made transferable by the Director-holder thereof during his or her lifetime.

## ARTICLE V. MISCELLANEOUS PROVISIONS

### 1. BENEFICIARY DESIGNATION

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

### 2. INALIENABILITY OF BENEFITS

The interests of the Directors and their Beneficiaries under the Plan may not in any way be voluntarily or involuntarily transferred, alienated or assigned, nor be subject to attachment, execution, garnishment or other such equitable or legal process. Subject to Section 3 of Article IV of this Plan, any Option shall be exercisable, during a Director's lifetime, only by him or her or his or her Personal Representative.

### 3. GOVERNING LAW

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

4. AMENDMENTS

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

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

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

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

(d) amend any provision relating to the amount, price, timing or vesting of the Options, other than to comport with changes in the Code or the rules and regulations promulgated thereunder.

5. COMPLIANCE WITH RULE 16b-3

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

6. EFFECTIVE DATE

The Plan was approved by the shareholders of the Company on January 27, 1994, and originally became effective as of November 9, 1993, and has been restated in this document effective September 18, 1997.



NINTH AMENDED AND RESTATED  
ASHLAND INC.  
SUPPLEMENTAL EARLY RETIREMENT PLAN  
FOR CERTAIN KEY EXECUTIVE EMPLOYEES  
November 6, 1997

ARTICLE I. PURPOSE AND EFFECTIVE DATE.

- 1.01 The purpose of the Plan is to allow designated senior executive employees to retire prior to their sixty-fifth birthday without an immediate substantial loss of income. This Plan is a supplemental retirement arrangement for a select group of management.
- 1.02 The Ninth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Key Executive Employees is hereby amended effective November 6, 1997. However, the rights and obligations of Employees who were selected by the Board or approved for participation pursuant to the eligibility requirements of the Plan to receive a benefit under the Plan, or who were receiving benefits prior to November 6, 1997, (irrespective of the Effective Retirement Date(s) of such Employee(s)), shall be governed by the terms of the Plan in effect at the time of such retirement.

ARTICLE II. DEFINITIONS.

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

- 2.01 "Age" - means the age of an Employee as of his or her last birthday.
- 2.02 "Annual Retirement Income" - means the annual income payable under this Plan by Ashland for the lifetime of a Participant commencing on such Participant's Effective Retirement Date and ending on his or her date of death, subject to the provisions of Section 5.04.
- 2.03 "Ashland" - means Ashland Inc. and its present or future subsidiary corporations.
- 2.04 "Board" - means the Board of Directors of Ashland and their designees.
- 2.05 "Change in Control" - shall be deemed to occur (1) upon the approval of the shareholders of Ashland (or if such approval is not required, the approval of the Board) of (A) any consolidation or merger of Ashland in which Ashland is not the continuing or surviving corporation or pursuant to which shares of Ashland common stock would be converted into cash, securities or other property other than a merger in which the holders of Ashland common stock immediately prior to the merger will have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, (B) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of Ashland, or (C) adoption of any plan or proposal for the liquidation or dissolution of Ashland, (2) when any "person" (as defined in Section 3(a)(9) or 13(d) of the Securities Exchange Act of 1934), other than Ashland or any subsidiary or employee benefit plan or trust maintained by Ashland or any of its subsidiaries, shall become the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 15% of the Ashland common stock outstanding at the time, without the approval of the Board, or (3) if at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board shall cease for any reason to constitute at least a majority thereof, unless the election or nomination for election by Ashland's shareholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.
- 2.06 "Committee" - means the Personnel and Compensation Committee of the Board and their designees.
- 2.07 "Effective Retirement Date" - means the date upon which a Participant retires under this Plan which shall be the first day of the month following the Participant's 62nd birthday or, at Ashland's discretion or as otherwise provided in Article V or VI, any earlier age. Upon approval as provided in

Sections 3.01 and 3.02, the "Effective Retirement Date" of a Participant may occur after the Employee reaches age 62.

- 2.08 "Employee" - means an executive employee of Ashland who (i) is at least 55 years of age or such earlier age pursuant to Section 5.06(b); and (ii) is deemed on the Effective Retirement Date to be a Level V or above employee under the Incentive Compensation Plan.
- 2.09 "Employment Contracts" - means those contractual agreements, in effect from time to time, which are approved by the Board and which provide an Employee with a specified period of employment and other benefits.
- 2.10 "Final Average Bonus" - means the Participant's average bonus paid under the Incentive Compensation Plan (including amounts that may have been deferred) during the highest thirty-six (36) months out of the final sixty-month (60) period. For these purposes, the "bonus paid" for a particular month within a particular fiscal year under such plan shall be equal to the amount of such bonus actually paid (regardless of the date paid, but excluding any adjustment for the deferral of such payment) to such Participant on account of such fiscal year divided by the number of months contained in such fiscal year which were used in determining the amount of such bonus actually paid to such Participant.
- 2.11 "Final Average Compensation" - means the average total compensation paid during the highest thirty-six months (36) out of the final sixty-month (60) period. For these purposes, "total compensation paid" is the sum of the "compensation paid" and the "bonus paid" during a particular month. "Compensation paid" shall be the base rate of compensation for such Participant in effect on the first day of such calendar month. "Bonus paid" shall have the same meaning as set forth in Section 2.10.
- 2.12 "Incentive Compensation Plan" - means the Ashland Inc. Incentive Compensation Plan or the Ashland Inc. Incentive Compensation Plan for Key Executives, as applicable.

- 2.13 "Participant" - means an Employee who has been approved for participation in the Plan pursuant to Article III or Section 5.06.
- 2.14 "Plan" - means the Ninth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Key Executive Employees as set forth herein.
- 2.15 "Service" - means the number of years and fractional years of employment by Ashland of an Employee, measured from the first day of the month coincident with or next succeeding his or her initial date of employment up to and including such Employee's Effective Retirement Date. For purposes of this Section 2.15, Service shall include an Employee's employment with a subsidiary or an affiliate of Ashland determined in accordance with rules from time to time adopted or approved by the Board.

ARTICLE III. PARTICIPATION IN PLAN.

- Eligibility for benefits shall be determined as follows:
- 3.01 Except as otherwise provided in Section 3.03, an Employee who on the Effective Retirement Date is deemed to be a Level I or II Participant under the Incentive Compensation Plan shall require Board approval to participate in this Plan.
- 3.02 An Employee who on the Effective Retirement Date is deemed to be a Level III, IV, or V Participant under the Incentive Compensation Plan shall require the approval of either (i) Ashland's Chief Executive Officer or (ii) Ashland's Administrative Vice President, Human Resources and either the Executive Vice President or the Chief Financial Officer to participate in this Plan.
- 3.03 Subject to the provisions of Article VI, in the event of a "Change in Control" (as defined in Section 2.05), an Employee who is deemed to be a Level I or II Participant under the Incentive Compensation Plan shall automatically be deemed to be approved by the Board for participation under this Plan.
- 3.04 The Board or Chief Executive Officer or Chief Operating Officer, as applicable, may approve such key executives for participation in the Plan as they deem to be appropriate, all in its sole discretion.

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

ARTICLE IV. INTERACTION WITH EMPLOYMENT CONTRACTS.

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

4.02 Benefits Prior to "Change in Control."  
If the Employee's termination is without "Cause" prior to a "change in control of Ashland," benefits payable hereunder shall not include those benefits which would have been payable to the Employee during the first two (2) years of his or her retirement under the Plan. The benefits payable hereunder shall commence no earlier than as of the first day of the calendar month coincident with or next following the second anniversary following the Employee's "Date of Termination" (as defined in the applicable employment agreement); however, if the Employee elects to receive such benefits in a

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lump sum as provided in Section 5.04(b)(1), such benefits shall commence and be payable as therein specified.

4.03 Benefits Subsequent to a "Change in Control."  
If the Employee's termination is without "Cause" or he or she resigns for "Good Reason" following a "change in control of Ashland," benefits payable hereunder shall not include those benefits which would have been payable to the Employee during the first three (3) years of his or her retirement under the Plan. The benefits payable hereunder shall commence no earlier than as of the first day of the calendar month coincident with or next following the third anniversary following the Employee's "Date of Termination" (as defined in the applicable employment agreement); however, if the Employee elects to receive such benefits in a lump sum as provided in Section 5.04(b)(1), such benefits shall commence and be payable as therein specified.

4.04 If a Participant accepts, during a period of five (5) years subsequent to his or her Effective Retirement Date, any consulting or employment activity which is in direct conflict with the business of Ashland at such time (such determination regarding conflicting activity to be made in the sole discretion of the Board), he or she shall not be entitled to the receipt of any further payments of Annual Retirement Income under this Plan; provided, however, he or she shall not be restricted in any manner with respect to any other non-conflicting activity in which he or she is engaged.

If a Participant wishes to accept employment or consulting activity which may be prohibited under this Section 4.04, such Participant may submit to Ashland written notice (Attention: Administrative Vice President, Human Resources) of his or her wish to accept such employment or consulting activity. If within ten (10) business days following receipt of such notice Ashland does not notify the Participant in writing of Ashland's objection to his or her accepting such employment or consulting activity, then such Participant shall be free to accept such employment or consulting activity for the period of time and upon the basis set forth in his or her written request.

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ARTICLE V. ANNUAL RETIREMENT INCOME AND OTHER BENEFITS.  
5.01 LEVELS I AND II.

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

(a) Pre-Age 62 Benefit

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

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

For purposes of this Section 5.01(a), "% of Compensation" shall mean the annualized average of the Participant's base monthly compensation rates (excluding incentive awards, bonuses, and any other form of extraordinary compensation) in effect with respect to Ashland on the first day of the thirty-six (36) consecutive calendar

months which will give the highest average out of the one-hundred twenty (120) consecutive calendar month period ending on the Participant's Effective Retirement Date.

(b) Age 62 Benefit and Thereafter

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

(c) Benefit Reduction

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

- (1) the Participant's benefit under the Ashland Inc. and Affiliates Pension Plan (the "Pension Plan") (assuming 50% of such Participant's account under the Ashland Inc. Leveraged Employee Stock Ownership Plan were transferred to the Pension Plan, as allowed under the terms of each of the said plans), determined on the basis of a single life annuity form of benefit;
- (2) the Participant's benefit under any other defined benefit pension plan qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended which is maintained by Ashland, determined on the basis of a single life annuity form of benefit (said plans referred to in sub-paragraphs (1) and (2) of this paragraph (c) are hereinafter referred to jointly and severally as the "Affected Plans");

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

In the event a Participant's benefit hereunder is paid as a lump sum pursuant to an election under Section 5.04(b)(1), the reduction to such benefit shall be calculated based upon the lump sum actuarial present value of the benefits referred to in sub-paragraphs (1)-(4) of this paragraph (c) to which the Participant would be entitled at age 62, regardless of the date payments actually commence. In the event the Participant's benefit hereunder is paid in any form of periodic payments, the reduction shall apply from and after the date the Participant actually commences payments under the plans referred to under sub-paragraphs (1), (2) or (3) of this paragraph (c).

5.02 LEVELS III, IV AND V.

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

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

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

5.04 Payment Options.

(a) Election.

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

- (1) the 60th day following such Participant's approval to participate in this Plan; or
- (2) the earlier of -
  - (A) the date six months prior to Participant's Effective Retirement Date; or
  - (B) the December 31 immediately preceding the Participant's Effective Retirement Date.



Such deferral election shall be made in the manner prescribed by Ashland, from time to time, and shall be irrevocable as of the applicable time identified under Sections 5.04(a)(1) or (2).

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

(b)

Optional Forms of Payment.

(1) Lump Sum Option. A Participant may elect to receive the benefit under Article V as a lump sum distribution, subject to the discretion of the Committee as described below. A lump sum benefit payable under the Plan to a Participant shall be computed on the basis of the actuarially equivalent present value of such Participant's benefit under Article V based upon (1) the 1971 Group Annuity Mortality Table for males, regardless of whether the Participant is male or female and (2) the average of the monthly published Pension Benefit Guaranty Corporation ("PBGC") interest rates for the six-month period which ends on the January 1 or July 1, which immediately precedes the date as of which this calculation is made (hereinafter called the "Applicable PBGC Rate"). The Applicable PBGC Rate is the one used for the valuation of benefits paid as annuities from terminating single-employer plans for the first 20 years following the valuation date. Such lump sum shall be payable within thirty (30) days following the later of the Participant's Effective Retirement Date, or at such later date as Ashland or its delegate may determine, in its sole discretion. The Committee shall have the sole discretion to provide a lump sum benefit option to a class of retirees for a given calendar year. The decision as to whether to provide a lump sum benefit option shall generally be made by the Committee at the last Committee meeting prior thereto. The option shall be made

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

- (2) Lump Sum Deferral Option. A Participant who is eligible to receive a lump sum distribution under 5.04(b)(1) shall be able to elect to defer all or a portion of the receipt of the elected lump sum (in increments of such percentage or such amount as may be prescribed by Ashland or its delegatee, from time to time), by having the obligation to distribute such amount transferred to the Ashland Inc. Deferred Compensation Plan to be held thereunder in a notional account and paid pursuant to the applicable provisions of such Plan, as they may be amended from time to time; provided, however, that the election to defer such distribution shall be made at the time and in the manner prescribed in Section 5.04(a)(1) and (2).
- (3) Single Life Annuity. A Participant may elect to have such benefit paid in the form of equal monthly payments for and during such Participant's life, with such payments ending at such Participant's death. Payments under this option shall be actuarially equivalent to the benefit provided under Section 5.01 or 5.02, whichever is applicable, determined on the basis of the

applicable actuarial assumptions and other relevant provisions used for the same in the Pension Plan.

- (4) Joint and Survivor Income Option. A Participant may elect to receive an actuarially reduced benefit payable monthly during the Participant's lifetime with payments to continue after his or her death to the person he designates (hereinafter called "contingent annuitant"), in an amount equal to (1) 100% of such actuarially reduced benefit, (2) 66 2/3% of such actuarially reduced benefit, or (3) 50% of such actuarially reduced benefit. Benefit payments under this option shall terminate with the monthly payment for the month in which occurred the date of death of the later to die of the Participant and his or her contingent annuitant. The following additional limitations and conditions apply to this option:
- (A) The contingent annuitant shall be designated by the Participant in writing in such form and at such time as Ashland may from time to time prescribe. Before the Participant's Effective Retirement Date, the Participant may change the contingent annuitant elected.
  - (B) In the event of the death of the contingent annuitant prior to the date as of which the election is irrevocable, the Participant's selection of this option shall be void and the Participant may change the contingent annuitant or change the option elected, subject to the applicable limitations and conditions applied to elections for the options described under 5.04(a)(1) and (2).
  - (C) Actuarial equivalence under this sub-paragraph (4) shall be determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Pension Plan.

- (5) Period Certain Income Option. A Participant may elect to receive an actuarially reduced benefit payable monthly during his or her lifetime and terminating with the monthly payment for the month in which his or her death occurs, with the provision that not less than a total of 120 monthly payments shall be made in any event to him or her and/or the person designated by him or her to receive payments under this sub-paragraph (5) in the event of his or her death (hereinafter called "alternate recipient"). If a Participant and his or her alternate recipient die after the Effective Retirement Date, but before the total specified monthly payments have been made to such Participant and/or his or her alternate recipient, the commuted value of the remaining unpaid payments shall be paid in a lump sum to the estate of the later to die of the Participant or his or her alternate recipient. The following additional limitations and conditions shall apply to this option:
- (A) The alternate recipient shall be designated in writing by the Participant in such form and at such time as Ashland may from time to time prescribe. The designation of an alternate recipient under this sub-paragraph (5) is irrevocable after the Effective Retirement Date, provided, however, a Participant may designate a new alternate recipient if the one first designated dies before the Participant and after the Effective Retirement Date.
  - (B) In the event of the death of the alternate recipient prior to the date as of which the election is irrevocable, the Participant's selection of this option shall be void and the Participant may change the alternate recipient or change the option elected, subject to the applicable limitations

- and conditions applied to elections for the options described under 5.04(a)(1) and (2).
- (C) Actuarial equivalence under this sub-paragraph (5) shall be determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Pension Plan.
- 5.05. Payment of Small Amounts.  
Unless such Participant elects to receive his or her benefit in a lump sum as provided in Section 5.04, in the event a monthly benefit under this Plan, payable to either a Participant or to his or her contingent annuitant, alternate recipient or surviving spouse, is too small (in the sole judgment of Ashland) to be paid monthly, such benefit may be paid quarterly, semi-annually, or annually, as determined by Ashland to be administratively convenient.
- 5.06. Surviving Benefits.
- (a) Except as otherwise provided in Section 5.04 of this Plan, in the event that a Participant receiving Annual Retirement Income benefits shall die after his or her Effective Retirement Date, no additional benefits shall be payable by Ashland under this Plan to such deceased Participant's beneficiaries, survivors, or estate.
- (b) If an Employee dies while in active service with Ashland
- (1) prior to approval for participation in the Plan and said Employee is a Level I or II participant under the Incentive Compensation Plan; or
- (2) after approval for participation in the Plan but prior to making an election pursuant to Section 5.04(a) and said Employee is a Level I -V participant under the Incentive Compensation Plan; then such Employee shall be deemed:
- (i) to be a Participant under the Plan in the case of Section 5.06 (b)(1);

(ii) to have commenced participation one (1) day prior to the date of the Employee's death; and  
(iii) to have elected to receive his or her benefits in the form of the 100% Joint & Survivor retirement income option and to have designated his or her spouse as the beneficiary thereunder.

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

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

ARTICLE VI. CHANGE IN CONTROL.

Notwithstanding any provision of this Plan to the contrary, in the event of a Change in Control, an Employee who is deemed to be a Level I or II Participant under Ashland's Incentive Compensation Plan, shall automatically be deemed to be approved by the Board for participation under this Plan and may, in his or her sole discretion, elect to retire prior to the date the Employee reaches age 62.

In addition, Ashland shall reimburse an Employee for legal fees and expenses incurred by such Employee if he or she is required to, and is successful in, seeking to obtain or enforce any right to payment pursuant to the Plan. In the event that it shall be determined that such Employee is properly entitled to the payment of benefits hereunder, such Employee shall also be entitled to interest thereon payable in an amount equivalent to the prime rate of interest (quoted by Citibank, N.A. as its prime commercial lending rate on the latest date practicable prior to the date of the actual commencement of payments) from the date such payment(s) should have been made to and including the date it is made. Notwithstanding any provision of this Plan to the contrary, the provisions of this Plan may not be amended after a Change in Control occurs without the written consent of a majority of the Board who were directors prior to the Change in Control.

ARTICLE VII. MISCELLANEOUS.

- 7.01 The obligations of Ashland hereunder constitute merely the promise of Ashland to make the payments provided for in this Plan. No employee, his or her spouse or the estate of either of them shall have, by reason of this Plan, any right, title or interest of any kind in or to any property of Ashland. To the extent any Participant has a right to receive payments from Ashland under this Plan, such right shall be no greater than the right of any unsecured general creditor of Ashland.
- 7.02 Full power and authority to construe, interpret and administer this Plan shall be vested in the Board or its delegate. Decisions of the Board or its delegate shall be final, conclusive and binding upon all parties.
- 7.03 This Plan shall be binding upon Ashland and any successors to the business of Ashland and shall inure to the benefit of the Participants and their beneficiaries, if applicable. Except as otherwise provided in Article VI, the

Board or its delegate may, at any time, amend this Plan, retroactively or otherwise, but no such amendment may adversely affect the rights of any Participant who has been approved for participation in the Plan except to the extent that such action is required by law.

7.04 Except as otherwise provided in Section 5.04, no right or interest of the Participants under this Plan shall be subject to voluntary or involuntary alienation, assignment or transfer of any kind.

7.05 This Plan shall be governed for all purposes by the laws of the Commonwealth of Kentucky.



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

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

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

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

WHEREAS, the Plan was amended and completely restated as of July 21, 1977;

WHEREAS, the Plan was amended and completely restated as of October 1, 1982;

WHEREAS, the Plan was amended and completely restated as of November 3, 1988;

WHEREAS, Ashland has retained the authority to make additional amendments to or terminate the Plan;

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

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

1. Designation and Purpose of Plan. The Plan is designated the "Ashland Inc. Nonqualified Excess Benefit Pension Plan" ("Plan"). The purpose of the Plan is to provide benefits for certain employees in excess of the limitations on contributions, benefits, and compensation imposed by Sections 415 and 401(a)(17) of the Code (including successor provisions thereto) on the plans to which those Sections apply. The portion of the Plan providing benefits in excess of the Section 415 limits is an "excess benefit plan" as that term is defined in

Section 3(36) of ERISA. It is intended that the portion, if any, of the Plan which is not an excess benefit plan shall be maintained primarily for a select group of management or highly compensated employees.

2. Eligibility. Subject to Section 11, the Plan shall apply to those employees -

(i) who have retired as an early, normal, or deferred normal retiree under the provisions of the Ashland Inc. and Affiliates Pension Plan ("Ashland Pension Plan"), as it may be amended, from time to time, or under provisions of any other retirement plan, as such other plan may be amended from time to time, which, from time to time, is specifically designated by Ashland for purposes of eligibility and benefits under the Plan (all such plans are hereinafter referred to jointly and severally as "Affected Plans"); and

(ii) who have been approved for participation in this Plan by Ashland or its delegate, and such approval may, in the discretion of Ashland, be made (A) before an employee's actual early, normal or deferred retirement; or (B) posthumously in the event of a benefit potentially available under Section 6 of the Plan.

Notwithstanding anything to the contrary contained herein, any employee who would be entitled to participate in this Plan, but who is not a member of a select group of management or a highly compensated employee, shall be entitled to a benefit amount payable under the Plan based solely on the limitations on benefits imposed under Section 415 of the Code.

3. Benefit Amount.

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

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

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

(2) prior to any reductions made because of the limits imposed by Sections 415 and 401(a)(17) of the Code;

provided that the single life annuity that would be so payable under the Ashland Pension Plan shall be computed without applying any offset attributable to the Ashland Inc. Leveraged Employee Stock Ownership Plan ("LESOP"), and such single life annuity shall be actuarially adjusted to be equivalent to a single life annuity payable at the particular time applicable based upon the applicable actuarial assumptions and other relevant provisions used for the same in the Affected Plans; [as amended by Amendment No. 1 adopted 9/18/97]

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

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

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

#### 4. Payment Options.

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

Notwithstanding anything in the foregoing to the contrary, any retiree who makes an election under sub-paragraph (B) of paragraph (ii) of this Section 4 shall make such election by the later of -

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

(B) by the earlier of -

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

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

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

(ii) Optional Forms of Payment.

(A) Lump Sum Option. Notwithstanding any provisions of Section 3 to the contrary, a retiree in an eligible class may elect to receive all of the benefit under Section 3 as a lump sum distribution, subject to the discretion of the Committee as described below. A lump sum benefit payable under the Plan to a retiree in an eligible class shall be computed on the basis of the actuarially equivalent present value of such retiree's benefit under Section 3 of the Plan payable at the particular time applicable based upon (1) the 1971 Group Annuity Mortality Table for males, regardless of whether the retiree is male or female and (2) the average of the monthly published Pension Benefit Guaranty Corporation ("PBGC") interest rates for the six-month period which ends on the January 1 or July 1 which immediately precedes the date as of which this calculation is made (hereinafter called the "Applicable PBGC Rate"). The Applicable PBGC Rate is the one used for the valuation of benefits paid as annuities from terminating single-employer plans for the first 20 years following the valuation date. Such lump sum shall be payable within thirty (30) days of the retiree's retirement date, or at such later date as Ashland or its delegate may determine, in its sole discretion. The Personnel and Compensation Committee of Ashland's Board of Directors shall have the sole discretion to provide a lump sum benefit

option to a class of retirees for a given calendar year. The decision as to whether to provide a lump sum benefit option shall generally be made by the Committee at the last committee meeting prior thereto. The option shall be made available to a retiree contingent upon various considerations, including, but not limited to, the following:

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

(B) Lump Sum Deferral Option. A retiree who is eligible to receive a lump sum distribution under sub-paragraph (A) of this paragraph (ii) of Section 4 and who was part of a select group of management or a highly compensated employee, shall be able to elect to defer all or a portion of the receipt of the elected lump sum (in increments of such percentage or such amount as may be prescribed by Ashland or its delegatee, from time to time), [as amended by Amendment No. 1 adopted 9/18/97] by having the obligation to distribute such amount transferred to the Ashland Inc. Deferred Compensation Plan to be held thereunder in a notional account and paid pursuant to the applicable provisions of such Plan, as they may be amended from time to time; provided, however, that the election to defer such distribution shall be made at the time and in the manner prescribed in paragraph (i) of this Section 4. [The prior last sentence was deleted by Amendment No. 1 adopted 9/18/97.]

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

under Section 3, determined on the basis of the applicable actuarial assumptions and other relevant provisions used for the same in the Ashland Pension Plan.

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

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

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

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

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

(E) Period Certain Income Option. A retiree eligible under Section 2 for the benefit under Section 3 may elect to receive an actuarially reduced benefit payable monthly during his lifetime and terminating with the monthly payment for the month in which his death

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

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

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

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

(F) Death Before Payment. Subject to Section 6, in the event a retiree eligible under Section 2 for the benefit under Section 3 dies after having made an election of an optional form of payment under this paragraph (ii) of Section 4 before the date such election became irrevocable as provided under paragraph (i) of Section 4, such retiree shall be deemed to have

terminated employment on the day before his death (for reasons other than death) and survived until the day after the date as of which the optional form of payment he elected would have commenced and payment shall then be made under the Plan in accordance with such retiree's election.

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

6. Surviving Spouse Benefit. In the event a retiree who was eligible under Section 2 for the benefit under Section 3 dies, leaving a surviving spouse, before electing an optional form of payment under paragraph (ii) of Section 4 and before the date such an election would have become irrevocable under paragraph (i) of Section 4, then such retiree shall be deemed to have -

(i) elected the joint and 100% survivor income option under sub-paragraph (D) of paragraph (ii) of Section 4;

(ii) named his spouse as the 100% contingent annuitant;

(iii) terminated employment on the day before his death (for reasons other than death); and

(iv) survived until the day after the date as of which such benefit would have commenced.

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

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

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

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

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



any person or persons any responsibility, power or duty under the Plan. Decisions of Ashland or its delegatee shall be final, conclusive, and binding on all parties.

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

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

(v) To the extent that state law shall not have been preempted by ERISA or any other law of the United States, the Plan shall be governed by the laws of the Commonwealth of Kentucky.

(vi) The Plan described herein shall amend and supersede, as of September 19, 1996, all provisions in the Ashland Oil, Inc. Nonqualified Pension Plan as Amended, dated as of November 3, 1988, except as otherwise provided herein and further excepting that the rights of former employees who terminated employment, retired, or became disabled prior to the day before the effective date hereof shall be governed by the terms of the Plan as in effect at the time of such termination of employment, retirement, or disability, unless otherwise provided herein.

11. Change in Control. Notwithstanding any provision of this Plan to the contrary, in the event of a Change in Control (as defined hereinafter in this Section 11), any employee who would or will meet the requirements of Section 2, except that such employee has not been approved to participate as provided under paragraph (ii) of Section 2, shall be deemed to be approved for participation hereunder, regardless of when such employee actually retires and

commences benefits under an Affected Plan and such entitlement shall be vested from and after the time of such Change in Control. Ashland shall reimburse an employee for legal fees and expenses incurred if he or she is required to, and is successful in, seeking to obtain or enforce any right to payment pursuant to the Plan after a Change in Control. In the event that it shall be determined that such employee is properly entitled to the payment of benefits hereunder, such employee shall also be entitled to interest thereon payable in an amount equivalent to the prime rate of interest (quoted by Citibank, N.A. as its prime commercial lending rate on the latest date practicable prior to the date of the actual commencement of payments) from the date such payment(s) should have been made to and including the date it is made. Notwithstanding any provision of this Plan to the contrary, the Plan may not be amended after a Change in Control without the written consent of a majority of the Board of Directors of Ashland (hereinafter "Board") who were directors prior to the Change in Control. For purposes of this Section 11, a Change of Control shall be deemed to occur (1) upon the approval of the shareholders of Ashland (or if such approval is not required, upon approval of the Board) of (A) any consolidation or merger of Ashland in which Ashland is not the continuing or surviving corporation or pursuant to which shares of Ashland common stock would be converted into cash, securities or other property other than a merger in which the holders of Ashland common stock immediately prior to the merger will have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, (B) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of Ashland, or (C) adoption of any plan or proposal for the liquidation or dissolution of Ashland, (2) when any "person" (as defined in Section 3(a)(9) or Section 13(d) of the Securities Exchange Act of 1934), other than Ashland or any subsidiary or employee benefit plan or trust maintained by Ashland or any of its subsidiaries, shall become the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 15% of the Ashland common stock outstanding at the time, without the approval of the Board, or (3) if at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board shall cease for any reason to constitute at least a majority thereof, unless the election or nomination for election by Ashland's shareholders of each new director during

such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

ASHLAND INC.  
DEFERRED COMPENSATION PLAN  
(Amended and Restated as of September 18, 1997)

1. PURPOSE

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

2. DEFINITIONS

The following definitions shall be applicable throughout the Plan:

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

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

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

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

(e) "Change in Control" shall be deemed to occur (1) upon the approval of the shareholders of the Company (or if such approval is not required, upon the approval of the Board) of (A) any consolidation or merger of the Company 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 Ashland Inc. or any subsidiary or employee benefit plan or trust maintained by Ashland Inc. or any of its subsidiaries, shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 15% of the Common Stock outstanding at the time, without the approval of the Board, or (3) if at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board shall cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's shareholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

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

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

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

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

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

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

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

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

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

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

(p) "Employee" means a full-time, regular salaried employee (which

term shall be deemed to include officers) of the Company, its present and future subsidiary corporations as defined in Section 424 of the Internal Revenue Code of 1986, as amended or its affiliates.

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3. SHARES; ADJUSTMENTS IN EVENT OF CHANGES IN CAPITALIZATION

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

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

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

### 4. ELIGIBILITY

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

### 5. ADMINISTRATION

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

### 6. PARTICIPANT ACCOUNTS

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

7. FINANCIAL HARDSHIP

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

8. ACCELERATED DISTRIBUTION

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

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

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

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

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

9. MANNER OF ELECTION

(a) General. Any Employee selected by the Committee to participate in the Plan may elect to do so by delivering to Corporate Human Resources an Election on a form prescribed by Corporate Human Resources, designating the Compensation Account to which the Deferred Compensation is to be credited, electing the timing and form of distribution, and setting forth the manner in which such Deferred Compensation shall be invested in accordance with Section 6 hereof. The timing of the filing of the appropriate form with Corporate Human Resources shall be determined by the Company or the Committee. An effective election to defer Compensation may not be revoked or modified except as otherwise determined by the Company or the Committee or as stated herein. In addition to the provisions contained in this Plan, any deferrals of SERP Payments or Excess Payments must be in accordance with the terms of the SERP or the Excess Plan.

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

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

#### 10. DISTRIBUTION

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

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

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

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

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

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

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

#### 11. BENEFICIARY DESIGNATION

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



12. CHANGE IN CONTROL

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

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

13. INALIENABILITY OF BENEFITS

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

14. GOVERNING LAW

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

15. AMENDMENTS

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

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

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

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

16. EFFECTIVE DATE

The Plan was approved by the shareholders of the Company on January 26, 1995, and originally became effective as of October 1, 1994, and has been restated in this document effective as of September 18, 1997.

ASHLAND INC.  
1997 STOCK INCENTIVE PLAN

SECTION 1. PURPOSE

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

SECTION 2. DEFINITIONS

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

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

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

(D) "Ashland Inc. 1993 Plan" shall mean the Ashland Inc. 1993 Stock Incentive Plan, as it now exists or as it may hereafter be amended.

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

(F) "Board" shall mean the Board of Directors of the Company.

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

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

(I) "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.

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

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

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

Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(FF) "Retirement" shall mean retirement of an Employee from the employ of the Company at any time as described in the Ashland Inc. and Affiliates Pension Plan or in any successor pension plan, as from time to time in effect.

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

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

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

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

### SECTION 3. STOCK SUBJECT TO THE PLAN

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

#### SECTION 4. ADMINISTRATION

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

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

The provisions of this Section 4 with respect to decisions made by, and authority of, the Committee shall be subject to the provisions of subsection (B) of Section 8 herein.

#### SECTION 5. ELIGIBILITY

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

#### SECTION 6. OPTIONS

##### A. Designation and Price.

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

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

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

## B. Exercise.

The Committee may, in its discretion, provide for Options granted under the Plan to be exercisable in whole or in part; provided, however, that no Option shall be exercisable prior to the first anniversary of the date of its grant, except as provided in Section 11 or as the Committee otherwise determines in accordance with the Plan, and in no case may an Option be exercised at any time for fewer than 50 shares (or the total remaining shares covered by the Option if fewer than 50 shares) during the term of the Option. The specified number of shares will be issued upon receipt by Ashland of (i) notice from the holder thereof of the exercise of an Option, and (ii) payment to Ashland (as provided in this Section 6, subsection (C) below), of the Exercise Price for the number of shares with respect to which the Option is exercised. Each such notice and payment shall be delivered or mailed by postpaid mail, addressed to the Treasurer of Ashland at Ashland Inc., 1000 Ashland Drive, Russell, Kentucky 41169, or such other place or person as Ashland may designate from time to time.

## C. Payment for Shares.

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

## SECTION 7. STOCK APPRECIATION RIGHTS

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

Subject to the terms and provisions of this Section 7, upon the exercise of an SAR, the holder thereof shall be entitled to receive from Ashland consideration (in the form hereinafter provided) equal in value to the excess of the Fair Market Value (determined as of the date of exercise of the SAR) of each share of Common Stock with respect to which such SAR has been exercised over the Exercise Price per share of Common Stock subject to the related Option. The Committee may stipulate in the Agreement the form of consideration which shall be received upon the exercise of an

SAR. If no consideration is specified therein, upon the exercise of an SAR, the holder may specify the form of consideration to be received by such holder, which shall be in shares of Common Stock, or in cash, or partly in cash and partly in shares of Common Stock (valued at Fair Market Value on the date of exercise of the SAR), as the holder shall request; provided, however, that the Committee, in its sole discretion, may disapprove the form of consideration requested and instead authorize the payment of such consideration in shares of Common Stock (valued as aforesaid), or in cash, or partly in cash and partly in shares of Common Stock.

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

## SECTION 8. RESTRICTED STOCK AWARDS

### A. Awards to Employees

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

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

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

### B. Awards to Outside Directors

During the term of the Plan, (i) each Outside Director who was granted an award of restricted stock under the Ashland Inc. 1993 Plan shall be granted an Award of 1,000 shares of Restricted Stock upon the fifth anniversary of his or her prior award under the Ashland Inc. 1993 Plan; and (ii) each person who is hereafter duly appointed or elected as an Outside Director and who does not receive an award under the Ashland Inc. 1993 Plan shall be granted, effective on the date of his or her appointment or election to the Board, an Award of 1,000 shares of Restricted Stock; provided, however, that no Outside Director shall receive an award of Restricted Stock under this Plan if such award would be in addition to a simultaneous award of 1,000 shares of Restricted Stock under the Ashland Inc. 1993 Plan. All Awards under this subsection (B) are subject to the limitation on the number of shares of Common Stock available pursuant to Section 3 and to the terms and conditions set forth in this subsection (B) and subsection (C) below.

As a condition to any Award hereunder, the Outside Director may be required to pay to the Company a non-refundable amount equal to the par value of the shares of Restricted Stock awarded to him or her. Upon the granting of the Restricted Stock Award, such Outside Director shall be entitled to all rights incident to ownership of Common Stock of the Company with respect to his or her Restricted Stock, including, but not limited to, the right to vote such

shares of Restricted Stock and to receive dividends thereon when, as and if paid; provided, however, that, subject to subsection (C) hereof, in no case may any shares of Restricted Stock granted to an Outside Director be sold, assigned, transferred, pledged, or otherwise encumbered during the Restricted Period which shall not lapse until the earlier to occur of the following: (i) retirement from the Board at age 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, in the case of voluntary resignation or other termination of service of an Outside Director prior to the occurrence of any of the events described in the preceding sentence, any grant of Restricted Stock made to him or her pursuant to this subsection (B) will be forfeited by such Outside Director. As used herein, a director shall be deemed "disabled" when he or she is unable to attend to his or her duties and responsibilities as a member of the Board because of incapacity due to physical or mental illness.

#### C. Transferability

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

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

#### SECTION 9. MERIT AWARDS

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



## SECTION 10. PERFORMANCE SHARES

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

The Performance Goals and Performance Period applicable to an award of Performance Shares shall be set forth in writing by the Committee no later than 90 days after the commencement of the Performance Period and shall be communicated to the Employee. The Committee shall have the discretion to later revise the Performance Goals solely for the purpose of reducing or eliminating the amount of compensation otherwise payable upon attainment of the Performance Goals; provided that the Performance Goals and the amounts payable upon attainment of the Performance Goals may be adjusted during any Performance Period to reflect promotions, transfers or other changes in an Employee's employment so long as such changes are consistent with the Performance Goals established for other Employees in the same or similar positions.

In making a Performance Share award, the Committee may take into account an Employee's responsibility level, performance, cash compensation level, incentive compensation awards and such other considerations as it deems appropriate. Each Performance Share award shall be established in shares of Common Stock and/or shares of Restricted Stock in such proportions as the Committee shall determine. The original amount of any Performance Share award shall not exceed 250,000 shares of Common Stock or Restricted Stock.

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

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

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

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

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

(C) Every Option shall provide that in the event the employment of any Employee shall cease by reason of disability, as determined by the Committee at any time during the term of the Option, such Option shall be exercisable, at any time or from time to time prior to the fixed termination date set forth in the Option by such Employee for the

number of shares which the Employee could have acquired under the Option immediately prior to the Employee's disability. As used herein, an Employee will be deemed "disabled" when he or she becomes unable to perform the functions required by his or her regular job due to physical or mental illness and, in connection with the grant of an Incentive Stock Option shall be disabled if he or she falls within the meaning of that term as provided in Section 22(e)(3) of the Code. The determination by the Committee of any question involving disability shall be conclusive and binding.

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

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

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

(G) Notwithstanding any provision of this Section 11 to the contrary, in the event the Committee determines, in its sole and absolute discretion, that the employment of any Employee has terminated for a reason or in a manner adversely affecting the Company (which may include, without limitation, taking other employment or rendering service to others without the consent of the Company), then the Committee may direct that such Employee forfeit any and all Options that he or she could otherwise have exercised pursuant to the terms of this Plan.

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

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

## SECTION 12. WITHHOLDING TAXES

Federal, state or local law may require the withholding of taxes applicable to gains resulting from the exercise of an Award. Unless otherwise prohibited by the Committee, each Employee may satisfy any such tax withholding obligation by any of the following means, or by a combination of such means: (i) a cash payment, (ii) authorizing Ashland to withhold from the shares of Common Stock otherwise issuable to the Employee pursuant to the exercise or vesting of an Award a number of shares having a Fair Market Value, as of the Tax Date, which will satisfy the amount

of the withholding tax obligation, or (iii) by delivery to Ashland of a number of shares of Common Stock having a Fair Market Value as of the Tax Date which will satisfy the amount of the withholding tax obligation arising from an exercise or vesting of an Award. An Employee's election to pay the withholding tax obligation by (ii) or (iii) above must be made on or before the Tax Date, is irrevocable, is subject to such rules as the Committee may adopt, and may be disapproved by the Committee. If the amount requested is not paid, the Committee may refuse to issue Common Stock under the Plan.

#### SECTION 13. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

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

#### SECTION 14. AMENDMENTS AND TERMINATIONS

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

#### SECTION 15. MISCELLANEOUS PROVISIONS

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

(B) An Employee's or Outside Director's rights and interest under the Plan may not be assigned or transferred in whole or in part, either directly or by operation of law or otherwise (except in the event of an Employee's or Outside Director's death, by will or the laws of descent and distribution), including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner, and no such right or interest of any Employee or Outside Director in the Plan shall be subject to any obligation or liability of such individual; provided, however, that an Employee's or Outside Director's rights and interest under the Plan may, subject to the discretion and direction of the Committee, be made transferable by such Employee or Outside Director during his or her lifetime. Except as specified in Section 8, the holder of an Award shall have none of the rights of a shareholder until the shares subject thereto shall have been registered in the name of the person receiving or person or persons exercising the Award on the transfer books of the Company.

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

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

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

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

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

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

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

#### SECTION 16. EFFECTIVENESS OF THE PLAN

The Plan shall be submitted to the shareholders of the Company for their approval and adoption on January 30, 1997 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 so 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.

Ashland Inc. and Subsidiaries  
Management's Discussion and Analysis

Years Ended September 30

(In millions)	1997	1996	1995
<b>SALES AND OPERATING REVENUES</b>			
Refining and Marketing(1)	\$ 6,719	\$ 6,485	\$ 5,891
Valvoline	1,099	1,199	1,113
Chemical	4,047	3,695	3,551
APAC	1,257	1,235	1,123
Coal(2)	1,367	580	610
Intersegment sales	(289)	(302)	(316)
	\$ 14,200	\$12,892	\$11,972
<b>OPERATING INCOME</b>			
Refining and Marketing(1)	\$ 189	\$ 89	\$ (1)
Valvoline	67	82	(4)
Chemical	144	169	159
APAC	82	83	75
Coal(2)	68	36	66
General corporate expenses	(60)	(97)	(91)
	\$ 490	\$ 362	\$ 204
<b>EQUITY INCOME</b>			
Arch Mineral Corporation(2)	\$ -	\$ 13	\$ (4)
Other	15	11	11
	\$ 15	\$ 24	\$ 7
<b>Operating information</b>			
<b>Refining and Marketing(1)</b>			
Refining inputs (thousand barrels per day)(3)	358.5	368.5	349.5
Value of products manufactured per barrel	\$ 26.43	\$ 24.64	\$ 22.49
Input cost per barrel	21.39	20.50	18.28
Refining margin per barrel	\$ 5.04	\$ 4.14	\$ 4.21
<b>Refined product sales (thousand barrels per day)</b>			
Wholesale sales to			
Ashland brand retail jobbers	23.0	17.6	1.0
Other wholesale customers(4)	295.3	303.5	309.4
SuperAmerica retail system	76.1	74.2	71.5
Total refined product sales	394.4	395.3	381.9
SuperAmerica merchandise sales (millions)	\$ 600	\$ 583	\$ 548
Valvoline lubricant sales (thousand barrels per day)(4)	19.1	19.5	19.1
APAC construction backlog at September 30 (millions)	\$ 693	\$ 647	\$ 672
<b>Coal(5)</b>			
Tons sold (millions)	53.7	50.6	49.2
Sales price per ton	\$ 25.46	\$ 25.85	\$ 26.93
<b>Major revenue sources (percent of sales)</b>			
Gasoline	17%	18%	17%
Coal	10%	5%	6%

- (1) Segments formerly identified as Petroleum and SuperAmerica were combined effective October 1, 1996. Prior years amounts have been restated.
- (2) Ashland Coal and Arch Mineral merged effective July 1, 1997, into Arch Coal, Inc. Prior interim periods of fiscal 1997 were restated to consolidate Ashland's interest in Arch Mineral for the entire year. Prior years were not restated, reflecting Ashland's interest in Ashland Coal on a consolidated basis and Ashland's interest in Arch Mineral on the equity method of accounting. See Note C to the consolidated financial statements.
- (3) Includes crude oil and other purchased feedstocks.
- (4) Includes intersegment sales.
- (5) Amounts are reported on a 100% basis and prior amounts have been restated to show pro forma information for Arch Coal prior to the merger.

**RESULTS OF OPERATIONS**

Ashland's net income amounted to \$279 million in 1997, \$211 million in 1996 and \$24 million in 1995. However, such earnings include the results of discontinued operations, as well as various unusual items which had a significant effect on the comparisons. The following table shows the effects of unusual items on operating income and income from continuing operations for the three years ended September 30, 1997.

(In millions)	Operating income			Income from continuing operations		
	1997	1996	1995	1997	1996	1995

Income before unusual items	\$544	\$362	\$320	\$220	\$136	\$91
Costs related to coal merger	(39)	-	-	(13)	-	-
Asset impairment write-downs	(26)	-	(79)	(22)	-	(52)
Early retirement and restructuring programs	-	-	(37)	-	-	(25)
LIFO inventory liquidation gain	11	-	-	7	-	-
-----						
Income as reported	\$490	\$362	\$204	\$192	\$136	\$14
=====						

During 1997, Ashland reached a decision to sell Blazer Energy, its exploration and production subsidiary. Ashland sold Blazer's domestic operations for \$566 million during July 1997, resulting in an after tax gain of \$71 million. In addition, Ashland has reached an agreement in principle to sell its Nigerian operations, subject to the approval of the Nigerian government and other conditions. As a result, Exploration was reclassified as a discontinued operation in Ashland's income statements and its investment in the Nigerian operations is carried on Ashland's consolidated balance sheet as net assets of discontinued operations held for sale at September 30, 1997. For comparison purposes, prior year income statements and balance sheets have been restated.

Also during July 1997, Ashland Coal and Arch Mineral merged to form Arch Coal, Inc., in which Ashland has a 54% ownership interest. Previously, Ashland consolidated its investment in Ashland Coal (in which it owned 57%) and accounted for its investment in Arch Mineral (in which it owned 50%) on the equity method. Due to the merger, the results of Arch Mineral were consolidated in fiscal 1997, but its results for prior years remain on the equity method. Many synergistic opportunities are being pursued as a result of the merger, some of which led to the charge of \$39 million to write-off duplicate facilities previously owned by Arch Mineral and to provide for severance and other costs related to the merger.

Other unusual items in 1997 included goodwill write-downs of \$26 million by Valvoline and Ashland Chemical and a gain of \$11 million from the liquidation of certain inventories of Refining and Marketing. While Ashland remains committed to expanding Valvoline and Ashland Chemical on a global basis, results from certain of their European operations have been well below the levels which were expected when they were acquired, necessitating write-downs of the related goodwill. The inventory gain resulted from reductions in the crude oil and petroleum product inventories of Refining and Marketing that were accounted for on the last-in, first-out (LIFO) method. LIFO inventories are valued at their costs in the years acquired, and such costs were well below the current replacement costs of the liquidated inventories.

Effective September 30, 1995, Ashland adopted Financial Accounting Standards Board Statement No. 121 (FAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." As a result, Ashland recorded charges of \$79 million in 1995 to write down various assets to their fair values, including an idle unit at Ashland Petroleum's Catlettsburg refinery, certain unused crude oil gathering pipelines of Scurlock Permian and petroleum product marketing properties which were being sold or shut down. Fair values were based upon appraisals or estimates of discounted future cash flows. In addition, charges of \$37 million related to early retirement and restructuring programs were incurred, reflecting efforts by Ashland Petroleum and several other divisions to reduce their costs and improve their competitive positions.

Excluding unusual items, income from continuing operations amounted to \$220 million in 1997, compared to \$136 million in 1996. Refining and Marketing results were up considerably, as were earnings from Ashland's coal investments. Results from Valvoline, Ashland Chemical and APAC would have exceeded their record levels achieved in 1996 if they had not incurred higher allocations of general corporate expenses. Ashland began allocating more of these expenses in 1997 to the segments to better reflect their costs of doing business. Income from continuing operations of \$136 million for 1996 was up from \$91 million in 1995 before unusual items. Record results were achieved in 1996 by Valvoline, Ashland Chemical and APAC, combined with increased earnings from Refining and Marketing and Arch Mineral. Such improvements more than offset the reduced earnings from Ashland Coal.

The following table compares operating income before unusual items by segment for the three years ended September 30, 1997. The consolidation of Arch Mineral's results significantly affects the comparability of operating income from Coal for 1997. In addition, the increased allocations of general corporate expenses reduced the operating results of the segments on a comparative basis by \$39 million, but did not have a significant impact on overall operating income.

Ashland Inc. and Subsidiaries  
MANAGEMENT'S DISCUSSION AND ANALYSIS

(In millions)	1997	1996	1995
Operating income			
Refining and Marketing	\$178	\$89	\$101
Valvoline	77	82	1
Chemical	160	169	164
APAC	82	83	75
Coal	107	36	66
General corporate expenses	(60)	(97)	(87)
	\$544	\$362	\$320

(Bar graph appears in the left margin comparing Ashland Inc. operating income for fiscal 1995, 1996 and 1997. The graph shows the breakdown between Ashland's Coal, Refining and Marketing, and growth businesses composed of Valvoline, Chemical and APAC.)

#### REFINING AND MARKETING

Operating income from Refining and Marketing before unusual items doubled from \$89 million in 1996 to \$178 million in 1997. Principal factors leading to the improved results included better refining margins, reduced refining expenses and increased retail margins for both gasoline and merchandise. However, these improvements were partially offset by lower earnings from Scurlock Permian and an additional \$19 million allocation of general corporate expenses.

During the first half of fiscal 1997, Refining operated at near break-even levels reflecting refining margins which averaged \$3.89 a barrel. Crude oil costs increased rapidly in the December quarter and wholesale product prices were slow to respond. Although margins began improving during the March quarter as crude oil costs softened, heavy flooding in the Ohio Valley limited Ashland's ability to ship products on the river systems. Refining margins increased dramatically in the last half of the year, averaging \$6.01 a barrel excluding LIFO inventory gains, reflecting strong gasoline and asphalt demand. In addition, refining expenses for 1997 were reduced by 25 cents a barrel, despite lower throughputs, reflecting continuing efforts by Ashland Petroleum to reduce its costs and improve its competitive position.

(Bar graph appears in the left margin comparing operating income from Refining and Marketing for fiscal 1995, 1996 and 1997.)

In other areas, results from Scurlock Permian were down \$12 million due to lower margins on crude oil sales, reflecting increased competition for the declining production in many of its gathering areas. Earnings from SuperAmerica increased \$10 million due to increased gasoline and merchandise margins. Sales volumes were also higher, reflecting an increased number of locations, but the effect was largely offset by increased operating and occupancy costs. At September 30, 1997, 766 retail locations were operating, compared to 742 locations in 1996 and 704 locations in 1995. Included in these totals are 641 SuperAmerica stores in 1997, 624 stores in 1996 and 609 stores in 1995, with the remainder being Rich Oil outlets.

Operating income from Refining and Marketing amounted to \$89 million in 1996, compared to \$101 million in 1995 before unusual items. Although earnings from Refining increased, SuperAmerica's results were adversely affected by an extremely competitive environment. A \$7 million improvement in earnings from Refining was achieved even though rapidly rising crude oil prices late in 1996 led to severe margin compression and a weak September 1996 quarter. Despite the modest improvement, results for 1996 were still disappointing given the progress Ashland Petroleum made in improving its competitive position. Refinery runs averaged 368,500 barrels a day, up 5% from 1995 and refining expenses (other than fuel consumed in the refining process) were reduced by 26 cents a barrel, due to the higher level of throughputs and ongoing efforts to reduce costs and increase efficiency. The effects of these improvements, however, were largely offset by higher average crude oil costs, which could not be fully passed through in product prices, and associated increases in fuel costs. For the year, input costs increased \$2.22 a barrel, peaking in the September 1996 quarter with an increase of \$4.58 a barrel compared to the September 1995 quarter. As a result, refining margins were compressed during what is normally the strong summer driving season.

On the other hand, results from SuperAmerica declined \$19 million compared to 1995. While gasoline and merchandise volumes were both up on a per store basis, the effect was more than offset by a decline in gasoline margins of 1.5 cents a gallon and increased operating costs. Higher labor and occupancy costs resulted from a continued tight labor market, the ongoing roll-out of the co-branding partnership program with fast-food chains, initial costs associated with the opening of new stores and rebuilds, and the ongoing operation of additional stores.

#### VALVOLINE

Excluding unusual items, Valvoline's operating income amounted to \$77

million in 1997, compared to a record \$82 million in 1996. Gross profits from Valvoline's core lubricant and antifreeze businesses combined were up nearly 20%, reflecting improved margins. However, this improvement was more than offset by an increase of \$5 million in general corporate expense allocations and by a reduction in gross profits from R-12, an automotive refrigerant. Due to cool summer weather which shortened the peak season, sales volumes of R-12 were down significantly in 1997. In addition, the used oil collection business operated profitably, while earnings from Valvoline Instant Oil Change (VIOC) declined slightly due to higher operating expenses. At September 30, 1997, VIOC operated 382 company-owned outlets, compared to 374 outlets in 1996 and 365 outlets in 1995. In addition, the VIOC franchising program continued to expand with 137 outlets open in 1997, compared to 100 outlets in 1996 and 90 outlets in 1995.

(Bar graph appears in the left margin comparing operating income from Valvoline for fiscal 1995, 1996 and 1997.)



Operating income from Valvoline was \$82 million in 1996, compared to near break-even results before unusual items for 1995. The record earnings reflected improved results from nearly all of Valvoline's business units, including a significant earnings boost from the sale of R-12. Prices for R-12 escalated rapidly during 1996, as shortages developed within the market. Due to its ozone-depleting characteristics, the U.S. Environmental Protection Agency banned the production of R-12 at the end of 1995, but sales of existing inventories of this refrigerant are still permitted. Even aside from R-12 earnings, however, Valvoline's results would still have been up significantly. Results from its lubricant business improved, reflecting increased volumes, higher margins on both branded and private label sales and reduced advertising and promotional costs. In addition, results from VIOC nearly doubled, while the used oil collection business continued to approach profitability.

#### CHEMICAL

Ashland Chemical's operating income before unusual items amounted to \$160 million in 1997, compared to a record \$169 million in 1996. Earnings from petrochemicals were up \$13 million, reflecting increased cumene and methanol sales volumes and margins. Operating income from specialty chemicals improved \$5 million on the strength of higher electronic chemical sales volumes and margins, but the effect was partially offset by lower marine chemical sales volumes. Results from the distribution businesses were down \$3 million due to margin declines for industrial chemicals and solvents. Ashland Chemical also incurred an additional \$11 million allocation of general corporate expenses, as well as charges of \$8 million for environmental remediation and plant shutdown costs.

(Bar graph appears in the right margin comparing operating income from Ashland Chemical for fiscal 1995, 1996 and 1997.)

Operating income of Ashland Chemical increased from \$164 million before unusual items in 1995 to \$169 million in 1996 and represented Ashland Chemical's fourth straight year of record earnings. Outstanding results from specialty chemicals, a moderate increase from the distribution businesses and reduced environmental remediation costs more than offset a decline from petrochemicals. Results from the distribution businesses were up 5% on the strength of improved sales volumes, while earnings from specialty chemicals improved by 56%. The 1995 acquisition of Aristech's unsaturated polyester resin business was a major contributor to the improved specialty chemical results, along with higher sales volumes and margins for electronic chemicals. However, operating income from petrochemicals declined by \$50 million, due largely to reduced prices for methanol, but also due to increased natural gas prices and higher feedstock costs for cumene and solvents.

#### APAC

Operating income from the APAC construction companies amounted to \$82 million in 1997, compared to a record \$83 million in 1996. Net revenue (total revenue less subcontract work) was up 4%, while production of hot mix asphalt and crushed aggregate reached record levels. The effects, however, were more than offset by an additional \$4 million in general corporate expense allocations.

(Bar graph appears in the right margin comparing operating income from APAC for fiscal 1995, 1996 and 1997.)

APAC achieved its third straight year of record results in 1996 with operating income of \$83 million, compared to \$75 million in 1995. APAC's results reflected its ongoing efforts in cost control, safety and materials technology, allowing the highway construction group to take full advantage of a strong construction economy. Revenues rose 10%, reflecting a higher level of both public and private sector construction jobs, as well as increased sales of hot-mix asphalt, crushed aggregate and ready-mix concrete.

#### COAL

Operating income for Coal for 1997 reflects the consolidation of Arch Mineral results as of October 1, 1996, and includes charges of \$39 million for costs related to the merger of Ashland Coal and Arch Mineral. Prior to 1997, Arch Mineral was accounted for on the equity method, creating comparability problems. If Arch Mineral had been consolidated in all three years, pro forma operating income from Ashland's coal investments before unusual items would have amounted to about \$100 million for 1995 and \$88 million for 1996, compared to \$107 million for 1997. Ashland Coal's contributions to the 1997 results are up from 1996 despite the expiration of certain of its higher priced sales contracts and price reductions under certain other sales contracts around the end of December 1995. Ashland Coal subsequently reduced its average costs per ton to record levels, enabling it to more than offset the effects of reduced sales prices. Arch Mineral's contributions to these earnings are also up strongly from 1996, reflecting increased production and reduced administrative and interest costs.

(Bar graph appears in the right margin comparing operating income from Coal for fiscal 1995, 1996 and 1997.)

Operating income for 1996 and 1995 reflect only Ashland Coal's results. Ashland Coal had a difficult year in 1996 due largely to contract expirations and other price reductions in that year. As a result, operating income amounted to \$36 million in 1996, compared to \$66 million in 1995 reflecting the lower sales prices.

Charges for asset impairment and restructuring costs reduced Ashland's equity earnings from Arch Mineral by \$6 million in 1995. Adjusting for

these unusual items, Arch Mineral generated equity income of \$13 million in 1996 and \$2 million in 1995. Arch's results for 1996 were favorably affected by increased sales volumes and lower mining costs, as well as the restructuring completed in 1995.

#### GENERAL CORPORATE EXPENSES

Excluding unusual items, general corporate expenses were \$60 million in 1997, \$97 million in 1996 and \$87 million in 1995. The reduction in 1997 reflects the allocation of an additional \$41 million in costs to the segments, including \$2 million to the discontinued operations of Blazer Energy. The remaining changes over the three-year period result principally from fluctuations in incentive and deferred compensation costs.

#### DISCONTINUED OPERATIONS

Net income from discontinued operations (excluding the after tax gain of \$71 million on the sale of Blazer Energy's domestic operations in 1997) amounted to \$25 million in 1997, \$75 million in 1996 and \$10 million in 1995. Results for 1996 included an after tax gain of \$48 million from the settlement of claims against Columbia Gas Transmission involving natural gas contracts that were abrogated by Columbia in 1991.

#### FINANCIAL POSITION LIQUIDITY

Ashland's financial position has enabled it to obtain capital for its financing needs and to maintain investment grade ratings on its senior debt of Baa2 from Moody's and BBB from Standard & Poor's. Ashland has a revolving credit agreement providing for up to \$320 million in borrowings, under which no borrowings were outstanding at September 30, 1997. At that date, Arch Coal also had revolving credit agreements providing for up to \$500 million in borrowings, of which \$240 million was in use. Under a shelf registration, Ashland can issue an additional \$220 million in medium-term notes should future opportunities or needs arise. Ashland and Arch Coal also have access to various uncommitted lines of credit and commercial paper markets, under which Arch Coal had short-term notes of \$35 million outstanding at September 30, 1997. While certain debt agreements contain covenants limiting new borrowings, Ashland could still have increased its indebtedness by up to \$2.1 billion at September 30, 1997.

Cash flows from continuing operations, a major source of Ashland's liquidity, amounted to \$852 million in 1997, \$651 million in 1996 and \$442 million in 1995. The significant improvements in cash flows reflects a higher level of earnings, modest working capital growth and the consolidation of Arch Coal in 1997. Cash flows from operations exceeded Ashland's capital requirements for net property additions and dividends since 1994 by \$470 million, providing additional funds for debt repayment and acquisitions.

(Bar graph appears in the left margin comparing cash flows from continuing operations for fiscal 1995, 1996 and 1997.)

Property additions amounted to \$1.3 billion during the last three years and are summarized in the Information by Industry Segment on Page 63. While about 40% of Ashland's capital expenditures during this period were in Refining and Marketing, its percent of the total expenditures has declined in each of those three years. Capital expenditures by Valvoline, Ashland Chemical and APAC, Ashland's growth businesses, also accounted for 40% of the total expenditures since 1994, increasing from 37% in 1995 to 45% in 1997.

(Bar graph appears in the left margin comparing Ashland Inc. property additions for fiscal 1995, 1996 and 1997.)

Cash flows used for acquisitions amounted to \$478 million during the last three years. Such acquisitions include \$252 million for certain operations of Aristech Chemical Corporation and numerous smaller chemical companies, \$124 million for additional interests in Ashland Coal, \$47 million for Zerech and \$36 million for various construction companies. Of the total capital invested in acquisitions since 1994, 70% was employed in Valvoline, Ashland Chemical and APAC.

Long-term borrowings provided cash flows of \$573 million during the last three years, including the issuance of \$407 million of medium-term notes, \$75 million of pollution-control bonds and \$88 million of Arch Coal debt. The proceeds from these long-term borrowings were used in part to retire \$778 million of long-term debt (scheduled maturities as well as refundings to reduce interest costs). Cash flows were supplemented as necessary by the issuance of short-term notes and commercial paper.

Working capital at September 30, 1997, was \$734 million, and liquid assets (cash, cash equivalents and accounts receivable) amounted to 88% of current liabilities at that date. Ashland's working capital is significantly affected by its use of the LIFO method of inventory valuation, which valued inventories \$416 million below their replacement costs at September 30, 1997.

#### CAPITAL RESOURCES

Ashland's capital employed at September 30, 1997, consisted of debt (43%), minority interest (7%) and common stockholders' equity (50%). Debt as a percent of capital employed is down from 50% at the end of 1996, reflecting strong cash flows from operations during 1997, as well as the sale of the domestic operations of Blazer Energy. In addition, minority interest increased from 4% at September 30, 1996, reflecting the consolidation of Arch Mineral. Common stockholders' equity increased from 38% at the end of 1996, due to the conversion of \$290 million of preferred stock into common, as well as the strong earnings during 1997.

(Bar graph appears in the left margin comparing debt as a percent of capital employed for fiscal 1995, 1996 and 1997.)

During fiscal 1998, Ashland anticipates capital expenditures of approximately \$560 million. Capital expenditures in Refining and Marketing are expected to amount to about \$170 million, including nearly \$40 million for SuperAmerica. Capital expenditures of Valvoline, Ashland Chemical and APAC are projected at around \$240 million, with most of the remainder

invested by Arch Coal. Both Ashland and Arch Coal anticipate meeting their 1998 capital requirements for property additions and dividends from internally generated funds.

## 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 in the petroleum, chemical and mining industries.

Capital expenditures for air, water and solid waste control facilities for continuing operations amounted to \$26 million in 1997, \$38 million in 1996 and \$42 million in 1995. Based on current environmental regulations, Ashland anticipates such capital expenditures will amount to about \$30 million in 1998. Environmental remediation and compliance expenditures amounted to \$155 million in 1997, \$153 million in 1996 and \$148 million in 1995, and are expected to be in the range of \$160 million in 1998. Such compliance expenditures do not include the costs of additives, such as MTBE and ethanol, used to meet reformulated gasoline and oxygenated fuel requirements.

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

During 1997, the U. S. Environmental Protection Agency (EPA) completed comprehensive inspections of compliance with federal environmental laws and regulations at Ashland's three refineries. Ashland continues to cooperate and hold discussions with the EPA concerning these inspections, as well as what additional remediation actions may be required or costs may be incurred.

Ashland does not believe that any liability resulting from environmental matters, after taking into consideration its insurance coverages and amounts already provided for, will have a material adverse effect on its consolidated financial position, cash flows or liquidity.

## DERIVATIVE INSTRUMENTS

Ashland is exposed to various market risks, including changes in certain commodity prices, foreign currency rates and interest rates. To manage the volatility relating to these natural business exposures, Ashland enters into various derivative transactions in accordance with its established policies. Ashland does not hold or issue derivative instruments for trading purposes.

Ashland selectively uses commodity futures contracts to reduce its exposure to certain risks inherent within its refining business. Such contracts are used principally to hedge the value of intransit crude oil cargoes, hedge exposure under fixed-price petroleum product sales contracts, obtain higher prices for crude oil sales, protect against margin compression caused by increasing crude oil prices, take advantage of attractive refining margins and lock in costs on a portion of the natural gas fuel needs of the refineries. Ashland also uses forward exchange contracts to hedge certain foreign currency transaction exposures of its operations. The potential loss from a hypothetical 10% adverse change in commodity prices or foreign currency rates on Ashland's open commodity futures and foreign exchange contracts at September 30, 1997, would not materially affect Ashland's consolidated financial position, results of operations or cash flows.

Ashland uses interest rate swap agreements to obtain greater access to the lower borrowing costs normally available on floating-rate debt, while minimizing refunding risk through the issuance of long-term, fixed-rate debt. Long-term debt at September 30, 1997, included about \$280 million of floating-rate debt, and the interest rates on an additional \$370 million of fixed-rate debt were converted to LIBOR floating rates through unleveraged interest rate swap agreements. As a result, Ashland's annual interest costs in 1998 will fluctuate based on short-term interest rates on about \$650 million of Ashland's consolidated long-term debt outstanding at September 30, 1997, as well as on any short-term notes and commercial paper.

## OUTLOOK

Ashland Chemical will continue to pursue growth through internal efforts and selective acquisitions. Ashland Chemical will emphasize integrated products and services, targeting its North American customers and a growing international sales base with existing offerings and extensions into untapped markets, such as its recent entry into the distribution market for nutritional products. With market globalization favoring producers that have a worldwide presence, investments in acquisitions will also continue as attractive opportunities to add volume, technologies or market coverage are identified.

APAC will pursue growth through geographic expansion, enhanced materials production capabilities and product line extensions, such as concrete paving and greater site development services. Continued federal infrastructure funding and an expanding economy should continue to benefit APAC's efforts to build market position in existing markets and reduce

costs. APAC's construction backlog amounted to a record year end level of \$693 million at September 30, 1997. Such backlog includes a modest increase in the public sector and a slight decrease in the private sector, and is expected to contain margins comparable to those included in last year's backlog.

Valvoline will focus on extending and leveraging its brand franchise to related products, while pursuing international growth through aggressive marketing, joint ventures and application of domestic competencies. R-12 margins are expected to remain strong, although the level of annual demand is uncertain. Domestic sales volumes of higher-margin packaged lubricants serving

the "do-it-yourself" market are expected to continue to give ground to lower-margin bulk sales to the "do-it-for-me" market. However, sales of automotive chemicals and international sales of lubricants are expected to provide continued growth opportunities.

Although margins are expected to remain volatile, key external factors look promising for the refining and marketing industry. The economy is reasonably strong, inflation appears to be under control, and economic growth continues at a modest pace. In addition, petroleum product demand is expected to continue increasing over 1% annually for the rest of the decade. Such increases reflect a leveling of fuel efficiency in the passenger car fleet, increasing sales of light-truck and sport-utility vehicles which average fewer miles per gallon than passenger cars, and an increasing number of vehicle miles traveled. Refinery utilization rates are strong, which should be beneficial for refining margins.

Ashland Petroleum continues to strengthen its position in refining by enhancing its production of higher-value products, reducing its operating expenses and increasing its volumes sold under company brands. While SuperAmerica continues to expand its retail network, Ashland Petroleum is also increasing controlled gasoline sales through its branded jobber/distributor marketing program. Under that program, 601 retail locations were operating at September 30, 1997, compared to 485 locations at the end of 1996. Controlled sales volumes are up 21% since 1994, accounting for over 47% of refinery gasoline production in 1997, providing deeper market penetration in key Midwest markets, strengthening margins and reducing Ashland Petroleum's dependence on wholesale markets.

During 1997, Ashland and Marathon Oil Company signed a letter of intent to combine the petroleum refining and marketing and most transportation assets of the two companies. Ashland and Marathon have resolved all material matters concerning valuation and due diligence, and anticipate signing definitive agreements in December 1997. Ashland would have a 38% ownership interest in the proposed joint venture. Ashland expects that the proposed venture will be able to achieve substantial synergies beginning in 1998 by pursuing operational efficiencies and integrating the strengths of the business processes, management systems and administrative support functions of the two companies.

Arch Coal's results for 1998 are expected to benefit from numerous steps which have been taken or are underway to capture synergies resulting from the merger of Ashland Coal and Arch Mineral. Arch Coal's low debt and high cash flow provide the financial strength to support continued operational improvements, acquisitions and internal expansion.

Ashland's debt at the end of 1997 was down by \$255 million from the prior year, despite the addition of \$236 million in debt resulting from the consolidation of Arch Coal as of October 1, 1996. As a result, net interest costs are expected to be significantly lower in 1998, given the reduction in Ashland's debt during 1997. Annualizing the interest cost on outstanding debt at September 30, 1997, would result in net interest expense of about \$125 million during 1998, compared to \$170 million in 1997. Such debt reduction also provides Ashland with greater financial flexibility to pursue its growth goals.

#### EFFECTS OF INFLATION AND CHANGING PRICES

Ashland's financial statements are prepared on the historical cost method of accounting and, as a result, do not reflect changes in the dollar's purchasing power. Although annual inflation rates have been low in recent years, Ashland's results are still affected by the cumulative inflationary trend from prior years.

In the capital-intensive industries in which Ashland operates, replacement costs for its properties would generally exceed their historical costs. Accordingly, depreciation, depletion and amortization expense would be greater if it were based on current replacement costs. However, since replacement facilities would reflect technological improvements and changes in business strategies, such facilities would be expected to be more productive than existing facilities, mitigating the increased expense.

Ashland uses the last-in, first-out (LIFO) method to value a substantial portion of its inventories to provide a better matching of revenues with current costs. However, LIFO values such inventories below their replacement costs.

Monetary assets (such as cash, cash equivalents and accounts receivable) lose purchasing power as a result of inflation, while monetary liabilities (such as accounts payable and indebtedness) result in a gain, because they can be settled with dollars of diminished purchasing power. Ashland's monetary liabilities exceed its monetary assets, which results in net purchasing power gains and provides a hedge against the effects of future inflation.

#### FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis 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, including various information within the Capital Resources, Derivative Instruments and Outlook sections. Although Ashland believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such statements will be achieved. Important factors which could cause actual

results to differ materially from those contained in such statements are discussed in Note A to the Consolidated Financial Statements under risks and uncertainties. Other factors and risks affecting Ashland's revenues and operations are contained in Ashland's Form 10-K for the fiscal year ended September 30, 1997, which is on file with the Securities and Exchange Commission.



ASHLAND INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME  
YEARS ENDED SEPTEMBER 30

(In millions except per share data)

	1997	1996	1995
<b>REVENUES</b>			
Sales and operating revenues (including excise taxes)	\$14,200	\$12,892	\$11,972
Other	119	76	66
	14,319	12,968	12,038
<b>COSTS AND EXPENSES</b>			
Cost of sales and operating expenses	10,860	9,975	9,130
Excise taxes on products and merchandise	992	985	988
Selling, general and administrative expenses	1,405	1,275	1,269
Depreciation, depletion and amortization	572	371	447
	13,829	12,606	11,834
<b>OPERATING INCOME</b>			
	490	362	204
<b>OTHER INCOME (EXPENSE)</b>			
Interest expense (net of interest income)	(170)	(169)	(171)
Equity income - Note D	15	24	7
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST</b>			
	335	217	40
Income taxes - Note E	(119)	(73)	(3)
Minority interest in earnings of subsidiaries	(24)	(8)	(23)
<b>INCOME FROM CONTINUING OPERATIONS</b>			
	192	136	14
Income from discontinued operations (net of income taxes) - Note B	25	75	10
Gain on sale of discontinued operations (net of income taxes) - Note B	71	-	-
<b>INCOME BEFORE EXTRAORDINARY LOSS</b>			
	288	211	24
Extraordinary loss on early retirement of debt (net of income taxes) - Note F	(9)	-	-
<b>NET INCOME</b>			
	279	211	24
Dividends on convertible preferred stock	(9)	(19)	(19)
<b>INCOME AVAILABLE TO COMMON SHARES</b>			
	\$ 270	\$ 192	\$ 5
<b>EARNINGS PER SHARE - Note A</b>			
Primary			
Income (loss) from continuing operations	\$ 2.57	\$ 1.81	\$ (.08)
Income from discontinued operations	.36	1.16	.16
Gain on sale of discontinued operations	1.00	-	-
Extraordinary loss	(.13)	-	-
Net income	\$ 3.80	\$ 2.97	\$ .08
Assuming full dilution			
Income (loss) from continuing operations	\$ 2.52	\$ 1.84	\$ (.08)
Income from discontinued operations	.33	.98	.16
Gain on sale of discontinued operations	.94	-	-
Extraordinary loss	(.12)	-	-
Net income	\$ 3.67	\$ 2.82	\$ .08
<b>AVERAGE COMMON SHARES AND EQUIVALENTS OUTSTANDING</b>			
Primary			
	71	65	62
Assuming full dilution			
	76	77	63

See Notes to Consolidated Financial Statements.

ASHLAND INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
September 30

(In millions)	1997	1996
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 268	\$ 77
Accounts receivable (less allowances for doubtful accounts of \$24 million in 1997 and \$27 million in 1996)	1,730	1,621
Inventories - Note A	729	708
Other current assets	268	259
	-----	-----
	2,995	2,665
<b>INVESTMENTS AND OTHER ASSETS</b>		
Investments in and advances to unconsolidated affiliates - Note D	86	157
Investments of captive insurance companies	189	178
Cost in excess of net assets of companies acquired (less accumulated amortization of \$70 million in 1997 and \$43 million in 1996)	120	120
Coal supply agreements (less accumulated amortization of \$53 million in 1997 and \$44 million in 1996)	195	44
Net assets of discontinued operations held for sale - Note B	18	326
Other noncurrent assets	283	314
	-----	-----
	891	1,139
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
<b>Cost</b>		
Refining and Marketing	3,497	3,395
Valvoline	328	312
Chemical	904	818
APAC	671	626
Coal	1,904	980
Corporate	167	154
	-----	-----
	7,471	6,285
Accumulated depreciation, depletion and amortization	(3,580)	(3,000)
	-----	-----
	3,891	3,285
	-----	-----
	\$7,777	\$7,089
	=====	=====

See Notes to Consolidated Financial Statements.

(In millions)	1997	1996
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Debt due within one year		
Notes payable to financial institutions	\$ 35	\$ 117
Current portion of long-term debt	58	86
Trade and other payables	2,045	1,973
Income taxes	123	22
	2,261	2,198
<b>NONCURRENT LIABILITIES</b>		
Long-term debt (less current portion) - Notes F and G	1,639	1,784
Employee benefit obligations - Note M	854	613
Reserves of captive insurance companies	161	166
Other long-term liabilities and deferred credits	565	340
Commitments and contingencies - Notes G, I and L		
	3,219	2,903
<b>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES</b>		
	273	174
<b>STOCKHOLDERS' EQUITY - Notes F, J and K</b>		
Preferred stock, no par value, 30 million shares authorized		
Convertible preferred stock, 6 million shares issued in 1996, \$300 million liquidation value	-	293
<b>Common stockholders' equity</b>		
Common stock, par value \$1.00 per share		
Authorized - 150 million shares		
Issued - 75 million shares in 1997 and 64 million shares in 1996	75	64
Paid-in capital	605	280
Retained earnings	1,379	1,185
Other	(35)	(8)
Total common stockholders' equity	2,024	1,521
	2,024	1,814
	\$7,777	\$7,089

ASHLAND INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

(In millions)	Preferred stock	Common stock	Paid-in capital	Retained earnings	Loan to LESOP	Other	Total
BALANCE AT OCTOBER 1, 1994	\$293	\$61	\$159	\$1,126	\$(33)	\$(11)	\$1,595
Net income				24			24
Dividends				(19)			(19)
Preferred stock				(68)			(68)
Common stock, \$1.10 a share							
Issued common stock under							
Share offering program		2	49				51
Acquisition of operations of other companies		1	40				41
Stock incentive plans			7				7
LESOP loan repayments					22		22
Other changes			1			1	2
BALANCE AT SEPTEMBER 30, 1995	293	64	256	1,063	(11)	(10)	1,655
Net income				211			211
Dividends				(19)			(19)
Preferred stock				(70)			(70)
Common stock, \$1.10 a share							
Issued common stock under							
Stock incentive plans			18				18
Employee savings plan			6				6
LESOP loan repayments					11		11
Other changes						2	2
BALANCE AT SEPTEMBER 30, 1996	293	64	280	1,185	-	(8)	1,814
Net income				279			279
Dividends				(9)			(9)
Preferred stock				(76)			(76)
Common stock, \$1.10 a share							
Issued common stock under							
Preferred stock conversion	(290)	9	281				-
Stock incentive plans		2	44				46
Employee savings plan			1				1
Preferred stock redemption	(3)						(3)
Other changes			(1)			(27)	(28)
BALANCE AT SEPTEMBER 30, 1997	\$ -	\$75	\$605	\$1,379	\$ -	\$(35)	\$2,024

See Notes to Consolidated Financial Statements.

Ashland Inc. and Subsidiaries  
STATEMENTS OF CONSOLIDATED CASH FLOWS  
Years Ended September 30

(In millions)	1997	1996	1995
<b>CASH FLOWS FROM CONTINUING OPERATIONS</b>			
Income from continuing operations	\$192	\$136	\$ 14
Expense (income) not affecting cash			
Depreciation, depletion and amortization	572	371	447
Deferred income taxes	3	(11)	(71)
Other noncash items	45	1	43
Change in operating assets and liabilities(1)	40	154	9
	852	651	442
<b>CASH FLOWS FROM FINANCING</b>			
Proceeds from issuance of long-term debt	175	68	330
Proceeds from issuance of capital stock	35	16	55
Repayment of long-term debt	(621)	(97)	(60)
Increase (decrease) in short-term debt	(57)	(84)	38
Dividends paid	(97)	(93)	(92)
	(565)	(190)	271
<b>CASH FLOWS FROM INVESTMENT</b>			
Additions to property, plant and equipment	(431)	(430)	(399)
Purchase of operations - net of cash acquired	(96)	(83)	(299)
Investment purchases(2)	(248)	(455)	(725)
Investment sales and maturities(2)	216	491	704
Other - net	-	6	32
	(559)	(471)	(687)
<b>CASH PROVIDED (USED) BY CONTINUING OPERATIONS</b>			
Cash provided (used) by discontinued operations - Note B	(272)	(10)	26
	436	35	(14)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents - beginning of year	164	25	12
	104 (3)	52	40
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>			
	\$268	\$ 77	\$ 52
<b>DECREASE (INCREASE) IN OPERATING ASSETS(1)</b>			
Accounts receivable	\$ 1	\$ (52)	\$ (126)
Inventories	17	2	(60)
Other current assets	(6)	(6)	11
Investments and other assets	(3)	10	31
<b>INCREASE (DECREASE) IN OPERATING LIABILITIES(1)</b>			
Trade and other payables	(143)	216	176
Income taxes	80	(12)	(2)
Noncurrent liabilities	94	(4)	(21)
<b>CHANGE IN OPERATING ASSETS AND LIABILITIES</b>			
	\$ 40	\$ 154	\$ 9

- (1) Excludes changes resulting from operations acquired or sold.  
(2) Represents primarily investment transactions of captive insurance companies.  
(3) Includes \$27 million of cash and cash equivalents of Arch Mineral Corporation that was presented on a consolidated basis effective October 1, 1996 (see Note A).

See Notes to Consolidated Financial Statements.

ASHLAND INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Ashland and its majority-owned subsidiaries. Investments in joint ventures and 20% to 50% owned affiliates are accounted for on the equity method. Ashland Coal, Inc. and Arch Mineral Corporation merged on July 1, 1997, into a new corporation known as Arch Coal, Inc., in which Ashland has a 54% ownership interest. Beginning in the September 1997 quarter, Arch Coal was consolidated in Ashland's financial statements. Prior interim quarters in 1997 were restated to reflect Arch Mineral on a consolidated basis for comparison purposes. Since Arch Mineral was previously accounted for on the equity method, the comparability of various amounts included in Ashland's consolidated financial statements and the accompanying notes are affected.

RISKS AND UNCERTAINTIES

The preparation of Ashland's consolidated financial statements in conformity with generally accepted accounting principles requires Ashland's management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Significant items subject to such estimates and assumptions include the carrying value of long-lived assets, environmental reserves, employee benefit obligations, income recognized under construction contracts, and the ultimate realization of deferred tax assets. Actual results could differ from the estimates and assumptions used.

Ashland's operations are affected by domestic and international political, legislative, regulatory and legal actions. Such actions may include changes in the policies of the Organization of Petroleum Exporting Countries or other developments involving or affecting oil-producing countries, including military conflict, embargoes, internal instability or actions or reactions of the government of the United States in anticipation of, or in response to, such actions.

Domestic and international economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, as well as changes in the availability or prices of crude oil and petroleum products, can have a significant effect on Ashland's operations. While Ashland maintains reserves for anticipated liabilities and carries various levels of insurance, Ashland could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings relating to environmental or other matters. In addition, climate and weather can significantly affect Ashland in several of its operations, such as its construction, heating oil and coal businesses.

INVENTORIES

(In millions)	1997	1996
Crude oil	\$277	\$316
Petroleum products	289	323
Chemicals	341	342
Other products	174	146
Materials and supplies	64	55
Excess of replacement costs over LIFO carrying values	(416)	(474)
	\$729	\$708

Crude oil, petroleum products, chemicals and other products with a replacement cost of \$751 million at September 30, 1997, and \$834 million at September 30, 1996, are valued using the last-in, first-out (LIFO) method. The remaining inventories are stated generally at the lower of cost (using the first-in, first-out [FIFO] or average cost method) or market.

Ashland decreased certain LIFO inventories in 1997 for operating reasons. Cost of sales and operating expenses include costs for these inventories based on prior years' LIFO carrying values which were less than current replacement costs. As a result of LIFO inventory liquidations, net income was increased by \$7 million (\$.09 per share) in 1997. The effects of LIFO inventory liquidations during 1996 and 1995 were not significant.

PROPERTY, PLANT AND EQUIPMENT

The cost of plant and equipment (other than the costs of purchasing rights to coal reserves and mine development costs) is principally depreciated by the straight-line method over the estimated useful lives of the assets. Costs of purchasing rights to coal reserves and mine development costs are depleted by the units-of-production method over the estimated recoverable reserves. Coal exploration costs are expensed as incurred.

Estimated costs of major refinery turnarounds are accrued, while other maintenance and repair costs are expensed as incurred. Maintenance and repair expense amounted to \$463 million in 1997, \$355 million in 1996 and \$341 million in 1995.

## ENVIRONMENTAL COSTS

Accruals for environmental costs are recognized when it is probable that a liability has been incurred and the amount of that liability can be reasonably estimated. Such costs are charged to expense if they relate to the remediation of conditions caused by past operations or are not expected to mitigate or prevent contamination from future operations. Accruals are recorded at undiscounted amounts based on experience, assessments and current technology without regard to any third-party recoveries and are regularly adjusted as environmental assessments and remediation efforts proceed.

## EARNINGS PER SHARE

Primary earnings per share is based on net income less preferred dividends divided by the average number of common shares and equivalents outstanding during the respective years. Shares of common stock issuable under stock options are treated as common stock equivalents when dilutive.

Earnings per share assuming full dilution begins with the primary earnings per share computation. Prior to 1997, shares issuable upon conversion of the preferred stock and 6.75% subordinated debentures were added to average common shares and equivalents when dilutive. In such cases, net income was further adjusted by adding back preferred dividends and interest expense (net of tax) on these debentures.

In the computation of earnings per share assuming full dilution for 1997, the preferred shares which were converted in March 1997 (see Note J) were assumed to be converted to common shares as of the beginning of the year, in accordance with generally accepted accounting principles. If the shares had been assumed converted as of the beginning of the year for the primary computation, the resulting primary earnings per share would have amounted to \$3.70. The 6.75% convertible subordinated debentures were retired in July 1997 (see Note F) and, therefore, were not assumed converted for the 1997 computation.

## DERIVATIVE INSTRUMENTS

Ashland selectively uses commodity futures contracts to reduce its exposure to certain risks inherent within its refining business. Such contracts are used principally to hedge the value of intransit crude oil cargoes, hedge exposure under fixed-price sales contracts, obtain higher prices for crude oil sales, protect against margin compression caused by increasing crude oil prices, take advantage of attractive refining margins and lock in prices on a portion of the natural gas fuel needs of the refineries. Realized gains and losses on these contracts are included in cost of sales in the original contract month, with amounts paid or received on early terminations deferred on the balance sheet in other current assets or trade and other payables, as appropriate (the deferral method). In addition, commodity futures contracts are used as an alternate method of obtaining or selling crude oil and petroleum products to balance physical barrel activity. These contracts are marked-to-market each month and included in accounts receivable, with the offsetting unrealized gain or loss included in cost of sales (the fair value method).

Ashland uses forward exchange contracts to hedge foreign currency transaction exposures of its operations. These contracts are marked-to-market each month and included in trade and other payables, with the offsetting gain or loss included in other revenues (the fair value method).

Ashland uses interest rate swap agreements to obtain greater access to the lower borrowing costs normally available on floating-rate debt, while minimizing refunding risk through the issuance of long-term, fixed-rate debt. Each interest rate swap agreement is designated with all or a portion of the principal balance and term of a specific debt obligation. These agreements involve the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement, without an exchange of the notional amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt (the accrual method). The related amount payable to or receivable from counterparties is included in trade and other payables. The fair values of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest rate swap agreements are deferred on the balance sheet (in other long-term liabilities) and amortized as an adjustment to interest expense related to the debt over the remaining term of the original contract life of the terminated swap agreement.

## STOCK INCENTIVE PLANS

Effective October 1, 1996, Ashland adopted the disclosure requirements of Financial Accounting Standards Board Statement No. 123 (FAS 123), "Accounting for Stock-Based Compensation." With respect to accounting for its stock options, as permitted under FAS 123, Ashland has retained the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations (see Note K).

## ACCOUNTING CHANGES

Effective September 30, 1995, Ashland adopted Financial Accounting Standards Board Statement No. 121 (FAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." As a result, Ashland recorded charges of \$83 million (\$79 million included in depreciation, depletion and amortization and \$4 million charged to discontinued operations) to write down certain assets to their estimated

fair values. These assets included an idle unit at Ashland Petroleum's Catlettsburg refinery, certain unused crude oil gathering pipelines of Scurlock Permian, and petroleum product marketing properties which were being sold or shut down. Fair values were based upon appraisals or estimates of discounted future cash flows. Operating income was reduced for each of the affected segments as follows: Refining and Marketing (\$68 million); Valvoline (\$3 million); Chemical (\$4 million); and general corporate expenses (\$4 million). In addition, Arch Mineral adopted FAS 121 and recorded a charge to write down certain idle facilities, decreasing Ashland's equity income by \$3 million. The adoption of FAS 121 reduced Ashland's net income for 1995 by \$54 million or \$.86 per share.



## NOTE A - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## OTHER

Cash equivalents include highly liquid investments maturing within three months after purchase. Investments of captive insurance companies (primarily foreign corporate and government debt obligations) are carried at market value plus accrued interest.

Income related to construction contracts is generally recognized by the units-of-production method, which is a variation of the percentage-of-completion method. Any anticipated losses on such contracts are charged against operations as soon as such losses are estimable.

Costs in excess of net assets of companies acquired are amortized by the straight-line method over periods generally ranging from 10 to 40 years, with an average remaining life of 13 years. Costs of acquired coal supply agreements are capitalized and amortized over the contract sales tonnage.

Research and development costs are expensed as incurred (\$29 million in 1997, \$28 million in 1996 and \$24 million in 1995).

Certain prior year amounts have been reclassified in the consolidated financial statements and accompanying notes to conform with 1997 classifications.

## NOTE B - DISCONTINUED OPERATIONS

On July 1, 1997, Ashland sold the domestic exploration and production operations of Blazer Energy Corporation, realizing cash proceeds of \$566 million. The sale resulted in a pretax gain of \$138 million which, net of \$67 million of income taxes, produced a gain on sale of discontinued operations of \$71 million. Ashland has reached an agreement in principle to sell its exploration and production operations in Nigeria, subject to the approval of the Nigerian government and other conditions. Accordingly, results from the Exploration segment are shown as discontinued operations with prior years restated. Components of amounts reflected in the income statements, balance sheets and cash flow statements are presented in the following table.

(In millions)	1997	1996	1995
<b>INCOME STATEMENT DATA</b>			
Revenues	\$240	\$320(1)	\$204
Costs and expenses	(215)	(226)	(210)
Operating income (loss)	25	94	(6)
Income tax benefit (expense)	-	(19)	16
Income from discontinued operations	\$ 25	\$ 75(1)	\$ 10
<b>BALANCE SHEET DATA</b>			
Current assets	\$ 59	\$ 76	
Investments and other assets	1	1	
Property, plant and equipment - net	57	430	
Current liabilities	(41)	(81)	
Noncurrent liabilities	(58)	(100)	
Net assets of discontinued operations held for sale	\$ 18	\$326	
<b>CASH FLOW DATA</b>			
Cash flows from operations	\$(90)	\$115	\$ 58
Cash flows from investment (including sales proceeds)	526	(80)	(72)
Cash provided (used) by discontinued operations	\$436	\$ 35	\$(14)

(1) Includes a gain of \$73 million (\$48 million after income taxes) resulting from the settlement of claims in the bankruptcy reorganization of Columbia Gas Transmission and Columbia Gas Systems.

NOTE C - INFORMATION BY INDUSTRY SEGMENT

Ashland's operations are conducted primarily in the United States and are managed along industry segments, which include Refining and Marketing, Valvoline, Chemical, APAC and Coal. Information by industry segment is shown on Pages 62 and 63.

Refining and Marketing operations are conducted by Ashland Petroleum and SuperAmerica. Ashland Petroleum is a leading regional refiner and marketer in the Midwest. In addition to supplying petroleum products to SuperAmerica, Valvoline, Ashland Chemical and APAC, Ashland Petroleum is a leading supplier of petroleum products to the transportation and commercial fleet industries, other industrial customers and independent marketers (including marketers operating under the Ashland brand name). Ashland Petroleum also transports crude oil and petroleum products in connection with its refining and wholesale marketing operations and gathers and markets crude oil through Scurlock Permian. SuperAmerica includes Ashland's retail gasoline and merchandise marketing operations, including the SuperAmerica chain of high-volume retail stores. Gasoline and merchandise are also sold from outlets operated by SuperAmerica under the Rich brand name. Operations are conducted primarily in the Ohio Valley and Upper Midwest.

During 1997, Ashland and Marathon Oil Company signed a letter of intent to combine the petroleum refining and marketing and most transportation assets of the two companies. Ashland would have a 38% ownership interest in the proposed joint venture. On October 30, 1997, Ashland and Marathon announced that the two firms had resolved all material matters concerning valuation and due diligence, and anticipate signing definitive agreements in December 1997.

Valvoline is a marketer of automotive and industrial oils, automotive chemicals, antifreeze, filters, rust preventives and coolants, with sales in more than 140 countries. In addition, Valvoline is engaged in the "fast oil change" business through outlets operating under the Valvoline Instant Oil Change and Valvoline Rapid Oil Change names and provides environmental services for the collection of used oil, antifreeze and filters.

Chemical businesses are managed by Ashland Chemical, which distributes industrial chemicals, solvents, thermoplastics and resins, fiberglass materials and fine ingredients. Ashland Chemical also manufactures a wide variety of specialty chemicals and certain petrochemicals. Major specialty chemicals include foundry products, water treatment and marine service chemicals, specialty polymers and adhesives, unsaturated polyester resins, and high-purity electronic and laboratory chemicals. Ashland Chemical's petrochemicals division manufactures and markets maleic anhydride and methanol, and markets cumene, aromatic and aliphatic solvents, and propylene manufactured by Ashland Petroleum. Marketing of the petrochemicals manufactured by Ashland Petroleum will be transferred to Refining and Marketing in fiscal 1998.

The APAC group of companies, which are located in 13 southern and midwestern states, perform contract construction work including paving, repair and resurfacing highways, streets, airports, residential and commercial developments, sidewalks, and driveways; grading and base work; and excavation and related activities in the construction of bridges and structures, drainage facilities and underground utilities. APAC also produces and sells construction materials, such as asphaltic and ready-mix concrete, crushed stone and other aggregate and, in certain markets, concrete block and specialized construction materials, such as architectural block.

Coal operations are conducted by 54% owned, publicly traded Arch Coal, Inc., which was created on July 1, 1997, by the merger of Ashland Coal, Inc. and Arch Mineral Corporation. Beginning in the September 1997 quarter, Arch Coal was consolidated in Ashland's financial statements. Prior interim quarters in 1997 were restated to reflect Arch Mineral on a consolidated basis for comparison purposes. Arch Mineral was previously accounted for on the equity method. Arch Coal is the largest producer of bituminous, low-sulfur coal in the eastern United States. Arch markets coal to electric utilities and industrial customers throughout the United States, Europe and Japan. Coal is produced from surface and deep mines located in Illinois, Kentucky, Virginia, West Virginia and Wyoming. Arch also markets coal mined by independent producers.

On July 1, 1997, Ashland sold the domestic exploration and production operations of Blazer Energy Corporation. Ashland has reached an agreement in principle to sell its exploration and production operations in Nigeria, subject to the approval of the Nigerian government and other conditions. Accordingly, results from the Exploration segment are shown as discontinued operations with prior years restated (see Note B).

Certain information with respect to continuing foreign operations follows.

(In millions)	Total assets		Income from continuing operations before income taxes		
	1997	1996	1997	1996	1995
Foreign operations					
Refining and Marketing	\$ 63	\$ 70	\$ 2	\$ 3	\$ 4
Valvoline	103	127	(7)(1)	4	3
Chemical	363	327	26(1)	41	42

-----  
\$529

\$ 524

\$21

\$ 48

\$49  
=====

(1) Includes charges of \$10 million for Valvoline and \$16 million for Chemical to write down goodwill related to certain European operations.

## NOTE D - UNCONSOLIDATED AFFILIATES

Affiliated companies accounted for on the equity method include LOOP LLC and LOCAP INC. (18.6% and 21.4% owned corporate joint ventures operating a deepwater offshore port and related pipeline facilities in the Gulf of Mexico) and various other companies. Prior to 1997, Arch Mineral Corporation was 50% owned and accounted for on the equity method (see Notes A and C). Summarized financial information reported by these affiliates and a summary of the amounts recorded in Ashland's consolidated financial statements follow. At September 30, 1997, Ashland's retained earnings include \$55 million of undistributed earnings from unconsolidated affiliates accounted for on the equity method.

(In millions)	Arch Mineral Corporation	LOOP LLC and LOCAP INC.	Other	Total
<b>SEPTEMBER 30, 1997</b>				
Financial position				
Current assets		\$ 30	\$ 311	
Current liabilities		(81)	(161)	
Working capital		(51)	150	
Noncurrent assets		586	149	
Noncurrent liabilities		(438)	(104)	
Stockholders' equity		\$ 97	\$ 195	
Results of operations				
Sales and operating revenues		\$ 123	\$ 994	
Gross profit		40	238	
Net income		27	38	
Amounts recorded by Ashland				
Investments and advances		18	68	\$ 86
Equity income		2	13	15
Dividends received		-	9	9
<b>SEPTEMBER 30, 1996</b>				
Financial position				
Current assets	\$ 165	\$ 28	\$ 265	
Current liabilities	(142)	(82)	(151)	
Working capital	23	(54)	114	
Noncurrent assets	752	613	225	
Noncurrent liabilities	(646)	(489)	(107)	
Stockholders' equity	\$ 129	\$ 70	\$ 232	
Results of operations				
Sales and operating revenues	\$ 727	\$ 117	\$ 846	
Gross profit	98	38	214	
Net income	27	8	28	
Amounts recorded by Ashland				
Investments and advances	73	13	71	\$ 157
Equity income	13	2	9	24
Dividends received	-	-	7	7
<b>SEPTEMBER 30, 1995</b>				
Results of operations				
Sales and operating revenues	\$ 714	\$ 119	\$ 775	
Gross profit	50	36	193	
Net income (loss)	(8)(1)	4	29	
Amounts recorded by Ashland				
Equity income (loss)	(4)	1	10	\$ 7
Dividends received	3	1	8	12

(1) Includes a charge of \$12 million resulting from asset impairment write-downs under FAS 121 and provisions for early retirement and restructuring programs.

NOTE E - INCOME TAXES

A summary of the provision for income taxes related to continuing operations follows.

(In millions)	1997	1996	1995
Current(1)			
Federal	\$ 92	\$ 60	\$ 52
State	7	7	10
Foreign	17	17	12
	116	84	74
Deferred	3	(11)	(71)
	\$119	\$ 73	\$ 3

(1) Income tax payments amounted to \$82 million in 1997, \$110 million in 1996 and \$54 million in 1995.

Deferred income taxes are provided for significant income and expense items recognized in different years for tax and financial reporting purposes. Temporary differences which give rise to significant deferred tax assets (liabilities) follow. These amounts are recorded in various asset and liability accounts on Ashland's consolidated balance sheets.

(In millions)	1997	1996
Employee benefit obligations	\$365	\$ 251
Environmental, insurance and litigation reserves	148	118
Alternative minimum tax credit carryforwards	76(1)	77
Uncollectible accounts receivable	18	19
Compensated absences	16	16
Other items	89	58
Total deferred tax assets	712	539
Property, plant and equipment	(523)	(405)
Coal supply agreements	(38)	(9)
Undistributed equity income	(19)	(18)
Prepaid royalties	2	(18)
Total deferred tax liabilities	(578)	(450)
Net deferred tax asset	\$134	\$ 89

(1) Alternative minimum tax credit carryforwards at September 30, 1997, relate entirely to Arch Coal, Inc.

The U.S. and foreign components of income from continuing operations before income taxes and a reconciliation of the normal statutory federal income tax with the provision for income taxes follow.

(In millions)	1997	1996	1995
Income from continuing operations before income taxes and minority interest			
United States	\$314	\$169	\$ (9)
Foreign	21	48	49
	\$335	\$217	\$ 40
Income taxes computed at U.S. statutory rates	\$117	\$ 76	\$ 14
Increase (decrease) in amount computed resulting from			
Equity income	(4)	(5)	-
State income taxes	7	4	5
Net impact of foreign results	10	-	(4)
Percentage depletion allowance	(22)	(6)	(14)
Other items	11	4	2
Income taxes	\$119	\$ 73	\$ 3

The Internal Revenue Service (IRS) has examined Ashland's consolidated U.S. income tax returns through 1993. As a result of its examinations, the IRS has proposed adjustments, certain of which are being contested by Ashland. Ashland believes it has adequately provided for any income taxes and related interest which may ultimately be paid on contested issues.

NOTE F - LONG-TERM DEBT  
(In millions)

	1997	1996
=====		
Senior debt of Ashland		
Medium-term notes, due 1998-2025, interest at an average rate of 8.3% at September 30, 1997 (5.8% to 10.4%)	\$ 936	\$ 909
8.80% debentures, due 2012	250	250
11.125% sinking fund debentures, due 2017	-	200
Pollution control and industrial revenue bonds, due 1998-2022, interest at an average rate of 6.4% at September 30, 1997 (3.5% to 7.4%)	217	227
Other	2	3
-----		
6.75% convertible subordinated debentures, due 2014, convertible into common stock at \$51.34 per share	1,405	1,589
-	-	124
Debt of Arch Coal, Inc. not guaranteed by Ashland		
9.78% senior notes, due 1997-2000	-	101
9.66% senior notes, due 2001-2006	-	54
7.79% senior notes, due 1998-2003	43	-
Revolving credit agreement, due 2002, variable interest rate based on LIBOR, interest rate of 5.9% at September 30, 1997	240	-
Other	9	2
-----		
Current portion of long-term debt	1,697 (58)	1,870 (86)
-----		
	\$1,639	\$1,784
=====		

Aggregate maturities of long-term debt are \$58 million in 1998, \$48 million in 1999, \$41 million in 2000, \$79 million in 2001 and \$328 million in 2002. Excluded from such maturities are \$38 million of floating-rate pollution control and industrial revenue bonds, due between 2003 and 2009. These bonds are subject to early redemptions at the bondholders' option, but generally not before October 1, 1998.

Ashland has a revolving credit agreement which expires on February 9, 2000, providing for up to \$320 million in borrowings, under which no borrowings were outstanding at September 30, 1997. In addition, Arch Coal has revolving credit agreements which expire on June 30, 2002, providing for up to \$500 million in borrowings, of which \$240 million was in use at September 30, 1997.

Certain debt agreements contain covenants restricting dividends, share repurchases and other distributions with respect to Ashland's capital stock, as well as covenants limiting new borrowings. At September 30, 1997, distributions with respect to Ashland's capital stock were restricted to \$1 billion and additional debt was limited to \$2.1 billion.

Interest payments on all indebtedness amounted to \$191 million in 1997, \$175 million in 1996, and \$163 million in 1995. The weighted average interest rate on short-term borrowings outstanding was 6.7% at September 30, 1997, and 5.9% at September 30, 1996.

EXTRAORDINARY LOSS

On June 3, 1997, Ashland called for redemption all of its outstanding 6.75% Convertible Subordinated Debentures. On July 3, 1997, \$123 million of the Debentures were redeemed for 101.35% of the principal amount, plus accrued interest, thereby eliminating an associated 2.4 million shares of Ashland Common Stock that had been reserved for conversion. On September 3, 1997, Ashland announced its intention to redeem its 11.125% Sinking Fund Debentures on October 15, 1997. The principal amount outstanding of \$200 million had a redemption price of 105.562%, plus accrued interest to the redemption date. On September 23, 1997, Ashland delivered to the trustee U.S. Treasury securities maturing on October 15, 1997, sufficient to cover the redemption price and accrued interest in accordance with the indenture agreement, thereby relieving Ashland of any further obligations under the Debentures. The redemption premium and writeoff of unamortized deferred debt issuance expenses related to these two transactions resulted in pretax charges totaling \$15 million which, net of income tax benefits of \$6 million, resulted in an extraordinary loss of \$9 million on the early retirement of debt.

NOTE G - FINANCIAL INSTRUMENTS

COMMODITY AND FOREIGN CURRENCY HEDGES

Ashland uses commodity futures contracts and forward exchange contracts to reduce its exposure to certain risks inherent within its businesses as described in Note A. The fair value of open commodity and foreign exchange contracts was not significant at September 30, 1997, and 1996.

INTEREST RATE SWAPS

Ashland uses interest rate swap agreements to obtain greater access to the lower borrowing costs normally available on floating-rate debt, while minimizing refunding risk through the issuance of long-term, fixed-rate debt. At September 30, 1997, Ashland had unleveraged swap agreements with a notional principal amount of \$370 million. These agreements were used to convert fixed rates on certain debt, including the 8.80% debentures and various medium-term notes, to variable rates. The variable rates are generally adjusted quarterly or semiannually based on London Interbank Offered Rates (LIBOR), but may be fixed for longer terms using forward rate agreements. Notional amounts do not quantify risk or represent assets or liabilities of Ashland, but are used in the determination of cash settlements under the agreements. Ashland is exposed to credit losses from counterparty nonperformance, but does not anticipate any losses from its agreements, all of which are with major financial institutions.

At September 30, 1997, Ashland was receiving a weighted-average fixed interest rate of 6.0% and paying a weighted-average variable interest rate of 5.9%, calculated on the notional amount. Interest expense was reduced by \$2 million in 1997 and 1996 and an insignificant amount in 1995 resulting from settlements under these agreements. Under its current swap agreements, Ashland's annual interest expense in 1998 will change by about \$4 million for each 1% change in LIBOR. The terms remaining on Ashland's swaps range from 4 to 80 months, with a weighted-average remaining life of 27 months.

The carrying amounts and fair values of Ashland's significant financial instruments, including interest rate swaps, at September 30, 1997, and 1996, are shown below. The fair values of cash and cash equivalents and notes payable to financial institutions approximate their carrying amounts. The fair values of investments of captive insurance companies are based on quoted market prices plus accrued interest. The fair values of long-term debt are based on quoted market prices or, if market prices are not available, the present values of the underlying cash flows discounted at Ashland's incremental borrowing rates. The fair values of interest rate swaps are based on quoted market prices, which reflect the present values of the difference between estimated future variable-rate payments and future fixed-rate receipts.

(In millions)	1997		1996	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$ 268	\$ 268	\$ 77	\$ 77
Investments of captive insurance companies	189	189	178	178
Interest rate swaps	-	1		
<b>Liabilities</b>				
Notes payable to financial institutions	35	35	117	117
Long-term debt (including current portion)	1,697	1,864	1,870	2,024
Interest rate swaps			-	4

NOTE H - ACQUISITIONS AND DIVESTITURES

ACQUISITIONS

In February 1995, Ashland purchased all of Ashland Coal's Class B Preferred Stock for \$110 million. The purchase increased Ashland's ownership of Ashland Coal from 39% to 54%. As a result of this transaction, Ashland Coal was consolidated into Ashland's financial statements retroactive to October 1, 1994. Ashland continued to reinvest dividends from Ashland Coal in additional shares of its common stock, increasing its ownership in Ashland Coal to 57% as of July 1, 1997, when Ashland Coal and Arch Mineral Corporation merged (see Notes A and C).

Also during 1995, Ashland acquired the unsaturated polyester resins, polyester distribution and maleic anhydride businesses of Aristech Chemical Corporation, the Zerex antifreeze product line, the northern West Virginia assets of two natural gas producers, and various other chemical and construction businesses. These and several smaller acquisitions completed in various segments during the last three years were generally accounted for as purchases and did not have a significant effect on Ashland's consolidated financial statements.

DIVESTITURES

Ashland completed several small divestitures in various segments during the last three years which did not have a significant effect on Ashland's consolidated financial statements. In 1997, Ashland completed the sale of the domestic operations of Blazer Energy Corporation. See Note B for a description of this transaction and its impact on Ashland's consolidated

financial statements.



NOTE I - LEASES AND OTHER COMMITMENTS

LEASES

Ashland and its subsidiaries are lessees in noncancelable leasing agreements for office buildings, warehouses, pipelines, transportation and marine equipment, storage facilities, retail outlets, manufacturing facilities and other equipment and properties which expire at various dates. Capitalized lease obligations are not significant and are included in long-term debt. Future minimum rental payments at September 30, 1997, and rental expense under operating leases follow.

(In millions)

Future minimum rental payments		Rental expense	1997	1996	1995
1998	\$ 84				
1999	74	Minimum rentals			
2000	66	(including rentals under			
2001	52	short-term leases)	\$166	\$146	\$129
2002	36	Contingent rentals	13	14	11
Later years	174	Sublease rental income	(13)	(16)	(18)
	\$486		\$166	\$144	\$122

In addition, Arch Coal has entered into various noncancelable royalty lease agreements under which future minimum payments are approximately \$31 million annually through 2002 and \$253 million in the aggregate thereafter.

OTHER COMMITMENTS

Under agreements with LOOP and LOCAP (see Note D), Ashland is obligated, based upon its equity ownership, to provide a portion of the total debt service and defined operating and administrative costs of these joint ventures. This annual obligation is reduced by transportation charges paid by Ashland and by a pro rata portion of transportation charges paid by third parties who are not equity participants. If, after each obligor's requirements have been satisfied, the joint ventures are unable to meet cash requirements, Ashland is obligated to advance its pro rata share of the deficiency. All funds provided to these joint ventures are used as advances against future transportation charges. At September 30, 1997, substantially all advances made to LOOP and LOCAP by Ashland had been applied against transportation charges. Transportation charges incurred amounted to \$16 million in 1997, \$16 million in 1996 and \$21 million in 1995. At September 30, 1997, Ashland's contingent liability for its share of the indebtedness of LOOP and LOCAP secured by throughput and deficiency agreements amounted to approximately \$83 million.

Arch Coal owns 17.5% of a joint venture operating a coal-loading and storage facility at Newport News, Va. Venture partners are required to pay their share of the venture's costs in relation to their ownership (for fixed operating costs and debt service) or facility usage (for variable operating costs). Arch Coal's share of such payments amounted to approximately \$4 million annually in each of the last three years. Future payments for fixed operating costs and debt service are estimated to approximate \$3 million annually through 2015 and \$26 million in 2016. Additionally, Ashland is contingently liable for a guarantee relating to an office building partially occupied by Arch Coal. At September 30, 1997, such obligation has a present value of approximately \$6 million.

NOTE J - CAPITAL STOCK

In March 1997, Ashland called for redemption the 6 million outstanding shares of its \$3.125 Cumulative Convertible Preferred Stock. Each preferred share was convertible into 1.546 shares of Ashland common stock, plus cash for fractional shares. Almost 99% of the series was submitted for conversion to common stock by the March 31 deadline. The remaining preferred shares were redeemed at a price of \$51.88 per share plus 19.1 cents per share of accrued and unpaid dividends.

Under Ashland's Shareholder Rights Plan, each common share is accompanied by one right to purchase one-thousandth share of preferred stock for \$140. Each one-thousandth share of preferred stock will be entitled to dividends and to vote on an equivalent basis with one common share. The rights are neither exercisable nor separately transferable from the common shares unless a party acquires or tenders for more than 15% of Ashland's common stock. If any party acquires more than 15% of Ashland's common stock or acquires Ashland in a business combination, each right (other than those held by the acquiring party) will entitle the holder to purchase preferred stock of Ashland or the acquiring company at a substantial discount. The rights expire on May 16, 2006, and can be redeemed at any time prior to becoming exercisable.

At September 30, 1997, 500,000 shares of cumulative preferred stock are reserved for potential issuance under the Shareholder Rights Plan. At September 30, 1997, 5 million common shares are reserved for issuance under outstanding stock options.

NOTE K - STOCK INCENTIVE PLANS

Ashland has stock incentive plans under which key employees or directors can purchase shares of common stock under stock options or restricted stock awards. Stock options are granted to employees at a price equal to the fair market value of the stock on the date of grant and become exercisable over periods of one to three years. Unexercised options lapse 10 years after the date of grant. Restricted stock awards entitle employees or directors to purchase shares at a nominal cost, to vote such shares and to receive any dividends thereon. However, such shares are subject to forfeiture upon termination of service before the restriction period ends.

Ashland accounts for its stock incentive plans in accordance with APB 25, as permitted by FAS 123. In accordance with APB 25, Ashland has not recognized compensation expense for stock options because the exercise price of the options equals the market price of the underlying stock on the date of grant, which is the measurement date. If the alternative method of accounting for stock incentive plans prescribed by FAS 123 had been followed, the impact on Ashland's net income and earnings per share for 1997 and 1996 would not have been material. A summary of stock options follows.

(In thousands except per share data)	1997		1996		1995	
	Common shares	Weighted average option price per share	Common shares	Weighted average option price per share	Common shares	Weighted average option price per share
Outstanding - beginning of year(1)	5,247	\$33.97	5,222	\$32.72	4,697	\$32.50
Granted	814	53.22	823	38.92	839	33.86
Exercised	(1,271)	32.94	(747)	30.45	(164)	27.47
Canceled	(72)	37.29	(51)	37.35	(150)	38.16
Outstanding - end of year(1)	4,718	\$37.52	5,247	\$33.97	5,222	\$32.72
Exercisable - end of year	3,373	\$33.78	3,820	\$32.81	3,777	\$32.17

(1) Shares of common stock available for future grants of options or awards amounted to 5,778,000 at September 30, 1997, and 3,403,000 at September 30, 1996. Exercise prices for options outstanding at September 30, 1997, ranged from \$23.88 to \$53.38 per share. The weighted average remaining contractual life of the options was 7 years.

NOTE L - 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 operating facilities, previously owned or operated facilities, and Superfund or other waste sites. Consistent with its accounting policy for environmental costs, Ashland's reserves for environmental assessments and remediation efforts amounted to \$150 million at September 30, 1997, and \$173 million at September 30, 1996. Such amounts reflect Ashland's most likely estimates of the costs which will be incurred over an extended period to remediate identified environmental conditions for which costs are reasonably estimable.

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

During 1997, the U. S. Environmental Protection Agency (EPA) completed comprehensive inspections of compliance with federal environmental laws and regulations at Ashland's three refineries. Ashland continues to cooperate and hold discussions with the EPA concerning these inspections, as well as what additional remediation actions may be required or costs may be incurred.

In addition to environmental matters, Ashland and its subsidiaries are parties to numerous 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 these matters, after taking into consideration its insurance coverages and amounts already provided for, will have a material adverse effect on its consolidated financial position.

## NOTE M - EMPLOYEE BENEFIT PLANS

## PENSION PLANS

Ashland and its subsidiaries sponsor defined benefit pension plans that cover substantially all employees, other than union employees covered by multiemployer pension plans under collective bargaining agreements. Benefits under Ashland's plans generally are based on employees' years of service and compensation during the years immediately preceding retirement. For certain plans, such benefits are expected to come in part from one-half of employees' leveraged employee stock ownership plan (LESOP) accounts. Ashland determines the level of contributions to pension plans annually and contributes amounts within allowable limitations imposed by Internal Revenue Service regulations. The following tables detail the funded status of the plans and the components of pension expense. A discount rate of 7.25% and an assumed rate of salary increases of 5% were used in determining the actuarial present value of projected benefit obligations at September 30, 1997 (8% and 5% at September 30, 1996).

(In millions)	1997		1996	
	Plans with assets in excess of ABO	Plans with ABO in excess of assets	Plans with assets in excess of ABO	Plans with ABO in excess of assets
Plan assets at fair value (primarily listed stocks and bonds)	\$433	\$ 69	\$360	\$ -
Accumulated benefit obligations (ABO)				
Vested	317	99	284	29
Nonvested	45	49	35	36
	362	148	319	65
Plan assets less than (in excess of) ABO	(71)	79(1)	(41)	65(1)
Provision for future salary increases	173	34	149	17
Deferred pension costs	(5)	(10)	(10)	(15)
Net accrued pension costs(2)	\$ 97	\$103	\$ 98	\$ 67
Components of deferred pension costs				
Unrecognized transition gain (loss)	\$ 6	\$ (2)	\$ 10	\$ (4)
Unrecognized net loss	-	(33)	(9)	(34)
Unrecognized prior service costs	(11)	(2)	(11)	(1)
Recognition of minimum liability	-	27	-	24
	\$ (5)	\$ (10)	\$ (10)	\$ (15)
(In millions)		1997	1996	1995
Components of pension expense				
Service cost		\$ 39	\$ 32	\$ 23
Interest cost		48	40	34
Actual investment gain on plan assets		(86)	(34)	(51)
Deferred investment gain(3)		50	6	30
Other amortization and deferral		2	3	1
Enhanced retirement program pension cost		-	-	15
		\$ 53	\$ 47	\$ 52

(1) Includes unfunded ABO of \$77 million in 1997 and \$65 million in 1996 for nonqualified defined benefit plans.

(2) Amounts are recorded in various asset and liability accounts on Ashland's consolidated balance sheets.

(3) The expected long-term rate of return on plan assets was 9%.

## OTHER POSTRETIREMENT BENEFIT PLANS

Ashland and its subsidiaries sponsor several unfunded benefit plans, as well as participate in multiemployer plans sponsored by the United Mine Workers of America (UMWA), which provide health care and life insurance benefits for eligible employees who retire from active service or are disabled. The health care plans are contributory with the exception of the UMWA plan. Retiree contributions to Ashland's health care plans are adjusted periodically and contain other cost-sharing features such as deductibles and coinsurance. Life insurance plans are generally noncontributory. Ashland currently funds the costs of benefits as they are paid.

Effective October 1, 1992, Ashland amended nearly all of its retiree health care plans to place a cap on the company's contributions and to adopt a cost-sharing method based upon years of service. These amendments reduced the accumulated postretirement benefit obligation (APBO) for retiree health care plans at that date by \$197 million, which is being amortized to income over approximately 12 years. The cap limits Ashland's contributions to a specific base year per capita health care cost, increasing thereafter by up to 4.5% per year. For those plans not capped, various health care cost trend rates are assumed. Increasing the assumed health care cost trend rates by one percentage point in each year for non-capped plans would increase the APBO as of September 30, 1997, by \$49 million and the net

periodic postretirement benefit cost for 1997 by \$4 million.

The following tables detail the status of the plans and the components of postretirement benefit expense. The APBO was determined using a discount rate of 7.25% at September 30, 1997, and 8% at September 30, 1996.

(In millions)	1997			1996		
	Health care		Life insurance	Health care		Life insurance
	Ashland plans	UMWA plan		Ashland plans	UMWA plan	
Accumulated postretirement benefit obligations (APBO)						
Retired or disabled employees	\$132	\$124	\$26	\$113	\$17	\$25
Fully eligible active plan participants	44	74	5	29	4	5
Other active plan participants	141	59	7	107	20	5
	317	257	38	249	41	35
Unrecognized net gain (loss)	(21)	1	(4)	4	24	(2)
Unrecognized plan amendment credit	96	-	4	110	2	5
Accrued other postretirement benefit costs	\$392	\$258	\$38	\$363	\$67	\$38

  

(In millions)	1997		1996		1995	
	Health care	Life insurance	Health care	Life insurance	Health care	Life insurance
	Components of other postretirement benefit expense					
Service cost	\$ 14	\$ 1	\$12	\$ 1	\$12	\$ 1
Interest cost	37	3	21	3	20	2
Amortization and deferral (principally plan amendment credit)	(21)	-	(16)	(1)	(15)	(1)
	\$ 30	\$ 4	\$17	\$ 3	\$17	\$ 2

#### OTHER PLANS

Certain union employees are covered under multiemployer defined benefit pension plans administered by unions. Amounts charged to pension expense and contributed to the plans were \$5 million in 1997 and \$2 million in both 1996 and 1995.

Ashland and its subsidiaries sponsor various savings plans to assist eligible employees in providing for retirement or other future needs. Under the principal plans, Ashland contributes up to 4.2% of a participating employee's earnings (1.2% for LESOP participants prior to March 31, 1996) and Arch Coal contributes up to 6%. Company contributions amounted to \$27 million in 1997, \$15 million in 1996 and \$9 million in 1995.

#### Note N - Quarterly Financial Information (Unaudited)

The following table presents quarterly financial information and per share data relative to Ashland's common stock. Sales and operating revenues and operating income have been restated effective October 1, 1996, to reflect the merger of Ashland Coal and Arch Mineral (see Notes A and C) and for all prior periods to present Blazer Energy as discontinued operations (see Note B).

Quarters ended	December 31			March 31		June 30		September 30	
	1996	1995(1)	1997	1996	1997	1996	1997(2)	1996	
(In millions except per share data)									
Sales and operating revenues	\$ 3,545	\$3,024	\$3,346	\$3,006	\$3,643	\$3,429	\$3,665	\$3,433	
Operating income	89	96	65	23	225	146	111	98	
Income (loss) from continuing operations	\$ 24	\$ 32	\$ 2	\$ (13)	\$ 119	\$ 76	\$ 48	\$ 41	
Income from discontinued operations	12	55	5	11	9	4	71	5	
Extraordinary loss	-	-	-	-	(2)	-	(8)	-	
Net income (loss)	\$ 36	\$ 87	\$ 7	\$ (2)	\$ 126	\$ 80	\$ 111	\$ 46	
Primary earnings (loss) per share									
Continuing operations	\$ .30	\$ .43	\$ (.05)	\$ (.27)	\$ 1.57	\$ 1.10	\$ .62	\$ .55	
Discontinued operations	.17	.86	.08	.16	.11	.06	.94	.09	
Extraordinary loss	-	-	-	-	(.02)	-	(.10)	-	
Net income (loss)	\$ .47	\$ 1.29	\$ .03	\$ (.11)	\$ 1.66	\$ 1.16	\$ 1.46	\$ .64	
Common dividends per share	.275	.275	.275	.275	.275	.275	.275	.275	
Market price per common share									
High	48-7/8	36-1/2	45-1/8	39-1/2	48-1/4	44-1/8	54-15/16	40-1/4	
Low	39-3/8	30-3/8	39-1/4	34-1/4	40-1/8	38-1/8	46-1/2	35	

(1) A gain resulting from the settlement of claims in the bankruptcy reorganization of Columbia Gas Transmission and Columbia Gas Systems

increased income from discontinued operations by \$48 million, or \$.74 per share, in the quarter ended December 31, 1995.

- (2) In the quarter ended September 30, 1997, unusual items reduced income from continuing operations by \$28 million, or \$.38 per share. See Management's Discussion and Analysis and Information by Industry Segment for a discussion of these items. A gain on the sale of the domestic operations of Blazer Energy increased income from discontinued operations by \$71 million, or \$.94 per share (see Note B).

ASHLAND INC. AND SUBSIDIARIES  
FIVE-YEAR SELECTED FINANCIAL INFORMATION

Years Ended September 30

(In millions except per share data)

	1997	1996	1995	1994	1993
<b>SUMMARY OF OPERATIONS</b>					
<b>Revenues</b>					
Sales and operating revenues (including excise taxes)	\$14,200	\$12,892	\$11,972	\$10,140	\$ 9,958
Other	119	76	66	39	53
<b>Costs and expenses</b>					
Cost of sales and operating expenses	(10,860)	(9,975)	(9,130)	(7,614)	(7,790)
Excise taxes on products and merchandise	(992)	(985)	(988)	(877)	(645)
Selling, general and administrative expenses	(1,405)	(1,275)	(1,269)	(1,074)	(1,044)
Depreciation, depletion and amortization	(572)	(371)	(447)	(275)	(271)
Operating income	490	362	204	339	261
<b>Other income (expense)</b>					
Interest expense (net of interest income)	(170)	(169)	(171)	(116)	(122)
Equity income	15	24	7	22	26
<b>Income from continuing operations before income taxes and minority interest</b>					
	335	217	40	245	165
Income taxes	(119)	(73)	(3)	(82)	(58)
Minority interest in earnings of subsidiaries	(24)	(8)	(23)	-	-
Income from continuing operations	192	136	14	163	107
Income from discontinued operations	25	75	10	34	35
Gain on sale of discontinued operations	71	-	-	-	-
Income before extraordinary loss	288	211	24	197	142
Extraordinary loss on early retirement of debt	(9)	-	-	-	-
Net income	\$ 279	\$ 211	\$ 24	\$ 197	\$ 142
<b>BALANCE SHEET INFORMATION</b>					
<b>Working capital</b>					
Current assets	\$ 2,995	\$ 2,665	\$ 2,535	\$ 2,109	\$ 1,914
Current liabilities	2,261	2,198	2,048	1,641	1,574
	\$ 734	\$ 467	\$ 487	\$ 468	\$ 340
Total assets	\$ 7,777	\$ 7,089	\$ 6,853	\$ 5,662	\$ 5,442
<b>Capital employed</b>					
Debt due within one year	\$ 93	\$ 203	\$ 272	\$ 133	\$ 159
Long-term debt (less current portion)	1,639	1,784	1,828	1,391	1,399
Minority interest in consolidated subsidiaries	273	174	179	-	-
Convertible preferred stock	-	293	293	293	293
Common stockholders' equity	2,024	1,521	1,362	1,302	1,162
	\$ 4,029	\$ 3,975	\$ 3,934	\$ 3,119	\$ 3,013
<b>CASH FLOW INFORMATION</b>					
Cash flows from continuing operations	\$ 852	\$ 651	\$ 442	\$ 345	\$ 200
Additions to property, plant and equipment	431	430	399	335	390
Dividends	97	93	92	79	66
<b>Common stock information</b>					
<b>Primary earnings per share</b>					
Income (loss) from continuing operations	\$ 2.57	\$ 1.81	\$ (.08)	\$ 2.37	\$ 1.66
Net income	3.80	2.97	.08	2.94	2.26
Dividends per share	1.10	1.10	1.10	1.00	1.00

ASHLAND INC. AND SUBSIDIARIES  
FIVE-YEAR INFORMATION BY INDUSTRY SEGMENT  
YEARS ENDED SEPTEMBER 30

(In millions)	1997	1996	1995	1994	1993
<b>SALES AND OPERATING REVENUES</b>					
Refining and Marketing(1)	\$ 6,719	\$ 6,485	\$ 5,891	\$ 5,428	\$5,594
Valvoline	1,099	1,199	1,113	1,001	938
Chemical	4,047	3,695	3,551	2,885	2,586
APAC	1,257	1,235	1,123	1,101	1,116
Coal(2)	1,367	580	610	-	-
Intersegment sales(3)					
Refining and Marketing(1)	(263)	(276)	(280)	(249)	(251)
Other	(26)	(26)	(36)	(26)	(25)
	\$ 14,200	\$ 12,892	\$ 11,972	\$ 10,140	\$9,958
<b>OPERATING INCOME</b>					
Refining and Marketing(1)	\$ 189(4)	\$ 89	\$ (1)	\$ 172	\$ 121(5)
Valvoline	67(6)	82	(4)	52	56
Chemical	144(6)	169	159	125	108
APAC	82	83	75	70	53
Coal(2)	68(7)	36	66	-	-
General corporate expenses	(60)	(97)	(91)	(80)(8)	(77)
	\$ 490(9)	\$ 362	\$ 204(10)	\$ 339	\$ 261
<b>IDENTIFIABLE ASSETS</b>					
Refining and Marketing(1)	\$ 2,669	\$ 2,780	\$ 2,659	\$ 2,657	\$2,604
Valvoline	549	557	603	532	430
Chemical	1,558	1,458	1,372	1,122	958
APAC	531	489	433	404	440
Coal(2)	1,719	899	928	-	-
Discontinued operations	18	326	285	221	265
Corporate(11)	733	580	573	726	745
	\$ 7,777	\$ 7,089	\$ 6,853	\$ 5,662	\$5,442



(In millions)	1997	1996	1995	1994	1993
<b>ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT</b>					
Refining and Marketing(1)	\$150	\$187	\$183	\$194	\$255
Valvoline	29	19	25	25	21
Chemical	101	80	76	61	51
APAC	62	62	47	45	43
Coal(2)	74	58	58	-	-
Corporate	15	24	10	10	20
	\$431	\$430	\$399	\$335	\$390
<b>DEPRECIATION, DEPLETION AND AMORTIZATION</b>					
Refining and Marketing(1)	\$160	\$153	\$234	\$161	\$155
Valvoline	32(6)	23	24	19	18
Chemical	94(6)	67	58	43	42
APAC	49	44	42	40	44
Coal(2)	223(12)	72	72	-	-
Corporate	14	12	17	12	12
	\$572	\$371	\$447(13)	\$275	\$271

- (1) Segments formerly identified as Petroleum and SuperAmerica were combined effective October 1, 1996. Prior year amounts have been restated.
- (2) Ashland Coal and Arch Mineral merged effective July 1, 1997, into Arch Coal, Inc. Prior interim periods of fiscal 1997 were restated to consolidate Ashland's interest in Arch Mineral for the entire year. Prior years were not restated, reflecting Ashland's interest in Ashland Coal on a consolidated basis (since 1995) and Ashland's interest in Arch Mineral on the equity method of accounting. Prior to 1995 Ashland Coal was accounted for on the equity method. See Note C to the financial statements.
- (3) Intersegment sales are accounted for at prices which approximate market value.
- (4) Includes a gain of \$11 million resulting from LIFO inventory liquidations.
- (5) Includes a gain of \$15 million on the sale of TPT, an inland waterways barge operation.
- (6) Includes charges of \$10 million for Valvoline and \$16 million for Chemical to write down goodwill related to certain European operations.
- (7) Includes charges of \$39 million for duplicate facility write-offs, severance and other costs resulting from the merger of Ashland Coal and Arch Mineral into Arch Coal, Inc.
- (8) Includes a net gain of \$11 million related to litigation matters.
- (9) Effective October 1, 1996, the methodology for allocating corporate general and administrative expenses was changed. For purposes of comparison to prior year results, segment operating income for the year ended September 30, 1997, excluding the increased allocations, amounted to: Refining and Marketing - \$208 million; Valvoline - \$72 million; Chemical - \$155 million; APAC - \$86 million; Coal - \$68 million; and general corporate expenses - \$(101) million.
- (10) Includes charges for unusual items totaling \$116 million, consisting of asset impairment write-downs of \$79 million under FAS 121 and provisions of \$37 million for early retirement and restructuring programs. The combined effect of these items reduced operating income for each of the segments as follows: Refining and Marketing - \$102 million; Valvoline - \$5 million; Chemical - \$5 million; and general corporate expenses - \$4 million.
- (11) Includes principally cash, cash equivalents, investments in and advances to unconsolidated affiliates and investments of captive insurance companies.
- (12) Includes charges of \$25 million for duplicate facility write-offs resulting from the merger of Ashland Coal and Arch Mineral into Arch Coal, Inc.
- (13) Includes charges of \$79 million for asset impairment write-downs which increased depreciation, depletion and amortization for each of the segments as follows: Refining and Marketing - \$68 million; Valvoline - \$3 million; Chemical - \$4 million; and Corporate - \$4 million.

## LIST OF SUBSIDIARIES

Subsidiaries of Ashland Inc. ("AI") at September 30, 1997, included the companies listed below. Ashland has numerous unconsolidated affiliates, which are primarily accounted for on the equity method, and majority-owned consolidated subsidiaries in addition to the companies listed below. Such affiliates and subsidiaries are not listed below since they would not constitute a significant subsidiary considered in the aggregate as a single entity.

Company	Jurisdiction of Incorporation	Immediate Parent*
APAC-Alabama, Inc.....	Delaware	AHI
APAC-Arkansas, Inc.....	Delaware	AHI
APAC-Carolina, Inc.....	Delaware	AHI
APAC-Florida, Inc.....	Delaware	AHI
APAC-Georgia, Inc.....	Georgia	AHI
APAC Holdings, Inc. ("AHI").....	Delaware	AI
APAC, Inc.....	Delaware	AHI
APAC-Kansas, Inc.....	Delaware	AHI
APAC-Mississippi, Inc.....	Delaware	AHI
APAC-Oklahoma, Inc.....	Delaware	AHI
APAC-Tennessee, Inc.....	Delaware	AHI
APAC-Texas, Inc.....	Delaware	AHI
APAC-Virginia, Inc.....	Delaware	AHI
Arch Coal, Inc.....	Delaware	AI 54%
Ashland Chemical Canada Ltd.....	Alberta, Canada	AI
Ashland Chemical Hispania, S.A.....	Spain	AI
Ashland Crude Trading, Inc.....	Delaware	AI
Ashland France S.A.....	France	AIHI
Ashland International Holdings, Inc. ("AIHI").....	Delaware	AI
Ashland Italia S.p.A.....	Italy	AIHI 82% - AI 18%
Ashland Nederland B.V.....	Netherlands	AIHI
Ashland Pipe Line, L.L.C. ("APL").....	Kentucky	AI 99% - SPC 1%
Ashland Scurlock Permian Canada, Ltd.....	Alberta, Canada	SPC
Ashland UK Limited.....	United Kingdom	AIHI
Ash Property, Inc.....	Ohio	AI
Ashmont Insurance Company, Inc. ("AIC").....	Vermont	AI
Bluegrass Insurance Company Limited.....	Bermuda	AIC
Iberia Ashland Chemical S.A.....	Spain	AI 70%
Mid-Valley Supply Co.....	Kentucky	AI
Ohio River Pipe Line Company.....	Delaware	AI
Scurlock Permian Corporation ("SPC").....	Kentucky	AI
Scurlock Permian Pipe Line Corporation.....	Kentucky	SPC
Valvoline (Australia) Pty. Ltd.....	Australia	AIHI
Valvoline Canada Ltd.....	Ontario, Canada	AIHI
Vecom International B.V.....	Netherlands	AIHI

\*100% of the voting securities are owned by the immediate parent except as otherwise indicated.

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-52125) pertaining to the Ashland Inc. Deferred Compensation and Stock Incentive Plan for Non-Employee Directors, in the Registration Statement (Form S-8 No. 2-95022) pertaining to the Ashland Inc. Amended Stock Incentive Plan for Key Employees, in the Registration Statement (Form S-8 No. 33-7501) pertaining to the Ashland Inc. Employee Savings Plan, in the Registration Statement (Form S-8 No. 33-26101) pertaining to the Ashland Inc. Long-Term Incentive Plan, in the Registration Statement (Form S-8 No. 33-55922) pertaining to the Ashland Inc. 1993 Stock Incentive Plan, in the Registration Statement (Form S-8 No. 33-49907) pertaining to the Ashland Inc. Leveraged Employee Stock Ownership Plan, in the Registration Statement (Form S-8 No. 33-62901) pertaining to the Ashland Inc. Deferred Compensation Plan, in the Registration Statement (Form S-8 No. 333-33617) pertaining to the Ashland Inc. 1997 Stock Incentive Plan, in the Registration Statement (Form S-3 No. 33-57011) as amended by Post-Effective Amendment No. 2, pertaining to the U.S. \$200,000,000 Ashland Inc. Medium-Term Notes, Series H, and the related Prospectus, of our report dated November 5, 1997, with respect to the consolidated financial statements and schedule of Ashland Inc. and subsidiaries included in the Annual Report (Form 10-K) for the year ended September 30, 1997.

Ernst & Young LLP

November 24, 1997

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned Directors and Officers of ASHLAND INC., a Kentucky corporation, which is about to file an Annual Report on Form 10-K with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended, hereby constitutes and appoints PAUL W. CHELLGREN, THOMAS L. FEAZELL and DAVID L. HAUSRATH, and each of them, his true and lawful attorneys-in-fact and agents, with full power to act without the others to sign and file such Annual Report and the exhibits thereto and any and all other documents in connection therewith with the Securities and Exchange Commission, and to do and perform any and all acts and things requisite and necessary to be done in connection with the foregoing as fully as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Dated: November 6, 1997

/s/ Paul W. Chellgren

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Paul W. Chellgren, Chairman of the Board  
and Chief Executive Officer

/s/ Ralph E. Gomory

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Ralph E. Gomory, Director

/s/ J. Marvin Quin

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J. Marvin Quin, Senior Vice President  
and Chief Financial Officer

/s/ Mannie L. Jackson

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Mannie L. Jackson, Director

/s/ Jack S. Blanton

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Jack S. Blanton, Director

/s/ Patrick F. Noonan

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Patrick F. Noonan, Director

/s/ Thomas E. Bolger

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Thomas E. Bolger, Director

/s/ Jane C. Pfeiffer

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Jane C. Pfeiffer, Director

/s/ Samuel C. Butler

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Samuel C. Butler, Director

/s/ Michael D. Rose

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Michael D. Rose, Director

/s/ Frank C. Carlucci

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Frank C. Carlucci, Director

/s/ William L. Rouse, Jr.

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William L. Rouse, Jr., Director

/s/ Robert B. Stobaugh

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Robert B. Stobaugh, Director

ASHLAND INC.

Assistant Secretary's Certificate

I, T. CODY WALES, an Assistant Secretary of Ashland Inc., a Commonwealth of Kentucky corporation (the "Corporation"), do hereby certify as follows:

1. Attached hereto as Exhibit A is a true and correct copy of resolutions duly adopted by the Board of Directors of the Corporation at a meeting duly called and held on November 6, 1997; at such meeting a quorum was present and acting throughout; and such resolutions have not been amended or rescinded and are in full force and effect on the date hereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Corporation on this 10th day of November, 1997.

/s/ T. C. Wales

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T. C. Wales  
Assistant Secretary

EXHIBIT A

Board Resolutions Related to Annual Report on Form 10-K

The Chairman called attention to the Corporation's Annual Report on Form 10-K, a draft of which was previously circulated to the Board. After discussion, upon motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that the Corporation's Annual Report to the Securities and Exchange Commission ("SEC") on Form 10-K (the "Form 10-K") in the form previously circulated to the Board in preparation for the meeting be, and it hereby is, approved with such changes as the Chairman of the Board, any Vice President, the Secretary or David L. Hausrath ("Authorized Persons") shall approve, the execution and filing of the Form 10-K with the SEC to be conclusive evidence of such approval; provided, however, that without derogating from the binding effect of the above, it is understood that an Authorized Person shall cause the distribution, prior to the filing with the SEC, of a copy of such Form 10-K to the directors in substantially that form which is to be filed with the SEC and that each director's oral concurrence with respect to such form shall be obtained prior to the filing with the SEC;

FURTHER RESOLVED, that the Authorized Persons be, and each of them hereby is, authorized to file with the SEC the Form 10-K and any amendments thereto on Form 10-K/A and/or any other applicable form; and

FURTHER RESOLVED, that the Authorized Persons be, and each of them hereby is, authorized and directed to take such other action as may be necessary and proper to implement the foregoing resolutions.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION  
 EXTRACTED FROM ASHLAND INC.'S ANNUAL REPORT TO  
 SHAREHOLDERS FOR THE FISCAL YEAR ENDED SEPTEMBER 30,  
 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO  
 SUCH ANNUAL REPORT.

1,000,000

YEAR	
SEP-30-1997	SEP-30-1997
	268
	0
	1,754
	24
	729
	2,995
	7,471
	3,580
	7,777
2,261	
	1,639
	75
0	
	0
	1,949
7,777	
	14,200
14,319	
	12,424
	12,424
	0
	8
170	
	320
	119
192	
	96
	(9)
	0
	279
	3.80
	3.67