

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, 1996

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
\$3.125 Cumulative Convertible Preferred Stock	New York Stock Exchange
6 3/4% Convertible Subordinated Debentures, due 2014	New York Stock Exchange

Securities Registered Pursuant to Section 12(g): None

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

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

At October 31, 1996, 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 \$2,595,905,440. 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, 1996, there were 64,599,228 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, 1996 are incorporated by reference into Parts I and II.

Portions of Registrant's definitive Proxy Statement for its January 30, 1997 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 seven industry segments: Petroleum, SuperAmerica, Valvoline, Chemical, APAC, Coal and Exploration. Financial information about these segments for the five fiscal years ended September 30, 1996 is set forth on Pages 60 and 61 of Ashland's Annual Report to Shareholders for the fiscal year ended September 30, 1996 ("Annual Report").

Ashland Petroleum is one of the nation's largest independent petroleum refiners and a leading 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. 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.

Ashland Chemical distributes industrial chemicals, solvents, thermoplastics and resins, and fiberglass materials, and manufactures a wide variety of specialty chemicals and certain petrochemicals. APAC performs contract construction work including highway paving and repair, excavation and grading, and bridge and sewer construction, and produces asphaltic and ready-mix concrete, crushed stone and other aggregate, concrete block and certain specialized construction materials in the southern United States.

Ashland's coal operations are conducted by 56% owned, publicly traded Ashland Coal, Inc. ("Ashland Coal"), a producer of low-sulfur, bituminous coal in central Appalachia for sale to domestic and foreign electric utility and industrial customers. Ashland also holds a 50% interest in Arch Mineral Corporation ("Arch"), a producer of low sulfur coal and steam and metallurgical coal in Illinois, Kentucky, Virginia, West Virginia and Wyoming. Ashland Exploration explores for, develops, produces and sells crude oil and natural gas principally in the Appalachian Basin and Gulf Coast areas of the United States and also crude oil in Nigeria for export.

At September 30, 1996, Ashland and its consolidated subsidiaries had approximately 36,100 employees (excluding contract employees).

RECENT DEVELOPMENTS

In a press release issued on December 9, 1996, Ashland announced a plan to improve profitability and shareholder returns. The following are some of the key elements of the plan:

- o Establish a Petroleum Group, consisting of Ashland Petroleum, SuperAmerica and Valvoline. J. A. (Fred) Brothers has been named Group Operating Officer for the new Petroleum Group and will be responsible for these businesses.

- o Reduce capital employed in refining. As part of this effort, 1997 capital expenditures for Ashland Petroleum are being reduced from \$175 million to \$150 million. Capital expenditures for refining will be limited to \$100 million, well below Ashland Petroleum's annual depreciation of \$122 million. The remaining \$50 million in Ashland Petroleum's 1997 capital budget will be earmarked for value-added petrochemical and Ashland(R) branded marketing expansions. Future capital spending for refining will remain materially less than Ashland Petroleum's annual depreciation.

- o Review options for strategic alliances. In view of recent developments in the refining and marketing industry, Ashland will continue to assess and actively explore strategic options regarding alignments or partnering with others to enhance returns from this business.

o Retain CS First Boston Corporation to evaluate strategic alternatives including mergers and spin-offs, regarding Ashland Exploration, Inc. The goal is to complete an evaluation and any resulting business transaction before the end of calendar 1997, subject to regulatory approvals, tax rulings and market conditions.

o Redirect capital freed as a result of reducing capital in the refining and exploration segments to growth businesses, including Ashland Chemical Company, the APAC highway construction group and Valvoline.

o Terminate the shelf registration statement providing for the offering from time to time of up to \$100 million in Ashland common stock. To date, approximately \$50 million of common stock has been sold under this program.

o Implement a common stock repurchase program. This program will authorize the repurchase of up to 1 million shares of Ashland common stock annually.

o Initiate a program to evaluate corporate general and administrative expenses. Activities directly related to business unit support will be allocated to those business units. Corporate G&A costs that are not allocated to business units will be reassessed.

o Continue to encourage the ongoing discussions between Ashland Coal, Inc. and Arch Mineral Corporation, in which Ashland has separate equity ownership positions. The two coal companies previously announced they are discussing a possible business combination.

## PETROLEUM

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.

### 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 1996, Ashland Petroleum's negotiated lease, contract and spot purchases of United States crude oil for refinery input averaged 114,062 barrels per day (1 barrel = 42 United States gallons), including 97,206 barrels per day acquired through Ashland's Scurlock Permian subsidiary. During fiscal 1996, 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 85,989 barrels per day during fiscal 1996 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 1996 as well as in fiscal 1995.

Ashland Petroleum's crude oil requirements in fiscal 1997 are expected to be met through lease, contract and spot purchases from United States independent producers and from various foreign national oil companies, producing companies and traders as worldwide availability and prices dictate. Ashland Exploration's share of Nigerian production will either be sold, traded or used to help satisfy part of Ashland Petroleum's fiscal 1997 crude oil requirements, depending upon world crude oil prices and other economic factors. For further information concerning Nigerian production, see "Exploration-International Operations."

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 in western Canada.

### Refining and Marketing

Ashland Petroleum owns and operates three refineries located in its key markets with an aggregate refining capacity of 354,200 barrels of crude oil per calendar day. The Catlettsburg, Kentucky refinery has a refining capacity of 219,300 barrels per day and the St. Paul Park, Minnesota and Canton, Ohio refineries have refining capacities of 69,000 barrels and 65,900 barrels per day, respectively. 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 is equipped to manufacture lubricating oils and a wide range of petrochemicals.

Ashland Petroleum's principal marketing area for gasoline and fuel oils includes the Ohio River Valley, the upper Midwest, the upper Great Plains and the southeastern United States. In addition to gasoline and fuel oils, Ashland also manufactures and markets liquified petroleum gas, asphalt and asphaltic products, pitch, base lube stocks, kerosene, petrochemicals, jet fuels and residual fuels.

Ashland Petroleum's production of gasoline, kerosene and light fuel oils is sold in 21 states through wholesale channels of distribution (including company owned and exchange terminals and Ashland brand bulk plants) and at retail through Ashland(R) brand distributor locations and SuperAmerica. Gasoline is sold at wholesale primarily to independent marketers, jobbers, and chain retailers who resell through several thousand retail outlets primarily under their own names, and also under the Ashland(R) brand name. Gasoline, kerosene, distillates and aviation products are also sold to utilities, railroads, river towing companies, commercial fleet operators, aviation and airline companies, governmental agencies and other end users.

Ashland Petroleum also markets petroleum products under the Ashland(R) brand name through a network of 28 (26 owned and 2 leased) bulk plants located in 5 states. These plants maintain inventories of gasoline, distillate, kerosene, motor oils, greases and other related products. During fiscal 1996, Ashland Petroleum continued the program announced in 1994 to modernize and upgrade Ashland Brand retail marketing primarily through an independent jobber network. As of September 30, 1996, 36 jobbers with 631 retail outlets have committed to the new program, and Ashland Petroleum has sold or transferred company owned or leased bulk plants and stations to some of these jobbers. Retail outlets are being reimaged, including the use of the new Ashland(R) brand logo to improve customer recognition. Ashland Petroleum currently plans to continue expanding the Ashland(R) brand through jobbers, and company owned or leased bulk plants will continue to be sold to jobbers in the process. It had 485 units reimaged by September 30, 1996. Ashland also supplies 23 (21 owned and 2 leased) Ashland(R) brand lessee-dealers and 61 reseller outlets using the Ashland(R) brand name.

Ashland Petroleum also produces and markets asphalt cements, polymerized asphalt, asphalt emulsions and industrial asphalts in the United States. Ashland Petroleum markets asphalt products in 19 states. Additionally, Ashland Petroleum manufactures petroleum pitch, primarily used in the graphite electrode, clay target and refractory industries.

Ashland Petroleum produces residual fuels at its three refineries and markets and sells these products in nine states, primarily to industrial customers as boiler fuel.

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

	Years Ended September 30		
	1996	1995	1994
Refinery Input (In thousands of barrels per day)	372.3	353.8	341.8
Refinery Production (In thousands of barrels per day)			
Gasoline	183.5	176.8	168.0
Distillates and Kerosene	102.1	92.5	90.6
Asphalt	30.4	31.5	29.3
Jet and Turbine Fuel	11.4	11.1	10.9
Heavy Fuel Oils	7.1	6.7	7.7
Lubricants	7.7	7.7	7.6
Other	20.0	16.8	16.8

The table below shows the average daily consolidated sales of petroleum products and crude oil by Ashland Petroleum, SuperAmerica, Valvoline and Exploration (excluding intercompany sales) for the last three fiscal years. Sales of gasoline (excluding excise taxes) represented approximately 17%, 17% and 18% of Ashland's consolidated sales and operating revenues (excluding excise taxes) in fiscal years 1996, 1995 and 1994, respectively.

	Years Ended September 30		
	1996	1995	1994
Consolidated Product Sales (In thousands of barrels per day)			
Gasoline	197.6	193.7	181.9
Crude Oil	134.4	131.8	142.1
Distillates and Kerosene	112.8	102.8	97.0
Asphalt	37.0	36.8	34.3
Jet and Turbine Fuel	9.6	9.6	10.9
Heavy Fuel Oils	7.0	7.1	8.4
Lubricants	14.8	15.0	14.7
Other	28.0	28.3	23.3

#### Transportation and Storage

Ashland owns, leases or has an ownership interest in 5,790 miles of pipeline in 13 states. This network transports crude oil and refined products to and from terminals, refineries and other pipelines. This includes 2,287 miles of crude oil gathering lines, 2,987 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") 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 C and H of Notes to Consolidated Financial Statements in Ashland's Annual Report.

In addition, Ashland owns a 33% stock interest in the 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 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 166 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, 1996, construction on 14 of the new double-hulled units has been completed and these barges have been added to Ashland's barge fleet. 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 normally used for third party delivery of foreign crude oil to the United States. Additional requirements 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

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."

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 1994 to 1996, refining margins for Ashland Petroleum have averaged \$4.12 per barrel for the six-month periods ended March 31 and \$4.74 per barrel for the six-month periods ended September 30.

#### SUPERAMERICA

SuperAmerica Group, a division of Ashland, conducts retail petroleum marketing operations under the SuperAmerica(R) and Rich(R) names. See also "Petroleum-Refining and Marketing."

SuperAmerica(R) Stores - SuperAmerica operates 624 (484 owned and 140 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 (excluding excise taxes) 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 is also adding to its one-stop shopping concept by partnering with fast food chains including Taco Bell, Subway, TCBY, Arby's, Blimpies, Baskin Robbins, A&W and Pizza Hut. During fiscal 1996, 40% of the revenues of the SuperAmerica stores were derived from the sale of merchandise and 60% of such revenues were derived from the sale of gasoline and diesel fuel.

SuperAmerica operates warehouse distribution centers in Bloomington, Minnesota, and Ashland, Kentucky, that distribute certain merchandise to stores. SuperAmerica also operates a commissary in Russell, Kentucky, that produces fresh 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) Inc.

In addition to the 624 SuperAmerica stores, SuperAmerica has 26 jobber/franchisees who operate 40 stores in 2 states in the upper Midwest. During fiscal 1996, 44 new and rebuilt SuperAmerica retail outlets were opened.

Rich(R) Oil - SuperAmerica also operates 118 (103 owned and 15 leased) retail gasoline outlets in Kentucky, Ohio and West Virginia under the Rich(R) Oil name. These outlets generate lower gasoline volumes than the average SuperAmerica store, primarily because the outlets are generally smaller and located in less-densely-populated areas. During fiscal 1996, 16 new and rebuilt Rich retail outlets were opened.

## 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 "Petroleum-Refining and Marketing." Valvoline has diversified its operations in recent years and is comprised of the following business units:

**Valvoline Domestic** - Valvoline's largest division, Valvoline Domestic, markets automotive, commercial, and industrial lubricants and automotive chemicals to a broad network of U.S. customers. Valvoline branded motor oil is one of the top selling brands in the U.S. private passenger car and light truck market. Valvoline DuraBlend(R) Motor Oil was the leading semi-synthetic brand of motor oil for all of 1996.

Valvoline Domestic also markets Zerex(R) antifreeze and Pyroil(R) automotive chemicals. Zerex(R) is the second-leading antifreeze brand in the U.S. During 1996, Valvoline Domestic managed a dwindling inventory of 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. It is anticipated that R-12 inventory is sufficient to supply customers through 1997.

The domestic commercial/fleet group continued a strategic alliance relationship 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, Canada, 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. 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, 1996, 374 company-owned and 100 franchise service centers were operating in 12 and 18 states, respectively.

In 1996, 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, 1996, Ecogard, Inc., through its First Recovery division, was collecting used motor oil at an annual rate of 52 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 U.S.A. customers, collecting used antifreeze and oil filters as well.

**Lube Refinery Sales** - Valvoline's Lube Refinery Sales division sells excess base stock production from the Catlettsburg, Kentucky lube refinery to other U.S. motor oil and industrial oil marketers, as well as to fuel and lube additive companies in the United States. It also markets slack wax, a lube byproduct, through a network of resellers and to other refiners for further processing. The division is also engaged in private label blending and packaging for other North American refiners. See also "Petroleum-Refining and Marketing."

## 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 operates 48 manufacturing facilities, most of which are owned, in 11 states and 15 foreign countries and owns or leases approximately 100 distribution facilities in 33 states and 11 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, a growing number of off-shore producers, plus 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. In addition, IC&S distributes cosmetic and pharmaceutical specialty chemicals and foodgrade additives and ingredients. It also offers customers chemical waste collection, disposal and recycling services, working in cooperation with major chemical waste services companies.

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 Division - This division markets a broad range of thermoplastics to processors outside North America. Ashland Plastics has distribution centers located in Australia, Belgium, France, Italy, the Netherlands, Ireland, Spain, and the United Kingdom. It also exports to Latin America from the United States. It also has a compounding manufacturing plant located in Italy. In September 1996, Ashland Plastics and Borealis, a joint venture between Statoil and Neste, signed a Memorandum of Understanding, under which Ashland Plastics will become the Pan-European distributor for all small-volume sales of Borealis-produced polyolefins. In October 1996, Ashland Plastics acquired Exter Plasticos, S.A., a Spanish thermoplastics distribution business.

### 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. In March 1996, Ashland Chemical acquired the shares of Sociedad Italo-Espanola d Resinas, S.A., an unsaturated polyester resins manufacturer located in Spain. It has a manufacturing facility in Benicarlo, Spain.

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. In July 1996, Ashland Chemical signed a letter of intent with the Pueblo, Colorado, Economic Development Corporation to purchase property to build a new, ultra-high purity manufacturing and packaging facility in Pueblo, Colorado.

Foundry Products Division - This division manufactures and sells foundry chemicals worldwide, including a complete line of foundry binders, core and mold coatings, sand additives, mold releases, core pastes, die lubes and other specialties. It has two domestic manufacturing plants located in Cleveland, Ohio and 18 foreign subsidiaries and affiliates manufacturing and/or marketing foundry and other chemicals. It also has a metals applications laboratory as part of the company's technical center, which is used for test castings and mold and core material testing.

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 also supplies additives used in manufacturing 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 hydrocarbons, principally cumene, toluene, xylene, and aromatic and aliphatic solvents and propylene manufactured at facilities located at the Catlettsburg, Kentucky refinery. It manufactures maleic anhydride at Neal, West Virginia and Neville Island, Pennsylvania and methanol near Plaquemine, Louisiana.

#### Other Matters

Melamine Chemicals, Inc. ("MCI") - Ashland owns 23% of the outstanding common stock of MCI, a public company (NASDAQ:MTWO). MCI produces melamine at its Donaldsonville, Louisiana plant and sells it to customers throughout the world. Melamine is a specialty chemical having numerous industrial and commercial applications.

For information relating to the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and the Superfund Amendment 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."

#### APAC

The APAC group of companies, which are located in 13 southern 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, sanitary sewers, 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.

To deliver its services and products, APAC utilizes extensive aggregate-producing properties and construction equipment. It currently has 17 permanent operating quarry locations, 32 other aggregate production facilities, 33 ready-mix concrete plants, 141 hot-mix asphalt plants, and a fleet of over 8,900 mobile equipment units, including heavy construction equipment and transportation-related equipment.

Raw aggregate generally consists of sand, gravel, granite, limestone and sandstone. About 28% of the raw aggregate produced by APAC is used in the performance of 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 from highway and other public sector sources. The other 40% is derived from industrial and commercial customers and other private developers and contractors.

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, 1996 was \$647 million, compared to \$672 million at September 30, 1995. The backlog orders at September 30, 1996 are considered firm, and a major portion is expected to be filled during fiscal 1997.

#### COAL

Ashland Coal, Inc. ("Ashland Coal") - Ashland owns approximately 56% of Ashland Coal, a public company (NYSE:ACI) which is engaged in the production, transportation, processing and marketing of bituminous coal produced in eastern Kentucky and southern West Virginia. Carboex International Ltd., a subsidiary of Sociedad Espanola De Carbon Exterior, S.A., a coal supply firm controlled by entities of the Government of Spain, owns approximately a 10% interest in Ashland Coal. The remaining 34% of Ashland Coal is owned by the public. The primary emphasis and direction of Ashland Coal is on the acquisition and development of low-sulfur steam coal reserves for sale to electric utility customers in the U.S. and abroad.

For its fiscal year ended December 31, 1995, Ashland Coal and its independent operating subsidiaries sold 22.5 million tons of coal, as compared to 20.2 and 16.0 million tons sold in 1994 and 1993, respectively. Of the total number of tons sold during fiscal 1995, approximately 60% was under long-term contracts, as compared to 62% for 1994 and 57% for 1993, with the balance being sold on the spot market. In fiscal 1995, Ashland Coal and its independent operating subsidiaries sold 3.3 million tons of coal in the export market, compared to 1.7 million tons in 1994 and 2.1 million tons in 1993. Approximately 62%, 54%, and 61% of total revenues for 1995, 1994, and 1993, respectively, were derived from long-term contracts. For the year ended December 31, 1995, Ashland Coal's independent operating subsidiaries produced approximately 20.9 million tons of coal, as compared to 19.2 and 14.2 million tons for 1994 and 1993, respectively. In addition, Ashland Coal purchased for resale approximately 1.4 million tons of coal during 1995 and approximately 1.3 and 1.6 million tons of coal during 1994 and 1993.

Ashland Coal's consolidated results for 1993 were significantly affected by a selective strike by the United Mine Workers of America ("UMWA") from May to December 1993 against the operations of two subsidiaries of Ashland Coal's Dal-Tex Coal Corporation subsidiary ("Dal-Tex") and the operations of Ashland Coal's Hobet Mining, Inc. subsidiary ("Hobet"). On December 14, 1993, UMWA members ratified the National Bituminous Coal Wage Agreement of 1993, and thereafter the UMWA miners returned to work at the Dal-Tex and Hobet operations. Dal-Tex's subsidiaries were merged into Dal-Tex, and Dal-Tex was merged into Hobet, in each case effective March 1, 1996.

For the nine months ended September 30, 1996, Ashland Coal and its independent operating subsidiaries sold 16.0 million tons of coal. Of the total number of tons sold during the nine months ended September 30, 1996, 63% was under long-term contracts. These sales accounted for approximately 62% of Ashland Coal's total

revenues for the nine-month period. Of the 16.0 million tons sold during the nine-month period, 1.7 million tons were sold in the export market. For the nine months, Ashland Coal's independent operating subsidiaries produced approximately 14.8 million tons of coal and purchased approximately 1.3 million tons for resale.

Ashland Coal's 1996 earnings have been significantly adversely affected by the expiration at the end of 1995 of favorable sales contracts with Cincinnati Gas & Electric Company and by price reopeners under other supply contracts. On October 27, 1995, Ashland Coal's Board of Directors authorized the repurchase, from time to time, of up to one million shares of Ashland Coal's Common Stock. As of September 30, 1996, 256,000 shares have been purchased.

Recently, the National Labor Relations Board ruled that ballots cast in an election by employees at Mingo Logan Coal Company to determine whether they would be represented by the UMWA should be destroyed and following that ruling, the UMWA withdrew its petition for an election.

Substantially all of Ashland Coal's coal properties are in eastern Kentucky and southern West Virginia and are controlled by lease. Royalties paid to lessors 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 minable 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 Ashland Coal's current mining plans are not scheduled to expire prior to expiration of those plans in 2003 (at Ashland Coal's Coal Mac operations) and 2006 (at the balance of Ashland Coal's operations). Mining plans are not necessarily indicative of the life of the mine.

As of December 31, 1995, Ashland Coal estimates that its subsidiaries controlled approximately 640 million tons of recoverable reserves in the proven and probable categories. Based upon limited information obtained from preliminary prospecting, drilling and coal seam analysis, Ashland Coal estimates that a substantial percentage of this coal has a sulfur content of 1% or less. Ashland has not made an independent verification of this information. The extent to which reserves will eventually be mined depends upon a variety of variables, including future economic conditions and governmental actions affecting both the mining and marketability of low-sulfur steam coal.

Arch Mineral Corporation ("Arch") - Ashland currently owns 50% of Arch and has the right to acquire an additional 1.25% of Arch pursuant to a Put and Call Agreement with an Arch shareholder. Through its wholly owned subsidiaries, Arch mines, processes, markets, and transports bituminous coal in the domestic steam market and owns, controls and manages mineral-bearing properties throughout the United States. Arch has mines located in the Appalachian, Midwestern, and Western coal fields with access to rail, inland waterway and truck transportation networks, including several of its own transloading facilities. Arch also controls undeveloped coal reserves in the San Juan Basin of New Mexico, the Green River area in southwest Wyoming, southern Illinois, Indiana, southeast Kentucky, western Virginia and southern West Virginia.

For its fiscal year ended December 31, 1995, Arch sold 26.7 million tons of coal compared to sales of 27.9 million tons and 17.6 million tons in 1994 and 1993, respectively. In 1995, 78% of Arch's sales were from the production of its wholly-owned independent operating subsidiaries, compared to 73% and 79% in 1994 and 1993, respectively. The remainder of the coal sold in each of these periods came from brokerage activities or from independent contractors operating on property controlled by Arch. Surface mines accounted for 60% of the production in 1995, as compared to 52% and 69% in 1994 and 1993, respectively. In each of these periods, the remainder of Arch's production came from its underground and auger mines. Sales under contracts with a duration of more than one year accounted for 72% of Arch's sales in 1995, compared with 69% and 78% in 1994 and 1993, respectively.

As of September 30, 1996, Arch had 33 coal supply contracts of one year or longer duration. In the nine-months ended September 30, 1996, Arch sold 21.7 million tons of coal, 70% of which was sold under contracts with a duration of more than one year. During this period, 81% of Arch's total sales came from the production of its subsidiaries, while the remaining coal sold came from brokerage activities or independent contractors operating on properties controlled by Arch. During this nine-month period, 67% of Arch's production was from its surface mines and the remainder was from its underground and auger mines.

As of December 31, 1995, Arch owned or controlled estimated recoverable coal reserves in the proven and probable categories of approximately 1.3 billion tons, based on an estimate prepared by Arch. Arch estimates 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.

During 1996, Arch acquired roughly 58,000 acres in the Carbon Basin Reserve area of Wyoming consisting of approximately 96 million tons of reserves in the proven and probable categories having a sulfur content of less than 1.2 pounds of sulfur dioxide per million Btu. Additionally, during 1996, the reserves associated with the idled Pilot Butte mine in Sweetwater County, Wyoming and the assets associated with the Corbin Preparation Plant in Knox and Whitley Counties, Kentucky were sold in unrelated transactions for cash consideration and the assumption of the reclamation liabilities of these operations.

Apogee Coal Company ("Apogee"), an independent operating subsidiary of Arch, is a member of the Bituminous Coal Operators Association ("BCOA") and a signatory to a five year collective bargaining agreement with the UMWA that expires on August 1, 1998. This contract was ratified on December 14, 1993, after a 219-day strike against certain BCOA members, including Apogee. This strike significantly affected Apogee's performance in 1993. In August 1996, the UMWA exercised its right to reopen the contract to discuss wages and pensions. The BCOA and the UMWA reached an agreement on these reopener issues, including an agreement that the UMWA would not exercise its reopener rights in 1997. In the nine months ended September 30, 1996, Apogee's production represented approximately 50% of Arch's total sales. Two other independent subsidiaries of Arch are signatories to collective bargaining agreements with independent employees associations. Employees of the remainder of Arch's operating subsidiaries are not represented by labor unions.

Other Matters - Ashland Coal and Arch have resumed discussions of options for combining their businesses and operations. However, there can be no assurances that the discussions will result in progress toward a combination of the companies.

Ashland Coal and Arch are subject to environmental regulations, including the 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. These laws, regulations and requirements are not expected to have a material adverse impact on Ashland Coal's or Arch's competitive position.

Ashland Coal and Arch are subject to the provisions of the Coal Industry Retiree Health Benefit Act of 1992. This legislation provides for the funding of medical and death benefits for certain retired members of the UMWA through premiums to be paid by assigned operators, transfers from an overfunded pension trust established for the benefit of retired UMWA members, and transfers from the Abandoned Mine Lands Fund, which is funded by a federal tax on coal production.

The Clean Air Act contains acid rain provisions which require substantial reductions in sulfur dioxide emissions by power plants in the United States. Both Ashland Coal and Arch have significant low-sulfur coal reserves.

#### EXPLORATION

Ashland's oil and gas exploration and production activities are conducted through wholly-owned subsidiaries of Ashland (collectively referred to as "Ashland Exploration"). Ashland Exploration is currently engaged in the exploration for and production of crude oil and natural gas in the United States and in the exploration for and production of crude oil in Nigeria. Limited exploration activity continues in Australia.

For information regarding Ashland Exploration's estimated oil and gas reserves and other financial data, see Supplemental Oil and Gas Information on Pages 62 and 63 in Ashland's Annual Report. Since October 1, 1995,

no estimates of Ashland Exploration's total proved net oil or gas reserves have been filed or included in reports to any federal authority or agency other than the SEC.

#### Domestic Operations

Ashland Exploration has concentrated its domestic drilling and production efforts in two core areas: the Appalachian Basin and the Gulf Coast. In addition, minor royalty interests are located primarily in the Southwest and Midcontinent regions of the United States.

In the Appalachian Basin, Ashland Exploration's activities consist primarily of shallow gas development drilling on leaseholds totaling approximately 900,000 acres in eastern Kentucky, Virginia and West Virginia. In fiscal 1996, it completed 79 net gas wells, excluding 13 net wells which were being drilled at year-end.

During fiscal 1996, Ashland Exploration's domestic production averaged 564 net barrels of oil per day and 108.4 million net cubic feet of natural gas per day. The average price received during fiscal 1996 was \$18.22 per barrel of oil and \$2.39 per thousand cubic feet (MCF) of gas.

Ashland Exploration's exploratory efforts are concentrated in the Gulf of Mexico. In fiscal 1996, Ashland Exploration participated in drilling 7 gross exploratory prospects. Ashland Exploration's exploratory leasehold position in the Gulf of Mexico was 155,000 net acres at September 30, 1996.

Ashland Exploration owned a working interest in 4,247 gross (3,858 net) domestic producing wells at September 30, 1996.

#### International Operations

Ashland Exploration's oil production in Nigeria during fiscal 1996 was 17,520 barrels per day (before royalty obligations) from 103,000 acres onshore ("OPL 118") and 74,000 acres offshore ("OPL 98") held under a production-sharing contract ("PSC") with the Nigerian National Petroleum Corporation ("NNPC"), the Nigerian state-owned petroleum company. Ashland Exploration holds a 100% working interest in these blocks. Three successful horizontal development wells were drilled on OPL 98. The Akam #15 and Ebughu #5 wells are currently producing a combined 2,255 barrels per day. The Adanga SW #1 well is currently waiting on pipeline hook-up which is expected in early fiscal 1997. The appraisal well Adanga North #2 was drilled in September 1996 on OPL 98. The well was tested at 661 barrels per day and has been suspended pending further evaluation. Ashland Exploration plans to drill one additional horizontal development well on OPL 98 during fiscal 1997.

Other exploratory efforts in Nigeria occurred on two additional offshore blocks ("OPL's 90/225") comprising a contract area of approximately 580,000 gross acres under another production-sharing contract with NNPC. Ashland Exploration holds a 50% working interest and is operator in these blocks. Two appraisal wells were successfully drilled in fiscal 1996 as confirmation to a 1994 discovery. The Okwori South #2 encountered 297 net feet of oil pay and is currently suspended. The Okwori South #3 encountered 378 net feet of oil pay and is also currently suspended. Ashland Exploration and its partner are currently evaluating the commercial potential of the Okwori field.

In Australia, Ashland Exploration owns a 50% working interest in one exploration permit consisting of 335,000 gross acres and a 25% interest in another exploration permit consisting of 590,000 gross acres, both of which are located offshore western Australia. Ashland Exploration expects to fulfill its remaining seismic commitment in fiscal 1997.

Ashland Exploration's international operations are necessarily subject to factors beyond its control. Foreign operations may also be affected by laws and policies of the United States relating to foreign trade, investment, and taxation.

Operating Statistics  
Acreage and Wells

The following table sets forth the gross and net productive wells and acreage at September 30, 1996:

	Gross	Net
	-----	---
Productive wells - Gas		
United States* .....	4,211	3,836
Productive wells - Oil		
United States.....	36	22
Nigeria .....	36	36
Total*.....	72	58
	==	==

Acreage (in thousands)	Developed Acreage		Undeveloped Acreage	
	Gross	Net	Gross	Net
	-----	---	-----	---
United States.....	1,263	936	748	410
Nigeria .....	177	177	580	290
Australia.....			925	315
Total.....	1,440	1,113	2,253	1,015
	=====	=====	=====	=====

\* These wells include 331 gross wells (317 domestic and 14 international) and 293 net wells (279 domestic and 14 international) which have multiple completions.

The following table summarizes the exploration and production activities for the last three fiscal years:

	Years Ended September 30		
	1996	1995	1994
Net Natural Gas Production (MMCF per day)			
United States.....	108.4	102.9	94.3
Net Crude Oil Production (average barrels per day)			
United States.....	564	609	822
Nigeria (1) .....	17,520	18,791	18,707
Total.....	18,084	19,400	19,529
	=====	=====	=====
Average Sales Prices - Natural Gas (per MCF)			
United States.....	\$2.39	\$ 1.89	\$2.42
Average Sales Prices - Crude Oil (per barrel)			
United States.....	\$18.22	\$15.96	\$14.29
Nigeria .....	18.46	16.17	15.01
Average Production Product Cost (per equivalent barrel) (2)			
United States.....	\$4.37	\$4.09	\$3.87
Nigeria .....	9.70	9.17	7.69
Net Exploratory Wells Drilled - United States			
Net Productive Wells.....	1	2	2
Net Dry Wells .....	1	5	4
Total.....	2	7	6
	===	===	===
Net Exploratory Wells Drilled - International			
Net Productive Wells.....	2	1	1
Net Dry Wells .....	0	2	1
Total.....	2	3	2
	===	===	===
Net Development Wells Drilled			
Net Productive Wells			
United States.....	79	88	59
International .....	3	0	0
Total.....	82	88	59
	==	==	==
Net Dry Wells			
United States.....	0	0	1
International .....	0	0	0
Total.....	0	0	1
	===	===	===

(1)Net production for Nigeria is before royalty.

(2)Equivalent barrels computed on a six MCF to one barrel ratio.

## OTHER BUSINESS

AECOM Technology Corporation ("AECOM"), which is 12% owned by Ashland, provides a wide array of design, engineering, architectural, planning, operations and maintenance, construction and construction management, development, environmental and other technical and professional services to industrial, commercial and government clients. AECOM is headquartered in Los Angeles, California, and performs services through offices located throughout the world. Under an agreement between AECOM and Ashland, AECOM is obligated to repurchase all of Ashland's equity interest in AECOM with the repurchase scheduled to be completed in stages through 1998.

Ashland, through a special purpose subsidiary, Ashland Ethanol, Inc. ("AEI"), has a 50% interest in a partnership that owns an ethanol plant located in South Point, Ohio. The partnership is comprised of AEI and subsidiaries of Ohio Farm Bureau Federation, Inc., Publicker Industries Inc. and UGI Corporation. The plant began operation in September 1982 but discontinued operations due to low margins in August 1995. Because of concerns about the venture's long-term viability, Ashland wrote off its investment in AEI in fiscal 1986. The partnership is in default under a loan with the U.S. Department of Agriculture-Rural Economic and Community Development Services (formerly known as the Farmers Home Administration) with a balance due of approximately \$14.7 million plus interest and has an unpaid balance of \$24.5 million plus interest under a Department of Energy cooperative agreement. A liquidation auction of the plant, property and assets is scheduled for December 1996.

## MISCELLANEOUS

### 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 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 the Organization of Petroleum Exporting Countries ("OPEC") or other developments involving or effecting 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, natural gas, coal 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, natural gas, heating oil and coal businesses.

### 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 Organization of Petroleum Exporting Countries ("OPEC") policies 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 between 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 "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(cent) per barrel for crudes over 25(degree) API gravity (2.1(cent) per barrel for Canadian imports) and 5.25(cent) per barrel for crudes below 25(degree) API gravity (1.05(cent) 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 "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 substantial adverse impact.

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 are summarized below.

Years Ended September 30

(In millions)	1996	1995	1994
Capital expenditures	\$ 40	\$ 44	\$ 63
Operating expenditures	158	151	140

At September 30, 1996, Ashland's reserves for environmental assessments and remediation efforts were \$173 million, reflecting 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.

Based on current environmental regulations, Ashland estimates capital expenditures for air, water and solid waste control facilities to be \$25 million in 1997. 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, but could have a material adverse effect on results of operations in a particular quarter or fiscal year. For information regarding inspections being conducted by the United States Environmental Protection Agency with respect to Ashland Petroleum's three refineries, see Note K of Notes to Consolidated Financial Statements in Ashland's Annual Report.

The United States Environmental Protection Agency ("USEPA") and the states have adopted regulations and laws concerning underground storage tanks covering, among other things, registration of tanks, release detection, corrosion protection, response to releases, closure of, and financial responsibility for, underground storage tank systems.

Superfund provided for the establishment of a fund to be used for a waste clean-up program administered by the USEPA. The law previously provided for the following separate taxes: (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 which resulted in Ashland paying approximately \$5 million in Superfund taxes during fiscal 1996 as compared to \$19 million in fiscal 1995. Superfund, which provides for cleanup of certain hazardous waste sites, is undergoing consideration

for significant amendments, including reauthorization of taxing provisions as well as a reevaluation of the liability allocation provisions and improved cleanup remedy selection. However, it is uncertain at this time exactly what the revisions will be, or if they 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 the responsible party's liability limits 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(cents) per barrel on domestic crude oil and imported petroleum oil products (pursuant to Superfund). OPA 90 subjects spillers 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 at 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, 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 directly supply this fuel only at St. Paul Park, Minnesota, whose primary market is a CO non-attainment area.

RCRA, which requires "cradle to grave" management of hazardous waste, is slated 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 same issues may be addressed in additional USEPA rulemakings unrelated to reauthorization efforts. It is anticipated that both the reauthorization and other future rulemakings will result in increased environmental compliance costs, but the amount of such increase is uncertain at this time.

## Research

Ashland conducts a program of research and development directed toward the invention and improvement of products and processes and also toward the improvement of 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 (\$27 million in 1996, \$24 million in 1995 and \$23 million in 1994).

## 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 Petroleum competes primarily with other domestic refiners and, to a lesser extent, with imported products. However, Ashland Petroleum typically enjoys a geographic advantage for products in its primary marketing 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 1995 National Association of Convenience Store State of the Industry Survey.

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. 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 and compete 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. The majority of the business for which APAC competes is obtained by competitive bidding. An important competitive factor in Ashland Exploration's domestic production activity is the ability of its exploration staff to identify potential natural gas prospects, obtain exploration rights and formulate and complete plans for the development of properties. Similarly, competitive factors that are important for Ashland Exploration's international production include its experience in identifying prospects and developing and operating properties. The coal industry is highly competitive, and Ashland Coal and Arch compete (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 Ashland Coal and Arch.

#### ITEM 2. PROPERTIES

Ashland's corporate headquarters, which is leased, and the principal offices of Ashland Petroleum, which are owned, are located in Russell, Kentucky. Principal offices of other segments are located in Lexington, Kentucky (SuperAmerica and Valvoline); Dublin, Ohio (Chemical); Atlanta, Georgia (APAC); Huntington, West Virginia (Ashland Coal) and Houston, Texas (Exploration), 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. See also the statistical data included under "Exploration" and "Coal" in Item 1 and Supplemental Oil and Gas Information on Pages 62 and 63 in Ashland's Annual Report. Additional information concerning certain leases may be found in Note H of Notes to Consolidated Financial Statements in Ashland's Annual Report.

#### ITEM 3. LEGAL PROCEEDINGS

Environmental Proceedings - (1) As of September 30, 1996, Ashland was subject to 77 notices received from the USEPA and similar state agencies identifying Ashland 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 from various 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 accordance with procedures established under regulations, 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, but could have a material adverse effect on results of operations in a particular quarter or fiscal year. Estimated costs for these matters are recognized in accordance with generally accepted accounting principles governing probability and the 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 regarding volatile organic compounds at its Catlettsburg, Kentucky refinery, and referred the matter to USEPA - Region IV for formal enforcement action. Ashland filed a petition requesting a hearing before a Kentucky administrative hearing officer on the merits of the matter, which has now been rescheduled for July 1997. Separately, the USEPA issued a Notice of Violation to Ashland regarding this matter.

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, 1996.

ITEM X. EXECUTIVE OFFICERS OF ASHLAND

The following is a list of Ashland's executive officers, their ages and their positions and offices during the last five years (listed alphabetically as to Senior Vice Presidents who are members of Ashland's core management group, other Senior Vice Presidents, Administrative Vice Presidents and other executive officers.)

JOHN R. HALL (age 63) Effective October 1, 1996, Mr. Hall retired as Chief Executive Officer of Ashland, a position he has held since 1981. He will remain as Chairman and Director until Ashland's Annual Meeting on January 30, 1997 and has served in such capacities since 1981 and 1968, respectively.

PAUL W. CHELLGREN (age 53) was elected as Chief Executive Officer effective October 1, 1996 and is President and Director of Ashland, having served in such capacities since 1992. He is expected to be elected Chairman of the Board upon Mr. Hall's retirement from such position on January 30, 1997. During the past five years, he has also served as Chief Operating Officer, Senior Vice President and Chief Financial Officer of Ashland.

JAMES R. BOYD (age 50) is Senior Vice President of Ashland and Group Operating Officer - Ashland Exploration, Inc., Arch Mineral Corporation, Ashland Services Company and APAC, Inc. Mr. Boyd has served as Senior Vice President since 1989 and as Group Operating Officer for the above companies since 1990, with the exception of APAC for which he assumed responsibility as of October 1, 1993.

JOHN A. BROTHERS (age 56) is Senior Vice President of Ashland and Group Operating Officer - Ashland Petroleum Company, SuperAmerica Group and The Valvoline Company and has served in such capacities since 1984 and 1996, respectively. During the last five years, he was Group Operating Officer - Ashland Chemical Company, SuperAmerica Group and The Valvoline Company.

THOMAS L. FEAZELL (age 59) is Senior Vice President, General Counsel and Secretary of Ashland and has served in such capacities since 1992, 1981 and 1992, respectively. During the past five years he has also served as Administrative Vice President of Ashland.

J. MARVIN QUIN (age 49) is Senior Vice President and Chief Financial Officer of Ashland and has served in such capacities since 1992. During the past five years, he has also served as Administrative Vice President and Treasurer of Ashland.

ROBERT E. YANCEY, JR. (age 51) is Senior Vice President of Ashland and President of Ashland Petroleum Company and has served in such capacities since 1986. During the past five years, he also served as Group Operating Officer of APAC, Inc. and Ashland Petroleum.

HARRY M. ZACHEM (age 52) is Senior Vice President - Public Affairs and has served in such capacity since 1988.

DAVID J. D'ANTONI (age 51) is Senior Vice President of Ashland and President of Ashland Chemical Company and has served in such capacities since 1988.

JOHN F. PETTUS (age 53) 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 52) is Senior Vice President of Ashland and President of APAC, Inc. and has served in such capacities since 1992. During the past five years he has also served as Senior Vice President and Chief Operating Officer of APAC.

G. THOMAS WILKINSON (age 58) is Senior Vice President of Ashland and President of Ashland Exploration, Inc. and has served in such capacities since 1992 and 1990, respectively. During the past five years he has also served as Vice President of Ashland.

KENNETH L. AULEN (age 47) is Administrative Vice President and Controller of Ashland and has served in such capacity since 1992. During the past five years he has also served as Auditor of Ashland.

PHILIP W. BLOCK (age 49) is Administrative Vice President - Human Resources of Ashland and has served in such capacity since 1992. During the past five years he has also served as Vice President - Corporate Human Resources.

JOHN W. DANSBY (age 51) is Administrative Vice President and Treasurer of Ashland and has served in such capacities since 1992. During the past five years he has also served as Ashland's Vice President of Planning.

WILLIAM R. SAWRAN (age 51) 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.

JAMES J. O'BRIEN (age 42) is Vice President of Ashland and President of The Valvoline Company and has served in such capacities since October 1995. During the past five years he has also served as Vice President of Ashland Petroleum Company, Executive Assistant to the Chief Executive Officer and Regional Manager of Ashland Chemical's General Polymers division.

FRED E. LUTZEIER (age 44) 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.

## 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 G of Notes to Consolidated Financial Statements in Ashland's Annual Report.

At September 30, 1996, there were approximately 23,100 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 64 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

There is hereby incorporated by reference the consolidated financial statements appearing on Pages 43 through 58 and the supplemental information appearing on Pages 60 through 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 30, 1997 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after September 30, 1996 ("Proxy Statement"). See also the list of Ashland's executive officers and related information under "Executive Officers of Ashland" in Item X herein.

### 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 25.

(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 September 19, 1996 (filed as Exhibit 3.2 to Ashland's Form 8-K dated September 20, 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 10.20 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.
- 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.
- 10.13 - Ashland Inc. Directors' Charitable Award Program.
- 10.14 - Ashland Inc. 1993 Stock Incentive Plan.
- 10.15 - Ashland Inc. 1995 Performance Unit Plan.
- 10.16 - Ashland Inc. Incentive Compensation Plan for Key Executives.
- 10.17 - Ashland Inc. Deferred Compensation Plan.
- 11 - Computation of Earnings Per Share (appearing on Page 28 of Ashland's Form 10-K for the fiscal year ended September 30, 1996).
- 12 - Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
- 13 - Portions of Ashland's Annual Report to Shareholders, incorporated by reference herein, for the fiscal year ended September 30, 1996.
- 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

A report on Form 8-K was filed on September 20, 1996 to announce that Paul W. Chellgren was formally elected by the Board of Directors as Chief Executive Officer. The report also noted that Ashland's Board of Directors had amended Ashland's Bylaws at its meeting on September 19, 1996.

A report on Form 8-K was filed on November 14, 1996 to announce that Providence Capital, Inc., a New York-based financial firm and a stockholder of record of 100 Ashland Inc. (NYSE:ASH) common shares, had given formal notice to Ashland that it had nominated three individuals for election to Ashland's board of directors at the 1997 annual shareholders' meeting, to be held on January 30, 1997.

A report on Form 8-K was filed on December 9, 1996 announcing several steps to improve the Company's profitability and enhance returns to Ashland's shareholders. Ashland also announced that Providence Capital, which had proposed nominating three directors to Ashland's board at Ashland's annual shareholders' meeting, has agreed to withdraw its nominations.

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: December 10, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant, in the capacities indicated, on December 10, 1996.

Signatures	Capacity
/s/ Paul W. Chellgren ----- Paul W. Chellgren	Chief Executive Officer, President 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
* ----- James B. Farley	Director
* ----- Ralph E. Gomory	Director
* ----- John R. Hall	Chairman of the Board of Directors and Director

* ----- Mannie L. Jackson	Director
* ----- Patrick F. Noonan	Director
* ----- Jane C. Pfeiffer	Director
* ----- James R. Rinehart	Director
* ----- Michael D. Rose	Director
* ----- William L. Rouse , Jr.	Director
* ----- Robert B. Stobaugh	Director

\* By: /s/ Thomas L. Fezell  
-----  
Thomas L. Fezell  
Attorney-in-Fact  
Date: December 10, 1996

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL SCHEDULES

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Consolidated financial statements and supplemental information:	
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\*The consolidated financial statements appearing on Pages 43 through 58 and the supplemental information appearing on Pages 60 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 C 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, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, 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.

Louisville, Kentucky  
November 6, 1996

ERNST & YOUNG LLP

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, 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
YEAR ENDED SEPTEMBER 30, 1994					
Reserves deducted from asset accounts					
Accounts receivable	\$20	\$11	\$(8) (1)	\$ -	\$23
Inventories	5	3	(2)	-	6

(1) Uncollected amounts written off, net of recoveries of \$2 million in 1996, \$1 million in 1995 and \$2 million in 1994.

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

(In millions except per share data)	1996	1995	1994
<b>PRIMARY EARNINGS PER SHARE</b>			
Income available to common shares			
Net income	\$ 211	\$ 24	\$ 197
Dividends on convertible preferred stock	(19)	(19)	(19)
	\$ 192	\$ 5	\$ 178
<b>Average common shares and equivalents outstanding</b>			
Average common shares outstanding	64	62	60
Common shares issuable upon exercise of stock options	1	-	1
	65	62	61
<b>Earnings per share</b>	<b>\$2.97</b>	<b>\$ .08</b>	<b>\$2.94</b>
<b>EARNINGS PER SHARE ASSUMING FULL DILUTION</b>			
Income available to common shares			
Net income	\$ 211	\$ 24	\$ 197
Interest on convertible debentures (net of income taxes)	5	-	5
Dividends on convertible preferred stock	-	(19)	-
	\$ 216	\$ 5	\$ 202
<b>Average common shares and equivalents outstanding</b>			
Average common shares outstanding	64	62	60
Common shares issuable upon			
Exercise of stock options	1	1	1
Conversion of debentures	3	-	2
Conversion of preferred stock	9	-	9
	77	63	72
<b>Earnings per share</b>	<b>\$2.82</b>	<b>\$ .08</b>	<b>\$2.79</b>

AMENDED STOCK INCENTIVE PLAN FOR KEY EMPLOYEES  
OF ASHLAND INC. AND ITS SUBSIDIARIES  
(Amended as of September 19, 1996)

## SECTION 1. PURPOSE

The purpose of this amended Stock Incentive Plan For Key Employees of Ashland Inc. And Its Subsidiaries (herein called the "Plan") is to revise the Incentive Stock Option Plan For Key Employees of Ashland Inc. And Its Subsidiaries (1981) (such plan as it existed prior to the effective date of the Plan hereinafter referred to as the "1981 Plan") and to promote the interests of Ashland Inc. (herein called "Ashland") and its shareholders by providing their officers and key employees with an incentive to continue service with Ashland and its subsidiaries. Through the grant of stock options, stock appreciation rights and Restricted Stock awards (collectively referred to as "Grants"), Ashland seeks to attract and retain in its employ individuals of training, experience and ability and to furnish additional incentive to officers and other key employees upon whose judgment, initiative and efforts the successful conduct of its business largely depends.

## SECTION 2. ADMINISTRATION

(a) The Plan shall be administered by the Personnel and Compensation Committee of the Board of Directors of Ashland (herein called the "Committee"), consisting of not less than three directors of Ashland who shall be appointed, from time to time, by the Board of Directors of Ashland. No person who is (or, within one year prior to his or her appointment as a member of the Committee, was) eligible to participate in the Plan shall be a member of the Committee. Subject to the express provisions of the Plan, the Committee shall have plenary authority to interpret the Plan, to prescribe, amend, and rescind from time to time rules and regulations relating to the Plan, to determine the eligible employees to whom Grants shall be made, to determine whether any option hereunder shall be deemed to be an "incentive stock option" as provided by Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") (herein referred to as "incentive stock options") or an option not qualifying as an "incentive stock option" under the Code (herein referred to as "non-qualified options"), to determine the terms and provisions of the respective Grants (which terms and provisions need not be the same in each case), and to make all other determinations deemed necessary or advisable for the administration of the Plan. In making such determinations, the Committee may take into account the nature of the services rendered by the respective employees, their present and potential contributions to Ashland's success and such other factors as the Committee in its discretion shall deem relevant. The determinations of the Committee on the matters referred to in this Section 2 shall be conclusive.

(b) All determinations of the Committee shall be made by not less than a majority of its members. Any decision or determination reduced to writing and signed by all the members shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held. No member of the Committee shall be liable, in the absence of bad faith, for any act or omission with respect to his or her services on the Committee. Services on the Committee shall constitute services as a Director of Ashland so that members of the Committee shall be entitled to indemnification and reimbursement for their services as members of the Committee to the same extent as for services as Directors of Ashland.

## SECTION 3. STOCK SUBJECT TO THE PLAN

There will be reserved for issuance upon the exercise of options and stock appreciation rights and upon awards of Restricted Stock (as defined in Section 13), to be granted from time to time under the Plan, an aggregate of 2,000,000 shares of Ashland Common Stock, par value \$1.00 per share ("Common Stock") (which shares include shares heretofore provided for under the 1981 Plan). Such shares may be in whole or in part, as the Board of Directors of Ashland (the "Board") shall from time to time determine, authorized and unissued shares of Common Stock or issued shares of Common Stock which shall have been reacquired by Ashland. If any option or stock appreciation right granted under the Plan shall expire or terminate for any reason without having been exercised (or

considered to have been exercised as provided in Section 7) in full, the shares subject thereto shall again be available for the purposes of the Plan.

## SECTION 4. ELIGIBILITY

Options and Restricted Stock may be granted only to salaried employees (which term shall be deemed to include officers) of Ashland and its present and future subsidiary corporations as defined in Section 424 of the Code ("subsidiaries"). A director of Ashland or of a subsidiary who is not also such an employee of Ashland or of one of its subsidiaries will not be eligible to receive any options or Restricted Stock under the Plan. Options may be granted to employees who hold or have held options under previous plans. An employee who has been granted an option may be granted an additional option or options.

Notwithstanding anything to the contrary contained herein, in the case of incentive stock options, the maximum aggregate fair market value (determined at the time each incentive stock option is granted under the Plan) of the shares of Common Stock for which any individual employee may be granted incentive stock options under the Plan in any calendar year (and under all other plans of Ashland or any subsidiary which provide for the

granting of incentive stock options) shall not exceed \$100,000 plus the amount of any unused limit carry over to such year. If \$100,000 exceeds the aggregate fair market value (determined at the time each incentive stock option is granted) of the Common Stock for which an employee was granted incentive stock options in any calendar year under the Plan (and under all other plans of Ashland or any subsidiary which provides for the granting of incentive stock options), one half of such excess shall be an unused limit carry over to each of the three succeeding calendar years, under the rules of Section 422A(c)(4) of the Code as it existed before December 31, 1986. For purposes of this paragraph, fair market value of Common Stock shall be the closing price of the Common Stock as reported on the Composite Tape on the date of the grant of an incentive stock option under the Plan, or, if there is no trading at the Common Stock on the date in question, then the closing price of the Common Stock, as so reported, on the next preceding date on which there was trading in the Common Stock.

#### SECTION 5. PERIOD OF PLAN AND DURATION OF OPTIONS

(a) No options or Restricted Stock awards shall be granted under the Plan after November 7, 1994.

(b) Every incentive stock option shall provide for a fixed expiration date of not later than ten years from the date such incentive option is granted.

#### SECTION 6. OPTION DESIGNATION AND PRICE

(a) Any option granted under the Plan may be granted as an incentive stock option or as a non-qualified stock option as shall be designated at the time of the grant of such option.

(b) The option price per share of the Common Stock underlying each option shall be fixed by the Committee, but shall not be less than 100% of the fair market value of the stock at the time of the granting of the options. Such fair market value shall be determined by the Committee which may use any reasonable method of valuation, including the closing price of the Common Stock as reported on the Composite Tape on the date on which the option is granted.

#### SECTION 7. EXERCISE OF OPTIONS

(a) The Committee may in its discretion prescribe in the option grant the installments, if any, in which an option granted under the Plan shall become exercisable provided that no option shall be exercisable prior to the first anniversary of the date of its grant except as provided in Section 12 or as the Committee otherwise determines. In no case may an option be exercised at any time for less than 50 shares (or the remaining shares covered by the option

if less 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) either payment to Ashland of the option price of the number of shares with respect to which the option is exercised or (with approval of the Committee) a promissory note as provided in Section 8 hereof. Each such notice and payment shall be delivered or mailed by postpaid mail, addressed to the Treasurer of Ashland at Ashland's Executive Offices at 1000 Ashland Drive, Russell, Kentucky, or such other place as Ashland may designate from time to time.

(b) An incentive stock option shall not be exercisable while there is outstanding any incentive stock option which was granted before the granting of such option to such employee to purchase stock of Ashland or a subsidiary (determined at the time of granting of such option) or a predecessor of any of such corporations. An option shall be treated as outstanding for this purpose until it is exercised in full or expires by reason of lapse of time.

#### SECTION 8. PAYMENT FOR SHARES

Except as otherwise provided in this Section 8, the option price shall be paid in full when the option is exercised. The price may be paid in whole or in part (a) in cash or (b) in whole shares of Common Stock 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 a stock option exercise within the preceding six months, in the case of an exercise of options which were granted after May 21, 1992, unless the Committee specifically provides otherwise), (c) by Attestation, (d) by a combination of such methods of payment, or (e) by such other consideration as shall 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 option price. In the case of an exercise of stock options granted after May 21, 1992, 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 a stock option exercise within the preceding six months, unless the Committee specifically provides otherwise. Moreover, in the case of an exercise of stock options granted prior to May 21, 1992, an employee may request Ashland to "pyramid" his or her shares; that is, to automatically apply the shares which he or she is entitled to receive on the exercise of a portion of a stock option to satisfy the exercise for additional portions of the option, thus resulting in multiple simultaneous exercises of options by use of whole shares as payment.

The Committee may in its discretion authorize payment of all or any part of the option price over a period of not more than five years from the date the option is exercised. Any unpaid balance of the option price shall be evidenced by the employee's promissory note payable to the order of Ashland which shall bear interest at such rate or rates as determined from time to time by the Committee, but not less than the lower of the prevailing base rate of interest or the most favorable rate of interest charged to commercial borrowers as announced by any major U.S. bank on the date the option is exercised, and shall be payable in full within not later than five years after the date the option is exercised.

#### SECTION 9. GOVERNANCE OF PLANS

Notwithstanding any terms or provisions to the contrary all incentive stock options outstanding prior to November 8, 1984, shall continue to be governed by the terms and provisions of the 1981 Plan.

#### SECTION 10. GENERAL STOCK APPRECIATION RIGHTS

The Committee may grant general stock appreciation rights ("SARs") pursuant to the provisions of this Section 10 to the holder of any option granted under the Plan (a "related option") 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 10, 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. SARs shall be exercisable only when the fair market value (determined as of the date of exercise of the SARs) of each share of Common Stock with respect to which the SARs are to be exercised shall exceed the option price per share of Common Stock subject to the related option. SARs 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 SARs elects to exercise the SARs and the number of shares in respect of which the SARs are being exercised.

Subject to the terms and provisions of this Section 10, upon the exercise of SARs, 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 SARs) of each share of Common Stock with respect to which such SARs have been exercised over the option price per share of Common Stock subject to the related option. 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 (valued at fair market value on the date of exercise of the SAR), or in cash, or partly in cash and partly in shares of Common Stock, 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, as the Committee shall determine. For purposes of this Section 10, (a) fair market value of a share of Common Stock shall be the mean between the high and low sales prices thereof on the Composite Tape on the date of exercise of an SAR or, if there is no trading of the Common Stock on the date in question, then the closing price of the Common Stock, as so reported, on the next preceding date on which there was trading in the Common Stock, and (b) the date of exercise of an SAR shall mean the date on which the Company shall have received notice from the holder of the SAR of the exercise of such SAR.

Upon the exercise of SARs, the related option shall be considered to have been exercised (a) to the extent of the number of shares of Common Stock with respect to which such SARs are exercised and (b) to that extent for purposes of determining the number of shares of Common Stock available for the grant of options and Restricted Stock under the Plan. Upon the exercise or termination of the related option, the SARs with respect to such related option 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 11. TRANSFER OF OPTIONS, STOCK APPRECIATION RIGHTS, AND RESTRICTED STOCK

Options and SARs 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 employee-holder thereof during his or her lifetime. Restricted Stock may be made transferable at the discretion and direction of the Committee.

#### SECTION 12. CONTINUED EMPLOYMENT, AGREEMENT TO SERVE AND EXERCISE PERIODS

(a) Subject to the provisions of Paragraph (b), (c) and (f) of this Section 12, every option 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 and if the employment of the employee shall be terminated, for any reason other than death or disability as determined by the Committee, prior to the end of such one year period, the option granted to such employee shall immediately terminate.

(b) Every option shall provide that in the event of the death of the employee while employed by Ashland or one of its subsidiaries or death during the period in which options may be exercised by an employee determined to be disabled as provided in Paragraph (c) of this Section 12 or within three months after cessation of employment for any cause, it shall be exercisable, at any time or from time to time, prior to the fixed termination date set forth in the option, by the estate of the decedent, or by any person who shall acquire the right to exercise such option by bequest

or by the laws of descent and distribution for the full number of optioned shares or any part thereof, less such number as may have been theretofore acquired under the option.

(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, it shall be exercisable, at any time or from time to time by such employee for the full number of optioned shares or any part thereof, less such number as may have been theretofore acquired under the option. Options held by an employee determined by the Committee to be disabled prior to September 19, 1996 shall be exercisable during a period of one year of continuing disability following termination of employment by reason of such disability. Options held by an employee determined by the Committee to be disabled on or after September 19, 1996 shall be exercisable at any time prior to the fixed termination date set forth in the option. 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 a physical or mental illness and, in connection with the grant of an incentive stock option, shall be deemed 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 only in respect of the number of shares which the employee could have acquired under the option immediately prior to such retirement. Options held by an employee who retires prior to September 19, 1996 shall be exercisable until the earlier to occur of the fixed termination date set forth in the option or three months after such retirement. Options held by an employee who retires on or after September 19, 1996 shall be exercisable until the fixed termination date set forth in the option.

(e) Except as provided in Paragraphs (a), (b), (c), (d) and (f) of this Section 12, every option shall provide that it shall terminate on the earlier to occur of the fixed termination date set forth in the option or three months after cessation of the employee's employment for any cause, and except as provided in Paragraph (f) of this Section 12, if exercised after cessation of such employment, may be exercised only in respect of the number of shares which the employee could have acquired under the option immediately prior to such cessation of employment. No option may be exercised after the fixed termination date set forth in the option.

(f) Notwithstanding any provision of this Section 12 to the contrary, any option granted pursuant to the Plan and any related SAR may, in the discretion of the Committee or as provided in the relevant option agreement, become fully exercisable as to all optioned shares (i) from and after the time the employee ceases to be an employee of Ashland or any of its subsidiaries as a result of the sale or other disposition by Ashland of assets or property (including shares of any subsidiary) in respect of which the employee had theretofore been employed or as a result of which optionee's continued employment with Ashland or any subsidiary is no longer required and (ii) in the case of a change of control (as hereinafter defined) of Ashland from and after the date of such change in control. For purposes of this Paragraph (f), the term "change in control" shall be deemed to occur (1) upon the approval of the shareholders of Ashland (or if such approval is not required, upon the approval of the Board of Directors of Ashland) 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, or (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 Common Stock outstanding at the time, without the approval of the Board of Directors of Ashland, or (3) at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Ashland shall cease for any reason to constitute at least a majority thereof, unless the election or the

nomination for election by Ashland's shareholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

(g) Each employee granted an option under this Plan shall agree by his or her acceptance of such option to remain in the service of Ashland or a subsidiary corporation of Ashland for a period of at least one year from the date of the option agreement between Ashland and the employee. Such service shall, subject to the terms of any contract between Ashland or any such subsidiary and such employee, be at the pleasure of Ashland or such subsidiary and at such compensation as Ashland or such subsidiary shall reasonably determine from time to time. Nothing in the Plan or in any option granted pursuant to the Plan shall confer on any individual any right to continue in the employment of Ashland or any of its subsidiaries or interfere in any way with the right of Ashland or any of its subsidiaries to terminate his or her employment at any time.

(h) 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 optionee.

(i) The determination by the Committee of any question involving disability shall be conclusive and binding.

### SECTION 13. RESTRICTED STOCK AWARDS

The Committee may grant to employees shares of Common Stock subject to certain restrictions (herein referred to as "Restricted Stock"). The amount of Restricted Stock to be granted to any eligible employee and the respective terms and conditions of such grant (which terms and provisions need not be the same in each case) shall be determined by the Committee at its sole discretion. As a condition to any award and the corresponding delivery of Restricted Stock hereunder, the Committee may require an employee to pay an amount equal to, or in excess of, the par value of the shares of Restricted Stock awarded to him or her. Each certificate issued in respect of shares of Restricted Stock granted to a participant under the Plans shall be registered in the name of the participant and shall bear the following legend:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeitures) contained in Section 13 of the Stock Incentive Plan for Key Employees of Ashland Inc. and Its Subsidiaries and an Agreement entered into between the registered owner and Ashland Inc."

Subject to Section 11 hereof, Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered during a "Restricted Period," which shall be determined by the Committee and which shall not be less than one year nor more than five years from the date of grant. The Committee may reduce the Restricted Period with respect to any outstanding shares of Restricted Stock at any time, but in no event shall the Restricted Period be less than one year. Except for such restrictions, 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, the right to vote such Common Stock and to receive dividends thereon as and when paid.

In the event that an employee's employment is terminated by reason of death or disability (as defined in Paragraph (c) of Section 12 hereof), or for such other reasons as the Committee may provide, the employee (or his or her estate) will receive his or her Restricted Stock subject to the terms of his or her employment agreement which agreement shall be in accordance with the terms and provisions set forth in Paragraph (g) of Section 12 herein. In the case of voluntary resignation or any other termination of employment, an employee's Restricted Stock will be forfeited; provided, however, that the Committee may limit such forfeiture to that portion thereof which is proportional to the unexpired portion of the Restricted Period. Any forfeited Restricted Stock shall not again be available for the grant of options and Restricted Stock under the Plan.

At the end of the Restricted Period all shares of Restricted Stock shall be transferred free and clear of all restrictions to the employee. All such shares may also be transferred free and clear of all restrictions to the employee to the same extent provided in Paragraph (f) of Section 12 either in the discretion of the Committee or as provided in the relevant employment agreement.

#### SECTION 14. WITHHOLDING TAXES

Federal, state or local law may require the withholding of taxes applicable to gains resulting from the exercise of non-qualified stock options granted hereunder. Unless otherwise prohibited by the Committee, each participant may satisfy any such tax withholding obligation by any of the means, or by a combination of such means: (i) a cash payment; or (ii) authorizing Ashland to withhold from the shares of Ashland Common Stock otherwise issuable to the participant as a result of the exercise of the non-qualified stock option a number of shares having a fair market value, as of the date the withholding tax obligation arises (the "Tax Date"), which will satisfy the amount of the withholding tax obligation. A participant's election to pay the withholding tax obligation by (ii) 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.

#### SECTION 15. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

In the event the market price of Common Stock shall decrease as a result of any recapitalization, reorganization, merger, consolidation, spinoff, separation, partial liquidation, or other transaction described in Section 424(a) of the Code, then, in the discretion of the Committee (and subject to any Internal Revenue Service requirements that may be applicable) the price per share of Common Stock under each option or Restricted Stock award granted pursuant to the Plan may be appropriately adjusted (and the number of shares subject to option or Restricted Stock awards may be appropriately adjusted). For purposes of the preceding sentence, the decrease in market price of Common Stock may be determined in any manner the Committee deems reasonable, including the comparison of such market price immediately before and immediately after the event giving rise to any such decrease, subject to Internal Revenue Service requirements.

Adjustments under this Section 15 shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive, and the Committee in its discretion in making such adjustments may disregard fractional shares.

#### SECTION 16. AMENDMENTS AND TERMINATIONS

Unless the Plan shall theretofore have been terminated as hereinafter provided, the Plan shall terminate on, and no award shall be granted after, November 7, 1994. The Plan may be terminated, modified or amended by the shareholders of Ashland. The Board may, at any time, terminate, modify or amend the Plan in such respects as it shall deem advisable; provided, however, that the Board 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, (i) increase (except as provided in Section 15) the maximum number of shares as to which options or Restricted Stock may be granted under the Plan, (ii) change the class of employees eligible to receive options and Restricted Stock awards, (iii) change the manner of determining the minimum option prices other than to change the manner of determining the fair market value of the Common Stock as set forth in Section 6, or (iv) extend the period during which options or Restricted Stock awards may be granted or exercised. No termination, modification or amendment of the Plan may, without the consent of the employee to whom any option or Restricted Stock award shall theretofore have been granted, adversely affect the rights of such employee under such option or Restricted Stock award.

#### SECTION 17. EFFECTIVENESS OF THE PLAN

The Plan shall be effective on November 8, 1984, subject to its ratification by the holders of a majority of the shares of Ashland stock present and voting at the Annual Meeting of Shareholders of Ashland on January 31, 1985 or such other date fixed for the next meeting of shareholders or any adjournment or postponement thereof. The Committee may in its discretion authorize the granting of options and Restricted Stock awards, the exercise of which shall be expressly subject to the conditions that (a) the Plan shall have been approved or ratified as aforesaid by the shareholders of Ashland, (b) the shares of Common Stock to be issued upon the exercise of options granted under the Plan shall have been duly listed, upon official notice of issuance, upon the New York Stock Exchange and (c) a Registration Statement under the Securities Act of 1933, as amended, with respect to such shares shall have become effective.

#### SECTION 18. TIME OF GRANTING OPTIONS AND RESTRICTED STOCK AWARDS

Nothing contained in the Plan or any resolutions adopted or to be adopted by the Board of Directors of Ashland or the shareholders of Ashland shall constitute the granting of any option or Restricted Stock award hereunder. Options and Restricted Stock awards shall be granted hereunder only by action of or pursuant to the authority of the Committee and the date of grant shall be the date fixed in the determination thereof by the Committee; provided, however, that no participant shall have any rights in respect of such grant unless and until he or she shall have executed and delivered an option or employment agreement, as the case may be, in form and substance satisfactory to the Committee.

#### SECTION 19. USE OF CERTAIN TERMS

Options, SARs and Restricted Stock awards granted under the Plan shall be binding upon Ashland, its successors and assigns. Unless the context otherwise requires, the terms used in the Plan which correspond to like terms defined in Sections 421 and 424, inclusive, of the Code and regulations and revenue rulings applicable thereto shall have the meanings attributed to them in said sections of such Code.

As Amended and Restated by the Board on September 19, 1996.

ASHLAND INC.  
DEFERRED COMPENSATION AND  
STOCK INCENTIVE PLAN FOR NON-EMPLOYEE DIRECTORS  
(Amended as of September 19, 1996)

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 last day of a quarter or if a weekend or holiday, the next preceding business day.

(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) who, upon the death of a Participant, shall have acquired by will, laws of descent and distribution or by other legal proceedings, the right to receive the benefits specified under this Plan in the event of a Director's death.

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

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

(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.

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

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

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

(m) "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.

(n) "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.

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

(p) "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.

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

(r) "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.

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

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

(u) "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.

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

(w) "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.

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

(y) "Prime Rate of Interest" means the rate of interest quoted by Citibank, N.A. as its prime commercial lending rate on the subject date.

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

(aa) "Stock Unit(s)" means the share equivalents credited to a Participant's Stock Account pursuant to Article III, Sections 1 and 3.

(bb) "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 Committee. Decisions of the Committee shall be final, conclusive and binding upon all parties. Day-to-day administration of the Plan shall be the responsibility of the Company's Corporate Human Resources Department. 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) A Participant may elect to have deferred amounts credited to a Cash Account, a Stock Account, or a combination of both such Accounts. The Company shall maintain such Accounts in the name of the Participant.

(b) The Cash Account of a Participant shall be credited on each Accounting Date with the dollar amount of such deferred compensation otherwise payable to the Participant during the quarterly period ending on the Accounting Date and as to which a cash deferral election has been made. The Cash Account shall be adjusted and increased on each Accounting Date as if interest were credited thereon, based on the Prime Rate of Interest on such Accounting Date.

(c) 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 legal representative and a finding that continued deferral will result in financial hardship to the Participant, the Committee (in its sole discretion) may authorize (a) the payment of all or a part of a Participant's account(s) 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; provided, however, that if, in the sole discretion of the Committee, a six-month delay in any distribution pursuant to this Section 2 of this Article shall be necessary to avoid liability of the Participant under Section 16 of the Act, any such distribution shall be so postponed.

#### 3. INITIAL CONVERSION

A Participant may make a special election on or before December 31, 1993 to convert (effective as of June 30, 1994) all or any portion of (i) his or

her Cash Account to his or her Stock Account, or (ii) his or her Stock Account to his or her Cash Account. The number of Stock Units to be credited to such Participant's Stock Account in the event of a conversion under (i) shall be obtained by dividing the portion of the cash balance credited to his or her Cash Account as specified in his or her election by the Fair Market Value of Ashland Common Stock on June 30, 1994. The amount to be credited to such Participant's Cash Account in the event of a conversion under (ii) shall be determined by multiplying the number of Stock Units specified in his or her election by the Fair Market Value on June 30, 1994.

#### 4. MANNER OF ELECTION

(a) Any Director wishing to participate in the Plan must deliver to the Secretary of the Company a written notice, (i) electing to defer to a period following his or her Termination payment of all or a portion (in 25% increments) of his or her Fees, and/or (ii) to receive all or a portion (in 25% increments) of his or her Fees in shares of Common Stock (an "Election"). The timing of the filing of the appropriate form with the Secretary of the Company shall be determined by the Committee. Notwithstanding the foregoing, a Director may choose to participate in the Plan beginning in 1994 by filing an Election to so participate on or before December 31, 1993 (the "1994 Election"). Pursuant to the 1994 Election, if a Director chooses to defer payment of any portion of his or her Fees into the Stock Account, such Fees will be deemed deferred into the Cash Account until June 30, 1994 at which time such deferred Fees (together with accrued earnings thereon) will be automatically transferred to the Stock Account. The number of Stock Units to be credited to such Participant's Stock Account upon the transfer of such amount shall be obtained by dividing such amount by the Fair Market Value of Ashland Common Stock on June 30, 1994. In addition, if a Participant chooses to receive all or a portion of Fees in shares of Common Stock, such 1994 Election will not take effect until June 30, 1994.

(b) 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.

(c) An effective Election may not be revoked or modified with respect to Fees payable for a calendar year or portion of a calendar year for which such Election is effective except as otherwise determined by the Committee or stated herein. Such Election, unless terminated or modified as described below, shall apply to Fees payable with respect to each subsequent calendar year. An effective Election may be terminated or modified for any subsequent calendar year by the filing of an Election, with the timing of the filing of the appropriate form with the Secretary of the Corporation to be determined by the

Committee. 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 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.

(d) A Participant may elect to convert all or a portion of (i) his or her existing Cash Account to his or her Stock Account, or (ii) his or her existing Stock Account to his or her Cash Account (in 25% increments or in other increments prescribed by the Committee) one (1) time during any three-month period by filing with the Secretary of the Company a new Election at least fifteen (15) days prior to the commencement of the quarter in which the Participant desires the change to become effective; provided however, than an inter-Account conversion must occur at least six months after the last "opposite-way" inter-Account conversion. An "opposite-way" inter-Account conversion occurs when a conversion into the Stock Account is followed by a conversion out of the Stock Account, or a conversion out of the Stock Account is followed by a conversion into the Stock Account. Such election will be effective as of the first business day of the next quarter subsequent to the filing of such Election.

#### 5. MANNER OF PAYMENT UPON TERMINATION

In accordance with the Participant's Election and subject to Committee approval upon payout, amounts credited to a Participant's Cash and/or Stock Account will be paid in a lump sum or in the form of annual, semi-annual or quarterly installments in shares of Common Stock or cash, or a combination of both to the Participant following his or her Termination or, in the event of his or her death, to a Beneficiary. If a Participant elects to receive payments in installments, the entire Cash and/or Stock Account must be paid out within forty years following the date of a Participant's Termination. A Participant may provide for different payment periods and forms of payment before and after his or her death.

The amount of any cash distribution to be made in installments with respect to the Cash Account will be determined by dividing the current cash balance in such Cash Account by the number of installments in which distributions remain to be made (including the current distribution). The amount of any cash distribution to be made in installments with respect to Stock Units will be determined by multiplying the number of Stock Units attributable to such installment (determined as hereinafter provided) by the closing price of the Common Stock on each Accounting Date immediately prior to the date on which such installment is to be paid. The number of Stock Units attributable to an installment shall be determined by dividing the current number of Stock Units in such Stock Account by the number of installments in which distributions remain to be made (including the current distribution).

The amount of any stock distribution to be made in installments with respect to the Stock Account shall be determined by dividing the current number of Stock Units in such Stock Account by the number of installments in which distributions remain to be made (including the current distribution). The amount of any stock distribution to be made in installments with respect to the Cash Account shall be determined by dividing the amount of cash attributable to such installment (determined as hereinafter provided) by the closing price of the Common Stock on each Accounting Date immediately prior to the date on which such installment is to be paid. The amount of cash attributable to an installment shall be determined by dividing the current cash balance in such Cash Account by the number of installments in which distributions remain to be made (including the current distribution). Only whole number of shares of Common Stock will be issued, with the value of any fractional shares to be paid in cash.

## 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 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 Directors.

## 8. ADMINISTRATIVE CONVENIENCE

Notwithstanding any provision of this Plan to the contrary, a Participant may not defer Fees in an amount less than \$1,000 and no payment or payments under the Plan may be made to the Participant or any Beneficiary of the Participant in an amount that would annually total less than \$1,000, unless the amount remaining in a Cash Account and/or Stock Account totals less than \$1,000, in which event the entire amount remaining in such account(s) shall be paid to the Participant or his or her Beneficiary. The Committee reserves the right, in its sole and absolute discretion, to further modify the terms of the Plan or payments made to Participants under the Plan for the Company's administrative convenience.

## 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 (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 19, 1996.

NINTH AMENDED AND RESTATED  
ASHLAND INC.  
SUPPLEMENTAL EARLY RETIREMENT PLAN  
FOR CERTAIN KEY EXECUTIVE EMPLOYEES  
September 19, 1996

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 Plan as described herein shall amend and supersede, as of September 19, 1996, all provisions of the Eighth Amended and Restated Ashland Inc. Supplemental Early Retirement Plan for Certain Key Executive Employees. 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 under a prior plan, prior to September 19, 1996 (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 of Directors" - means the Board of Directors of Ashland.
- 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.
- 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 VI, any earlier age. Upon Board or Chief Executive Officer and/or Chief Operating Officer approval, as applicable, 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; and (ii) holds a position classified at the level of 1,000 Hay Points or above (and who 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 accrued, but deferred in payment under such plan) during the highest thirty-six (36) months out of the final sixty-month (60) period. For these purposes, the "bonus accruedpaid" for a particular month contained within a particular fiscal year related to payments 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 Participant's average base compensation paid during the highest thirty-six months (36) out of the final sixty-month (60) period plus the Final Average Bonus. For these purposes, the base 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 with respect to any particular calendar 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 2.142.15, 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 holds a position classified at the level of 2,000 Hay Points or above (and who 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 holds a position classified at the level of less than 2,000 Hay Points (and who is deemed to be a Level III, IV, or V Participant under the Incentive Compensation Plan) shall require the approval of either Ashland's Chief Executive Officer or Chief Operating 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 who has 2,000 or more Hay Points (and who is deemed to be a Level I or II Participant under the Incentive Compensation Plan) shall automatically be deemed to

3.04 be approved by the Board for participation under this Plan. 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 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 nonconflicting 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.

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

The Annual Retirement Income of a Participant who retired from a position which was assigned a Hay Point rating equal to or exceeding 2,000 points (and 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; 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).

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. Non-qualified 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 present actuarial 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) or, (2) or (3) of this paragraph (c).

5.02 LEVELS III, IV AND V.

The Annual Retirement Income of a Participant who retired from a position which was assigned a Hay Point rating of less than 2,000 points (and 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 retire 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 date as of which such Participant is entitled to have the benefit commence 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, 3.01 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 in this Plan; or
- (2) the earlier of -
  - (A) the date six months prior to Participant's termination from employment Effective Retirement Date; or
  - (B) the December 31 immediately preceding the first day of the month following such Participant's termination from employment. 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 such an election becomes irrevocable, an 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 present actuarially equivalent present value of such Participant's benefit under Article V based upon the applicable actuarial assumptions and other relevant provisions used for the same in the Pension Plan and any other applicable plan as described in 5.01(c)(2) (all such plans hereafter referred to jointly and severally as the "Affected Plans"). (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, designated retirement date or the date the required election form is executed and filed with Ashland. 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) and who was part of a select group of management or a highly compensated employee, shall be able to elect to defer all or any portion of the receipt of the elected lump sum (in increments of 25%), 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). The amount deferred under this sub-paragraph (2) shall not be less than \$1,000.
- (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. The election of this option is irrevocable on the date as of which the benefit payments commence. Before that date, the Participant may change the option elected, subject to the applicable limitations and conditions applied to elections for

the options described under Section 5.04(a)(1) and (2). Payments under this option shall commence effective as of the date on which payments to such Participant commence under the Affected Plans and 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) The election of an option and designation of a contingent annuitant under this sub-paragraph (4) is irrevocable on the date as of which the benefit payments commence. Before that date, 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).
- (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) 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 under 5.04(a)(1) and (2).
  - (D) In the event of the death of the Participant prior to the date as of which the election is irrevocable, the election of this option shall be void and all rights to any benefit under this Plan shall cease except as otherwise provided in Section 5.06.
  - (EC) 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. Payments under this option shall commence effective as of the date on which payments to such Participant commence under the Affected Plans.
- (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"). Such 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. If a Participant and his or her alternate recipient die after the Effective Retirement Date, date as of which payments have commenced 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 election of this option and the designation of an alternate recipient under this sub-paragraph (5) is irrevocable on the date as of which the benefit payments commence; provided, however, 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 the date as of which the benefit commenced. Before the date on which the election becomes irrevocable, 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).

(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). (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) In the event of the death of the Participant prior to the date as of which the election is irrevocable, the election of this option shall be void and all rights to any benefit under this Plan shall cease except as otherwise provided in Section 5.06(b).

(DC) 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. Payments under this option shall commence effective as of the date on which payments to such Participant commence under the Affected Plans.

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 or 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 and at least 55 years of age; 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; (1) before his or her Effective Retirement Date, or (2) prior to his or her approval or nomination for participation in the Plan but meets all of the following requirements on the date of his or her death: (A) such Employee dies in active service with Ashland on or after his or her 55th birthday; and (B) such Employee holds a position classified at 2,000 Hay Points or more (and who is deemed to be a Level I or II participant under Ashland's Incentive Compensation Plan), then such Employee shall be deemed:

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

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

(ciii) if no election has been previously made, such Employee shall be

deemed to have elected to receive his or her benefits in the form of the 100% Joint & Survivor retirement income option and shall be deemed 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 reaches his or her Effective Retirement Date and retires under this Plan, 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 with 2,000 or more Hay Points (and 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 prior to any reductions made because of the limits imposed by Sections 415 and 401(a)(17) of the Code, provided that the single life annuity that would be so payable under the Ashland Pension Plan shall be computed without applying any offset attributable to the Ashland Inc. Leveraged Employee Stock Ownership Plan ("LESOP"), and such single life annuity shall be actuarially adjusted to be equivalent to a single life annuity payable at the particular time applicable based upon the applicable actuarial assumptions and other relevant provisions used for the same in the Affected Plans;

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

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

(ii) Commencement. Subject to Section 6, the benefit computed under paragraph (i) of this Section 3 shall commence or otherwise be paid

or transferred pursuant to the provisions in Sections 4 or 5, effective as of the date as of which payments to such retiree commence under the Affected Plans.

4. Payment Options.

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

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

(B) by the earlier of -

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

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

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

(ii) Optional Forms of Payment.

(A) Lump Sum Option. Notwithstanding any provisions of Section 3 to the contrary, a retiree in an eligible class may elect to receive all of the benefit under Section 3 as a lump sum distribution, subject to the discretion of the Committee as described below. A lump sum benefit payable under the Plan to a retiree in an eligible class shall be computed on the basis of the actuarially equivalent present value of such retiree's benefit under Section 3 of the Plan payable at the particular time applicable based upon (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 25%), 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 amount deferred under this sub-paragraph (B) shall not be less than \$1,000.

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

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

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

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

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

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

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

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

(b) In the event of the death of the retiree prior to the date the election is irrevocable as provided under paragraph (i) of Section 4, such retiree shall be deemed to have

terminated employment on the day before his death (for reasons other than death) and survived until the day after the date as of which the benefit he elected under this sub-paragraph (E) would have commenced.

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

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

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

6. Surviving Spouse Benefit. In the event a retiree who was eligible under Section 2 for the benefit under Section 3 dies, leaving a surviving spouse, before electing an optional form of payment under paragraph (ii) of Section 4 and before the date such an election would have become irrevocable under paragraph (i) of Section 4, then such retiree shall be deemed to have (i) elected the joint and 100% survivor income option under sub-paragraph (D) of paragraph (ii) of Section 4; (ii) named his spouse as the 100% contingent annuitant; (iii) terminated employment on the day before his death (for reasons other than death); and (iv) survived until the day after the date as of which such benefit would have commenced.

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

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

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

10. Miscellaneous.

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

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

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

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

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

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

11. Change in Control. Notwithstanding any provision of this Plan to the contrary, in the event of a Change in Control (as defined hereinafter in this Section 11), any employee who would or will meet the requirements of Section 2, except that such employee has not been approved to participate as provided under paragraph (ii) of Section 2, shall be deemed to be approved for participation hereunder, regardless of when such employee actually retires and commences benefits under an Affected Plan and such entitlement shall be vested from and after the time of such Change in Control. Ashland shall reimburse an employee for legal fees and expenses incurred if he or she is required to, and is successful in, seeking to obtain or enforce any right to payment pursuant to the Plan after a Change in Control. In the event that it shall be determined that such employee is properly entitled to the payment of benefits hereunder, such employee shall also be entitled to interest thereon payable in an amount equivalent to the prime rate of interest (quoted by Citibank, N.A. as its prime commercial lending rate on the latest date practicable prior to the date of the actual commencement of payments) from the date such payment(s) should have been made to and including the date it is made. Notwithstanding any provision of this Plan to the contrary, the Plan may not be amended after a Change in Control without the written consent of a majority of the Board of Directors of Ashland (hereinafter "Board") who were directors prior to the Change in Control. For purposes of this Section 11, 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.  
LONG-TERM INCENTIVE PLAN  
(Amended as of September 19, 1996)

## SECTION 1. PURPOSE

The purpose of the Ashland Inc. Long-Term Incentive Plan is to promote the interests of Ashland Inc. and its shareholders by providing its directors, officers and employees with an incentive to continue service with Ashland. Accordingly, the Company may grant to selected officers and employees Stock Options, Stock Appreciation Rights, Restricted Stock and Performance Share awards in an effort to attract and retain in its employ qualified individuals and to provide such individuals with additional incentive to devote their best efforts to the Company through ownership of the Company's stock, 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. Stock Options, Stock Appreciation Rights 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.

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

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

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

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

(F) "Change in Control" shall be deemed to occur (1) upon approval of the shareholders of Ashland (or if such approval is not required, upon the approval of the Board) of (A) any consolidation or merger of Ashland 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 3(a)(9) or 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.

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

(H) "Committee" shall mean the Personnel and Compensation Committee of the Board, as from time to time constituted, or any successor committee of the Board with similar functions, which shall consist of three or more members, each of whom shall be a Non-Employee Director.

(I) "Common Stock" shall mean the Common Stock of the Company (\$1.00 par value), subject to adjustment pursuant to Section 12.

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

(K) "Employee" shall mean an officer or employee of the Company.

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

(M) "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.

(N) "Fair Market Value" shall mean the price of the Common Stock as reported on the Composite Tape on the date and at the time designated by the Company.

(O) "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.

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

(Q) "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.

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

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

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

(U) "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.

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

(W) "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.

(X) "Plan" shall mean this Ashland Inc. Long-Term Incentive Plan.

(Y) "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 nor more than five years from the date of grant, and in the case of Outside Directors is the period set forth in subsection (B) of Section 8.

(Z) "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.

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

(BB) "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.

(CC) "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.

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

(EE) "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 be granted as part of an Option or as a separate right to any holder of any Option theretofore or then being granted under this Plan. 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.

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

(GG) "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 and Performance Shares and for stock bonuses on deferred awards of Restricted Stock and Performance Shares), an aggregate of 3,000,000 shares of Ashland Common Stock, par value \$1.00 per share. 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.

### SECTION 4. ADMINISTRATION

The Plan shall be administered by the Committee. No person who is (or, within one year prior to his or her appointment as a member of the Committee, was) eligible to participate in the Plan, except as specifically authorized under subsection (B) of Section 8 herein, or in any other stock option or stock bonus plan of the

Company, shall be a member of 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 its 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. STOCK 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 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.

(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 10 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) either 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, or with approval of the Committee, a promissory note as hereinafter provided. 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 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 (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, in the case of an exercise of an Option which was granted after May 21, 1992, unless the Committee specifically provides otherwise) evidenced by negotiable certificates, valued at their Fair Market Value on the date of exercise, (iii) by Attestation; (iv) by a combination of such methods of payment, or (v) by such other consideration as shall be approved by the Committee (including without limitation, by 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. In the case of an exercise of an Option granted after May 21, 1992, the Common Stock listed on the Attestation Form must have been owned by the Employee six months, unless the Committee specifically provides otherwise. Moreover, in the case of an exercise of an Option granted prior to May 21, 1992, if so provided in the Agreement, and subject to such restrictions, terms and conditions as the Committee may impose, an Employee may request Ashland to "pyramid" his or her shares; that is, to automatically apply the shares which he or she is entitled to receive on the exercise of a portion of an Option to satisfy the exercise for additional portions of the Option, thus resulting in multiple simultaneous exercises of an Option by use of whole shares as payment.

The Committee may, in its discretion, authorize payment of all or any part of the Exercise Price over a period of not more than five years from the date the Option is exercised. In such instance any unpaid balance of the Exercise Price shall be evidenced by the Employee's promissory note payable to the order of Ashland which shall bear interest at such rate or rates as determined from time to time by the Committee.

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 be granted as part of an Option or as a separate right to any holder of any Option theretofore or then being granted under this Plan. 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. For purposes of this Section 7, the date of exercise of an SAR shall mean the date on which the Company receives such notice.

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 (valued at Fair Market Value on the date of exercise of the SAR), or in cash, or partly in cash and partly in shares of Common Stock, 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 for purposes of determining the number of shares of Common Stock 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, 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 an amount equal to, or in excess of, the par value of the shares of Restricted Stock awarded to him or her. Any such Restricted Stock Award shall automatically expire if not purchased in accordance with the Committee's requirements within thirty (30) days after the date of grant. 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 by reason of death or disability (as defined in subsection (C) of Section 10 hereof), or for such other reason as the Committee may provide, such Employee (or his or her estate) will receive his or her Restricted Stock subject to the terms of his or her Agreement with the Company, which Agreement shall be in accordance with the terms and conditions set forth in this Section 8. In the event that a Restricted Stock Award has been made to an Employee who subsequently voluntarily resigns or whose employment is terminated for any reason other than as referred to above, such Restricted Stock will be forfeited by such Employee; provided, however, that the Committee may limit such forfeiture to that portion thereof which is proportional to the unelapsed portion of the Restricted Period under such Award.

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 per year over a five-year period.

B. Awards to Outside Directors

Subject to the limitation of the number of shares of Common Stock available pursuant to Section 3, effective immediately following the 1989 Annual Meeting of Shareholders of the Company, each person who at such time shall be a duly elected Outside Director is hereby granted, effective on such date, 1,000 shares of Restricted Stock subject to the terms and conditions set forth in this subsection (B) and subsection (C) below. Subsequent to the 1989 Annual Meeting of Shareholders of the Company, each person who has received no previous Award under the Plan and who is duly appointed or elected as an Outside Director of the Company is hereby granted, effective on the date of his or her appointment or election to the Board, 1,000 shares of Restricted Stock, subject 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 will 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 (B) of Section 14 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) normal retirement from the Board at age 70, (ii) the death or disability of such Outside Director, or (iii) a 50% change in the beneficial ownership of the Company as defined in Rule 13d-3 under the Exchange Act. 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 (i), (ii) or (iii) of 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, an Outside 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 14 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 which shall not be less than one year nor more than five years 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 in no event shall such Restricted Period 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 hereto are subject to the restrictions, terms, and conditions provided in the Plan and the applicable Agreement. 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. 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) 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. Any forfeited Restricted Stock shall not again be available for the grant of Awards under the Plan.

#### SECTION 9. PERFORMANCE SHARES

The Committee may make awards of Common Stock, 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 Committee shall establish performance measures for each Performance Period on the basis of such criteria and to accomplish such objectives as the Committee may from time to time, in its sole discretion, determine. Such measures may include, but shall not be limited to, return on investments, cumulative earnings per share, or return on shareholders' equity. The performance measures determined by the Committee shall be established prior to the beginning of each Performance Period but may be subject to such later revisions as the Committee shall deem appropriate. Subject to subsection (B) of Section 14 hereof, Performance Shares may not be sold, assigned, transferred, pledged, or otherwise encumbered, except as herein provided and as provided in subsection (F) of Section 10 hereof, during the Performance Period.

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 per year over a five-year period.

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 discretion, limit such forfeiture to that portion of the Performance Shares deemed not earned.

#### SECTION 10. CONTINUED EMPLOYMENT, AGREEMENT TO SERVE AND EXERCISE PERIODS

(A) Subject to the provisions of subsections (B), (C) and (F) of this Section 10, 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 be terminated, for any reason other than death or disability as determined by the Committee, prior to the end of such one year period, the Option granted to such Employee shall immediately terminate.

right of Ashland to terminate the Employee's employment at any time.

(H) 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 11. 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 12. 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 13. AMENDMENTS AND TERMINATIONS

Unless the Plan shall have been terminated as hereinafter provided, the Plan shall terminate on, and no Award shall be granted after, November 3, 1993. The Plan may be terminated, modified or amended by the shareholders of the Company. The Board may at any time terminate, modify or amend the Plan in such respects as it shall deem advisable; provided, however, that the Board 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: (i) increase (except as provided in Section 12) the maximum number of shares which may be issued pursuant to the Awards granted under the Plan, (ii) change the class of persons eligible to receive Awards, (iii) 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, (iv) extend the period during which Awards may be granted or exercised, or (v) amend any provision of the Plan insofar as it applies specifically to Restricted Stock Awards granted or to be granted to Outside Directors.

#### SECTION 14. 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 of 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 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 or the Board.

(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 Section 13 or 15(d) 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.

#### SECTION 15. EFFECTIVENESS OF THE PLAN

The Plan shall be submitted to the shareholders of the Company for their approval and adoption on January 26, 1989 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 16. GOVERNING LAW

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

As Amended and Restated by the Board on September 19, 1996.

ASHLAND INC.  
DIRECTORS' CHARITABLE AWARD PROGRAM

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

2. Definitions .

(a) "Ashland" - means Ashland Inc.

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

(c) "Change in Control" - shall be deemed to occur (1) upon the approval of the Board of Directors of Ashland (or if approval of the Board of Directors of Ashland is not required as a matter of law, the shareholders of Ashland) of (A) any consolidation or merger of Ashland 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 prior approval of the Board of Directors of Ashland, or (3) if at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Ashland shall cease for any reason to constitute at least a majority thereof, unless the election or nomination for election by Ashland's shareholders of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

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

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

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

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

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

3. Eligibility Criteria .

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

4. Grant Procedure .

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

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

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

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

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

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

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

(h) No Donation will be made on behalf of a Director if a Director's termination from Board service is for any reason other than: (1) mandatory retirement at age 70 under the Ashland Inc. Director Retirement Plan; (2) death; (3) Disability; (4) voluntary early retirement to take a position in public governmental services; or (5) a Change in Control of Ashland; however, the Board of Directors shall have plenary authority to authorize that a Donation be made on behalf of a retiring Director, provided that the Director has a minimum of ten (10) years of service as a Director with Ashland.

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

#### 5. Miscellaneous Provisions .

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

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

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

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

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

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

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

Amended effective as of:  
September 19, 1996

ASHLAND INC.  
1993 STOCK INCENTIVE PLAN

(Amended as of September 19, 1996)

SECTION 1. PURPOSE

The purpose of the Ashland Inc. 1993 Stock Incentive Plan is to promote the interests of Ashland Inc. and its shareholders by providing its directors, officers and employees with an incentive to continue service with Ashland. Accordingly, the Company may grant to selected officers and employees Stock 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 devote their best efforts to the Company through ownership of the Company's stock, 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. Stock 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.

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

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

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

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

(F) "Change in Control" shall be deemed to occur (1) upon approval of the shareholders of Ashland (or if such approval is not required, upon the approval of the Board) of (A) any consolidation or merger of Ashland 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.

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

(H) "Committee" shall mean the Personnel and Compensation Committee of the Board, as from time to time constituted, or any successor committee of the Board with similar functions, which shall consist of three or more members, each of whom shall be a Non-Employee Director.

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

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

(K) "Employee" shall mean an officer or employee of the Company.

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

(M) "Exercise Price" shall mean, with respect to each share of Common Stock subject to (i) an Option (other than a Reload 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 or (ii) a Reload Option, the price of which is as fixed pursuant to Section 6 of the Plan.

(N) "Fair Market Value" shall mean the price of the Common Stock as reported on the Composite Tape on the date and at the time selected by the Company.

(O) "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.

(P) "Long-Term Incentive Plan" shall mean the Ashland Inc. Long-Term Incentive Plan approved and adopted on January 26, 1989 by the shareholders of the Company, as it now exists or as it may hereafter be amended.

(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) "Original Option" shall mean an option as defined in Subsection (D) of Section 6 of the Plan.

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

(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. 1993 Stock Incentive Plan.

(BB) "Reload Option" shall mean an option granted pursuant to Subsection (D) of Section 6 of the Plan.

(CC) "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, and in the case of Outside Directors is the period set forth in subsection (B) of Section 8.

(DD) "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.

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

(FF) "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.

(GG) "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.

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

(II) "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.

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

(KK) "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 2,900,000 shares of Ashland Common Stock, par value \$1.00 per share; provided, however, that of such shares, only 1,500,000 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.

### SECTION 4. ADMINISTRATION

The Plan shall be administered by the Committee. No person who is (or, within one year prior to his or her appointment as a member of the Committee, was) eligible to participate in the Plan, except as specifically authorized under subsection (B) of Section 8 herein, or in any other stock option or stock bonus plan of the Company, shall be a member of 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. STOCK 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 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.

(c) The Exercise Price of Common Stock issued pursuant to each Option (other than a Reload 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 (other than a Reload 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) either 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, or with approval of the Committee, a secured promissory note as hereinafter provided. 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 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 a stock 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. The Committee may, in its discretion, authorize payment of all or any part of the Exercise Price over a period of not more than five years from the date the Option is exercised. In such instance any unpaid balance of the Exercise Price shall be evidenced by the Employee's promissory note payable to the order of Ashland which shall be secured by such collateral and shall bear interest at such rate or rates as determined from time to time by the Committee.

#### D. Reload Options

The Committee shall have the authority to specify at the time of grant that an Employee shall be granted another Stock Option (a "Reload Option") in the event such Employee exercises all or a part of a Stock Option (an "Original Option") by surrendering in accordance with Section 6, subsection (C) already owned shares of Common Stock in full or partial payment of the Exercise Price under such Original Option, subject to the availability of shares of Common Stock under the Plan at the time of exercise. Each Reload Option shall cover a number of shares of Common Stock equal to the number of shares of Common Stock surrendered in payment of the Exercise Price, shall have an Exercise Price per share of Common Stock equal to the Fair Market Value of the Common Stock on the date of grant of such Reload Option and shall expire on the stated expiration date of the Original Option. A Reload Option shall be exercisable at any time and from time to time from and after the date of grant of such Reload Option (or, as the Committee in its sole discretion shall determine at the time of grant, at such time or times as shall be specified in the Reload Option); provided, however, that a Reload Option granted to a Section 16(b) Optionee shall not be exercisable during the first six months from the date of grant of such Reload Option. The first such Reload Option may provide for the grant, when exercised, of one subsequent Reload Option to the extent and upon such terms and conditions, consistent with this Section 6, subsection (D), as the Committee in its sole discretion shall specify at or after the time of grant of such Reload Option. A Reload Option shall contain such other terms and conditions which may include a restriction on the transferability of the number of shares of Common Stock received upon exercise of the Original Option reduced by a number of shares equal in value to the tax liability incurred upon exercise as the Committee in its sole discretion may deem desirable which may be set forth in the Agreement evidencing the Reload Option.

#### 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 (including any Reload 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. For purposes of this Section 7, the date of exercise of an SAR shall mean the date on which the Company receives such notice.

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, 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 an amount equal to, or in excess of, the par value of the shares of Restricted Stock awarded to him or her. Any such Restricted Stock Award shall automatically expire if not purchased in accordance with the Committee's requirements within thirty (30) days after the date of grant. 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. Any Restricted Stock so forfeited by an Employee shall not again be available for the grant of Awards under the Plan.

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 Long-Term Incentive Plan on January 26, 1989 and who continues to serve as an Outside Director on January 31, 1994 shall be granted an Award of 1,000 shares of Restricted Stock on January 31, 1994; (ii) each Outside Director who was granted an award of restricted stock under such Long-Term Incentive Plan other than those Outside Directors in (i) above shall be granted an Award of 1,000 shares of Restricted Stock upon the fifth anniversary of his or her prior award under the Long-Term Incentive Plan; and (iii) each person who is hereafter duly appointed or elected as an Outside Director and who does not receive an award under the Long-Term Incentive 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. 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 will 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 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) normal 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. 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 (i), (ii), (iii) or (iv) of 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. Any Restricted Stock so forfeited by an Outside Director shall not again be available for the grant of Awards under the Plan. 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 which 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 in no event shall such Restricted Period 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. 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. 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, 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 Committee shall establish performance measures for each Performance Period on the basis of such criteria and to accomplish such objectives as the Committee may from time to time, in its sole discretion, determine. Such measures may include, but shall not be limited to, return on investment, earnings per share, return on shareholders' equity, or return to shareholders. The performance measures determined by the Committee shall be established prior to the beginning of each Performance Period but may be subject to such later revisions as the Committee shall deem appropriate. Performance Shares may not be sold, assigned, transferred, pledged, or otherwise encumbered, except as herein provided and as provided in subsection (E) of Section 11 and subject to subsection (B) of Section 15, during the Performance Period.

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 (other than a Reload 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, for any reason other than death or disability (as defined in subsection (C) of this Section 11) as determined by the Committee, prior to the end of such one year period or with respect to any Reload Option such other period as may be

specified by the Committee within which such Reload Option may not be exercised, the Option granted to such Employee shall immediately terminate.

(B) Every Option shall provide that in the event the Employee dies while employed by Ashland; during the period in which Options may be exercised by an Employee determined to be disabled as provided in subsection (C) of this Section 11, or within three months after cessation of employment for any cause, 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 by such Employee for the number of shares which the Employee could have acquired under the Option immediately prior to the Employee's disability. An Option held by an Employee determined by the Committee to be disabled prior to September 19, 1996 shall be exercisable during a period of one year of continuing disability following termination of employment by reason of such disability. An Option held by an Employee determined by the Committee to be disabled on or after September 19, 1996 shall be exercisable at any time prior to the fixed termination date set forth in the Option. 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 deemed 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 only in respect of the number of shares which the Employee could have acquired under the Option immediately prior to such Retirement. Options held by an Employee who retires prior to September 19, 1996 shall be exercisable for a period of three years after such Retirement date, which three-year period may be extended at the discretion of the Committee. Options held by an Employee who retires on or after September 19, 1996 shall be exercisable until the fixed termination date set forth in the Option.

(E) Except as provided in subsections (A), (B), (C) (D) and (F) 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 three months 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, 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) 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. 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.

(H) 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 terminated as hereinafter provided, the Plan shall terminate on, and no Award (other than Reload Options automatically granted pursuant to Section 6) shall be granted after January 26, 1998. The plan may be terminated, modified or amended by the shareholders of the Company. The Board may at any time terminate, modify or amend the Plan in such respects as it shall deem advisable; provided, however, that the Board 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: (i) increase (except as provided in Section 13) the maximum number of shares which may be issued pursuant to the Awards granted under the Plan, (ii) change the class of persons eligible to receive Awards, (iii) 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, (iv) extend the period during which Awards may be granted or exercised, or (v) amend any provision of the Plan insofar as it applies specifically to Restricted Stock Awards granted or to be granted to Outside Directors.

#### 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 of 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 Section 13 or 15(d) 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; provided, however, that a Reload Option shall be deemed to have been granted on the date on which the Original Option is exercised or such later date as the Committee in its sole discretion shall determine prior to the date on which such exercise occurs and a subsequent Reload Option shall be deemed to have been granted on the date on which the underlying Reload Option is exercised or such later date as the Committee in its sole discretion shall determine prior to the date on which such exercise occurs.

#### SECTION 16. EFFECTIVENESS OF THE PLAN

The Plan shall be submitted to the shareholders of the Company for their approval and adoption on January 28, 1993 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.

As amended and restated by the Board on September 19, 1996.

ASHLAND INC.  
1995 PERFORMANCE UNIT PLAN  
(As amended September 19, 1996)

1. PURPOSE

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

2. DEFINITIONS

Terms not otherwise defined herein shall have the following meanings:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### 4. ADMINISTRATION

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

#### 5. ELIGIBILITY

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

6. PERFORMANCE UNIT AWARDS

(a) The Performance Goals and Performance Period applicable to a Performance Unit Award shall be set forth in writing by the Committee no later than 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.

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

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

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

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

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

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

7. NONTRANSFERABILITY AND NO SHAREHOLDER RIGHTS

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

8. CHANGE IN CONTROL

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

9. GOVERNING LAW

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

10. AMENDMENT AND TERMINATION

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

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

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

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

ASHLAND INC.  
INCENTIVE COMPENSATION PLAN FOR KEY EXECUTIVES  
(As amended September 19, 1996)

## 1. PURPOSE

The principal purposes of the Ashland Inc. Incentive Compensation Plan for Key Executives (the "Plan") are to provide to Eligible Officers incentives to earn annual incentive compensation through the achievement of performance goals and to assist the Company in attracting, motivating and retaining key employees on a competitive basis.

## 2. DEFINITIONS

Terms not otherwise defined herein shall have the following meanings:

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

(b) "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 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.

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

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

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

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

(g) "Eligible Officer" means an executive officer described in Section 4.

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

(i) "Executive Officer" means an executive officer as defined in Rule 3b-7 under the Exchange Act.

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

(k) "Hurdle" means the minimum Performance Goal(s) that must be reached in order for the Eligible Officer to receive any Incentive Award.

(l) "Incentive Award" means the amount determined by the Committee to be payable to a Participant upon the achievement of the Performance Goals for the particular Performance Period.

(m) "Participant" means any Eligible Officer who receives an Incentive Award under the Plan for a Performance Period.

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

(o) "Performance Period" means an annual period based upon the

Company's fiscal year, except to the extent the Committee determines otherwise.

(p) "Target" means the Performance Goal(s) that must be reached in order for the Eligible Officer to receive the maximum Incentive Award. The maximum Incentive Award is a fixed percentage of the midpoint of the salary range for the position held by the Eligible Officer and is based upon the Eligible Officer's level of employment. No Eligible Officer may receive a maximum Incentive Award more than 150% of their salary range midpoint.

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

(a) Shares Authorized for Issuance. There shall be reserved for issuance under the Plan 150,000 shares of Common Stock, subject to adjustment pursuant to subsection (b) below. Such shares shall be authorized but unissued shares of Common Stock.

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

### 4. ELIGIBILITY

The Chief Executive Officer and the Chief Operating Officer of the Company, plus any other Executive Officers chosen by the Committee, shall be eligible to participate in the Plan. An individual who becomes eligible to participate in the Plan during the Plan Year may be approved by the Committee for a partial year of participation.

### 5. ADMINISTRATION

Full power and authority to construe, interpret and administer the Plan shall be vested in the Committee. Decisions of the Committee shall be final, conclusive and binding upon all parties.

6. AWARDS; PAYMENT

(a) No later than 90 days after the commencement of each Performance Period, the Committee shall establish in writing one or more Performance Goals, including the Hurdle and Target, that must be reached by an Eligible Officer in order to receive an Incentive Award for such Performance Period. The Committee shall have the discretion to later revise the Performance Goals and the amount to be paid out upon the attainment of these goals 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 a Participant's employment so long as such changes are consistent with the Performance Goals established for other Participants in the same or similar positions.

(b) The amount payable to a Participant shall be based upon the achievement of the Performance Goals and the Participant achieving the highest possible individual performance rating for the Performance Period. To the extent that a Participant does not achieve the highest possible individual performance rating for the Performance Period, the Committee shall have the discretion to reduce the amount payable to such Participant; provided, however, that no payment for individual performance shall be made unless the Performance Goals are achieved.

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

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

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

(d) An Incentive Award shall terminate for all purposes if the Participant does not remain continuously employed and in good standing with the Company until the date of payment of such award. In the event an Eligible Officer's employment is terminated because of death, disability or retirement, the Eligible Officer (or his or her beneficiaries or estate) shall receive a pro rata portion of the payment of an Incentive Award for which the Eligible Officer would have otherwise been eligible based upon the portion of the Performance Period during which he or she was so employed so long as the Performance Goals are subsequently achieved.

7. INALIENABILITY OF BENEFITS

Incentive Awards may not be assigned or transferred in whole or in part, either directly or by operation of law or otherwise (except by will or pursuant to the laws of descent and distribution) including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or any other manner.

8. GOVERNING LAW

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

9. 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 of the Company:

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

(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.

10. CHANGE IN CONTROL

Upon a Change in Control, in order to maintain an Eligible Officer's rights under the Plan, there shall be an acceleration of any Performance Period relating to any Incentive Award, and payment of any Incentive Award shall be made in cash as soon as practicable after such Change in Control based upon achievement of the Performance Goals applicable to such award up to the date of the Change in Control. Further, the Company's obligation with respect to such Incentive Award shall be assumed, or new obligations substituted therefor, by the acquiring or surviving corporation after such Change in Control. In addition, prior to the date of such Change in Control, the Committee, in its sole judgment, may make adjustment to any Incentive Award as may be appropriate to reflect such Change in Control.

11. EFFECTIVE DATE; TERM OF THE PLAN

This Plan shall be submitted to the shareholders of the Company for their approval and adoption on January 26, 1995 or such other date fixed for the next meeting of shareholders or any adjournment or postponement thereof. If approved and adopted by the shareholders, the Plan will become effective as of September 14, 1994. Unless terminated sooner by the Committee, to the extent necessary to ensure that Incentive Award payments be deductible under the Code, the Plan shall terminate on, and no Incentive Awards shall be granted after, the first meeting of shareholders occurring in calendar year 2000.

ASHLAND INC.  
DEFERRED COMPENSATION PLAN  
(Amended as of September 19, 1996)

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 last day of a quarter or, if a weekend or holiday, the next preceding business day.

(b) "Beneficiary" means the person(s) designated by the Participant in accordance with Section 12.

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

(d) "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.

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

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

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

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

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

(j) "Compensation Account" means the account to which the Participant's Deferred Compensation is credited.

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

(l) "Credit Date" means such date as designated by the Committee that Deferred Compensation shall be credited to the Compensation Account.

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

(n) "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.

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

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

(q) "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.

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

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

(t) "Nonqualified Payments" means payments made to a Participant pursuant to the Plan and the Nonqualified Plan.

(u) "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. "Participant" shall also include any Employee who had an account under the Prior Plans which has been transferred to this Plan.

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

(w) "Prime Rate of Interest" means the rate of interest quoted by Citibank, N.A. as its prime commercial lending rate on the latest date practicable prior to the date of actual distribution under Section 13.

(x) "Prior Plans" mean the Ashland Inc. Deferred Compensation Plan for ERISA Forfeitures and the Ashland Inc. Deferred Compensation Plan for Key Employees, which are being replaced by this Plan as of the effective date of this Plan identified in Section 17.

(y) "Section 16(b) Participant" means a Participant who is subject to Section 16(b) of the Exchange Act.

(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) "Service Year" means the Fiscal Year or portion thereof during which the services have been rendered for which Compensation is payable.

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

(dd) "Termination" means retirement from the Company or termination of services as an Employee 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 (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 among any 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 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 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 Compensation Account for the Participant to which there shall be credited any Deferred Compensation, as of each Credit Date. Each Participant's 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 8.

If a Participant elects to invest all or any portion of his or her Compensation Account in the Common Stock Fund, that portion of the Participant's Compensation Account shall be credited on

each Credit 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 Compensation at the Fair Market Value on the Credit Date. As of any dividend payment date for the Common Stock, the portion of a Participant's Compensation Account invested in the Common Stock Fund as of the dividend record date shall be credited with additional Stock Units. The number of Stock Units credited to the Common Stock Fund will be determined by dividing (i) the product of (a) the dollar value of the dividend declared in respect of a share of Ashland Common Stock multiplied by (b) the number of Stock Units credited to the Participant's Common Stock Fund as of the dividend record date by (ii) the Fair Market Value of a share of Ashland Common Stock on the dividend payment date.

A Participant who had an existing account under the Prior Plans shall automatically have such account transferred to a Compensation Account under this Plan to be maintained and administered pursuant to the terms and conditions of this Plan.

Amounts credited to a Compensation Account shall remain a part of the general funds of the Company and nothing contained in this Plan shall be deemed to create a trust or fund of any kind or create any fiduciary relationship. Nothing contained herein shall be deemed to give any Participant any ownership or other proprietary, security or other rights in any funds, stock or assets owned or possessed by the Company, whether or not earmarked for the Company's own purposes as a reserve or fund to be utilized by the Company for the discharge of its obligations hereunder. To the extent that any person acquires a right to receive payments or distributions from the Company under this Plan, such right shall be no greater than the right of any unsecured creditor of the Company.

#### 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 financial hardship to the Participant, the Committee (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. If, in the sole discretion of the Committee, a delay in any distribution pursuant to this Section 7 shall be necessary to avoid liability of the Participant under Section 16(b) of the Exchange Act, any such distribution shall be so postponed.

#### 8. 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 a written notice on a form prescribed by Corporate Human Resources electing to defer payment of all or a portion (in 25% increments or other increments so prescribed by the Committee) of his or her Compensation (an "Election") 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 Committee. An effective election to defer Compensation may not be revoked or modified except as otherwise determined by the Committee or stated herein. In addition to the provisions contained in this Plan, any deferrals of SERP Payments or Nonqualified Payments must be in accordance with the terms of the SERP or the Nonqualified 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 his or her existing Compensation Account (in 25% increments or other increments so prescribed by the Committee) one (1) time during any three-month period by filing with Corporate Human Resources a new Election, at least fifteen (15) days prior to the commencement of the quarter in which the Participant desires the change to become effective. The change will be deemed effective as of the first business day of the next quarter subsequent to the filing of such Election. Notwithstanding the foregoing, a Section 16(b) Participant's election to change an existing selection involving the Common Stock Fund must occur at least six months following an "opposite-way election" by that Section 16(b) Participant involving either the Common Stock Fund of the Plan or the Ashland Common Stock Fund of the Ashland Inc. Employee Savings Plan (the "Savings Plan"). An "opposite way election" means a transfer into either the Common Stock Fund of the Plan or the Ashland Common Stock Fund of the

Savings Plan followed by a transfer out of either the Common Stock Fund of the Plan or the Ashland Common Stock Fund of the Savings Plan, or a transfer out of either the Common Stock Fund of the Plan or the Ashland Common Stock Fund of the Savings Plan followed by a transfer into either the Common Stock Fund of the Plan or the Ashland Common Stock Fund of the Savings Plan.

(c) Change of Beneficiary. A Participant may, at any time, elect to change the designation of a Beneficiary.

(d) Change in Distribution of Account. A Participant will be allowed to change the Election as to the applicable payment period or form of payment for all amounts previously deferred pursuant to such Election, subject to approval by the Committee. 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 Termination; or

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

#### 9. MANNER OF PAYMENT UPON TERMINATION

In accordance with the Participant's Election and subject to Committee approval upon payout, amounts credited to a Participant's Compensation Account will be paid in a lump sum or in the form of annual, semi-annual, or quarterly installments, in cash, or if so determined by the Committee, in shares of Common Stock or a combination of both to the Participant following his or her Termination or, in the event of his or her death, to a Beneficiary. The entire Compensation Account must be paid out within forty years following the date of a Participant's Termination. A Participant may make different elections with respect to the applicable payment period or form of payment with respect to different forms of Compensation and may provide for different payment periods and forms of payment before and after his or her death.

The amount of any cash distribution to be made in installments with respect to the Compensation Account will be determined by dividing the balance in such Compensation Account on the Accounting Date immediately preceding the cash distribution (minus any amounts in the Common Stock Fund) by the number of installments in which distributions remain to be made (including the current distribution). The amount of any cash distribution to be made in installments with respect to Stock Units will be determined by multiplying the number of Stock Units attributable to such installment (determined as hereinafter provided) by the closing price of the Common Stock on each Accounting Date immediately prior to the date on which such installment is to be paid. The number of Stock Units attributable to an installment shall be determined by dividing the current number of Stock Units in the Common Stock Fund by the number of installments in which distributions remain to be made (including the current distribution).

The amount of any stock distribution to be made in installments with respect to the Compensation Account shall be determined by dividing the amount of cash attributable to such installment (determined as hereinafter provided) by the closing price of the Common Stock on each Accounting Date immediately prior to the date on which such installment is to be paid. The amount of cash attributable to an installment shall be determined by dividing the current balance in such Compensation Account on the Accounting Date immediately preceding the stock distribution (minus any amounts in the Common Stock Fund) by the number of installments in which distributions remain to be made (including the current distribution). The amount of any stock distribution to be made in installments with respect to the amount of a Compensation Account invested in the Common Stock Fund shall be determined by dividing the current number of Stock Units by the number of installments in which distributions remain to be made (including the current distribution). Only whole numbers of shares of Common Stock will be issued, with the value of any fractional shares to be paid in cash.

#### 10. COMMENCEMENT OF PAYMENTS

Payments of amounts deferred under this Plan shall commence after a Participant's Termination in accordance with the Participant's 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.

11. ADMINISTRATIVE CONVENIENCE

Notwithstanding any provision of this Plan to the contrary, a Participant may not defer Compensation in an amount less than \$1,000 and no payment or payments under the Plan may be made to the Participant or any Beneficiary of the Participant in an amount that would annually total less than \$1,000, unless the amount remaining in a Compensation Account totals less than \$1,000, in which event the entire amount remaining in a Compensation Account shall be paid to the Participant or his or her Beneficiary. The Committee reserves the right, in its sole and absolute discretion, to further modify the terms of the Plan or payments made to Participants under the Plan for the Company's administrative convenience.

12. 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 payment 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.

13. 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 (including interest at the Prime Rate of Interest from the date of the Change of Control 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 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 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 13 may not be amended after a Change in Control occurs without the written consent of a majority in number of Participants.

14. 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 14.

15. 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.

16. 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.

17. 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 19, 1996.

ASHLAND INC.  
 COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES  
 AND EARNINGS TO COMBINED FIXED CHARGES AND  
 PREFERRED STOCK DIVIDENDS  
 (In millions)

	Years Ended September 30				
	1992	1993	1994	1995	1996
<b>EARNINGS</b>					
Net income (loss)	\$ (336)	\$ 142	\$ 197	\$ 24	\$ 211
Cumulative effect of accounting changes	268	-	-	-	-
Minority interest in earnings of subsidiaries	-	-	-	23	8
Income taxes	(90)	58	75	(13)	92
Interest expense	132	124	119	174	172
Interest portion of rental expense	34	35	38	45	53
Amortization of deferred debt expense	1	2	1	1	1
Undistributed earnings of unconsolidated affiliates	(22)	(12)	(14)	6	(17)
Amounts related to significant affiliates*					
Earnings	30	(2)	27	16	36
Dividends	(4)	(4)	-	(4)	-
	\$ 13	\$ 343	\$ 443	\$ 272	\$ 556
<b>FIXED CHARGES</b>					
Interest expense	\$ 132	\$ 124	\$ 119	\$ 174	\$ 172
Interest portion of rental expense	34	35	38	45	53
Amortization of deferred debt expense	1	2	1	1	1
Capitalized interest	3	9	-	-	1
Fixed charges of significant affiliates*	17	16	18	20	17
	\$ 187	\$ 186	\$ 176	\$ 240	\$ 244
<b>COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</b>					
Preferred dividend requirements	\$ -	\$ 6	\$ 19	\$ 19	\$ 19
Ratio of pretax to net income**	-	1.41	1.38	.72	1.42
Preferred dividends on a pretax basis	-	9	26	14	27
Fixed charges	187	186	176	240	244
	\$ 187	\$ 195	\$ 202	\$ 254	\$ 271
<b>RATIO OF EARNINGS TO FIXED CHARGES</b>					
	***	1.84	2.51	1.13	2.28
<b>RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS</b>					
	***	1.76	2.19	1.07	2.05

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

\*\* Computed as income before income taxes and minority interest divided by net income before minority interest, which adjusts dividends on preferred stock to a pretax basis.

\*\*\* Fixed charges exceeded earnings (as defined) by \$174 million as a result of special charges and the current year impact of accounting changes.

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Years Ended September 30

(In millions)	1996	1995	1994
<b>SALES AND OPERATING REVENUES</b>			
Petroleum	\$ 5,614	\$ 5,050	\$ 4,666
SuperAmerica	1,928	1,788	1,706
Valvoline	1,199	1,113	1,000
Chemical	3,695	3,551	2,885
APAC	1,235	1,123	1,101
Coal(1)	580	610	-
Exploration	241	198	199
Intersegment sales	(1,362)	(1,266)	(1,223)
	<b>\$13,130</b>	<b>\$12,167</b>	<b>\$10,334</b>
<b>OPERATING INCOME</b>			
Petroleum	\$ 55	\$ (54)	\$ 113
SuperAmerica	34	53	59
Valvoline	82	(4)	52
Total Refining and Marketing Group	171	(5)	224
Chemical	169	159	125
APAC	83	75	70
Coal(1)	36	66	-
Exploration	94	(6)	28
General corporate expenses	(97)	(91)	(80)
	<b>\$ 456</b>	<b>\$ 198</b>	<b>\$ 367</b>
<b>EQUITY INCOME</b>			
Ashland Coal, Inc.(1)	\$ -	\$ -	\$ 6
Arch Mineral Corporation	13	(4)	7
Other	11	11	9
	<b>\$ 24</b>	<b>\$ 7</b>	<b>\$ 22</b>
<b>OPERATING INFORMATION</b>			
<b>Petroleum</b>			
Product sales (thousand barrels per day)(2)	390.5	377.2	357.7
Refining inputs (thousand barrels per day)(3)	368.5	349.5	338.4
Value of products manufactured per barrel	\$ 24.64	\$ 22.49	\$ 21.50
Input cost per barrel	20.50	18.28	16.49
Refining margin per barrel	\$ 4.14	\$ 4.21	\$ 5.01
<b>SuperAmerica</b>			
Product sales (thousand barrels per day)	74.2	71.5	70.2
Merchandise sales (millions)	\$ 583	\$ 548	\$ 519
Valvoline lubricant sales (thousand barrels per day)(2)	19.5	19.1	17.9
APAC construction backlog at September 30 (millions)	\$ 647	\$ 672	\$ 554
<b>Ashland Coal, Inc.(4)</b>			
Tons sold (millions)	22.0	22.0	18.2
Sales price per ton	\$ 26.35	\$ 27.80	\$ 29.85
<b>Arch Mineral Corporation(4)</b>			
Tons sold (millions)	28.6	27.2	24.3
Sales price per ton	\$ 25.47	26.23	26.35
<b>Exploration</b>			
<b>Net daily production</b>			
Natural gas (million cubic feet)(2)	108.4	102.9	94.3
Nigerian crude oil (thousand barrels)	17.5	18.8	18.7
<b>Sales price</b>			
Natural gas (per thousand cubic feet)	\$ 2.39	\$ 1.89	\$ 2.42
Nigerian crude oil (per barrel)	\$ 18.46	\$ 16.17	\$ 15.01

(1) Ashland Coal was consolidated in 1996 and 1995 and accounted for on the equity method in 1994 (see Note F to the financial statements).

(2) Includes intersegment sales.

(3) Includes crude oil and other purchased feedstocks.

(4) Ashland's ownership interest is 56% in Ashland Coal (39% prior to 1995) and 50% in Arch Mineral.

**RESULTS OF OPERATIONS**

Ashland's net income amounted to \$211 million in 1996, \$24 million in 1995 and \$197 million in 1994. However, comparisons of these results are affected by various unusual items. The following table shows the effects of unusual items on operating and net income for the three years ended September 30, 1996.

(In millions)	Operating income			Net income		
	1996	1995	1994	1996	1995	1994

Income before unusual items	\$383	\$318	\$356	\$163	\$103	\$ 190
Columbia Gas bankruptcy settlement	73	-	-	48	-	-
Asset impairment write-downs	-	(83)	-	-	(54)	-
Early retirement and restructuring programs	-	(37)	-	-	(25)	-
Litigation matters	-	-	11	-	-	7
Income as reported	\$456	\$198	\$367	\$211	\$ 24	\$197

During 1995, Ashland Exploration entered into a settlement agreement with Columbia Gas Transmission to resolve claims involving natural gas sales contracts that were abrogated by Columbia in 1991. The agreement provided for a \$78 million payment to Ashland Exploration, of which 5% would be withheld by Columbia to be used to potentially satisfy the claims of non-settling producers. Ashland Exploration received the net proceeds under this agreement in 1996, which resulted in operating income of \$73 million. At this time, it is uncertain what portion, if any, of the withheld amount will ultimately be received by Ashland Exploration.

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 to write down certain assets to their fair values, including an idle unit at Ashland Petroleum's Catlettsburg refinery, certain unused crude oil gathering pipelines of Scurlock Permian, various petroleum product marketing properties to be sold or shut down and various other assets. 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, net income amounted to \$163 million in 1996, compared to \$103 million in 1995. Record results were achieved by Valvoline, Ashland Chemical and APAC, combined with increased earnings from Ashland Petroleum, Ashland Exploration and Arch Mineral. Such improvements more than offset the reduced earnings from SuperAmerica and Ashland Coal. Net income before unusual items amounted to \$103 million in 1995, compared to \$190 million in 1994. Record results from Ashland Chemical, APAC and Ashland Coal were more than offset by reduced earnings from Ashland Petroleum, Valvoline, Ashland Exploration and Arch Mineral, as well as higher interest costs.

The following table compares operating income before unusual items by segment for the last three years. Due to Ashland's purchase of an additional interest in Ashland Coal during 1995, the results of Ashland Coal were consolidated and shown as a new segment beginning with that year.

(In millions)	1996	1995	1994
Operating income			
Petroleum	\$ 55	\$ 48	\$113
SuperAmerica	34	53	59
Valvoline	82	1	52
Chemical	169	164	125
APAC	83	75	70
Coal	36	66	-
Exploration	21	(2)	28
General corporate expenses	(97)	(87)	(91)
	\$383	\$318	\$356

(Bar graph appears in the right margin comparing Ashland Inc. operating income for fiscal 1994, 1995 and 1996. The graph shows the breakdown between Ashland's petroleum and energy and chemical related businesses.)

#### PETROLEUM

Operating income of Ashland Petroleum amounted to \$55 million in 1996, compared to \$48 million in 1995 before unusual items. The improvement 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 its ongoing efforts to improve 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(cen) 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.

(Bar graph appears in the right margin comparing operating income from Ashland Petroleum for fiscal 1994, 1995 and 1996.)

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Operating income of Ashland Petroleum declined from \$113 million in 1994 to \$48 million in 1995. Refining margins in 1995 were adversely affected by the market confusion surrounding the introduction of reformulated gasoline and by excess industry production of gasoline in the March 1995 quarter. During that quarter, refiners switched production from distillate to gasoline in response to one of the warmest winters of this century. While refining margins recovered and averaged \$5.07 a barrel during the last half of 1995, overall refining margins for the year declined from \$5.01 a barrel in 1994 to \$4.21 a barrel in 1995. Refining expenses also declined 12(cen) a barrel in 1995 as the refineries operated at near capacity levels during the last half of the year and cost savings from Ashland Petroleum's restructuring program began to be realized. Earnings from Scurlock Permian were up \$4 million, reflecting better margins on crude oil transported.

#### SUPERAMERICA

An extremely competitive retail environment during 1996 adversely affected results from SuperAmerica, reducing its operating income from \$53 million in 1995 to \$34 million in 1996. 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(cen) 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. At September 30, 1996, 742 retail locations were operating, compared to 704 locations in 1995 and 693 locations in 1994. Included in these totals are 624 SuperAmerica(R) stores in 1996, 609 stores in 1995 and 598 stores in 1994, with the remainder being Rich Oil(R) outlets.

Earnings from SuperAmerica amounted to \$53 million in 1995, compared to \$59 million in 1994. Gasoline volumes were up slightly reflecting a higher number of stores, and merchandise sales volumes were up on a per store basis. However, the effects were more than offset by higher labor and training costs, reflecting the increased number of stores, the tight labor market and costs associated with the co-branding fast-food program.

(Bar graph appears in the left margin comparing operating income from SuperAmerica for fiscal 1994, 1995 and 1996.)

#### VALVOLINE

Operating income from Valvoline was a record \$82 million for 1996, compared to near break-even results before unusual items for 1995. The record earnings reflect improved results from nearly all of Valvoline's business units, including a significant short-term earnings boost from the sale of R-12, an automotive refrigerant. R-12 prices 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 Valvoline Instant Oil Change(R) (VIOC) nearly doubled, while the used oil collection business continued to approach profitability. At September 30, 1996, VIOC operated 374 company-owned outlets, compared to 365 outlets in 1995 and 347 outlets in 1994. In addition, the VIOC franchising program continued to expand with 100 outlets open in 1996, compared to 90 outlets in 1995 and 75 outlets in 1994.

Valvoline had an extremely difficult year in 1995, operating just above break-even levels, compared to 1994 when earnings of \$52 million were achieved. Domestic motor oil earnings were down considerably, reflecting reductions in branded sales volumes, cost increases for additives and packaging materials, higher advertising and promotional expenses, and a continuing shift from packaged products to lower-margin bulk sales. Due to competitive pressures, the higher costs could not be fully passed through in higher sales prices, particularly with respect to private label sales. Car care products and Zerex(R) antifreeze were negatively impacted by weak demand reflecting the unusually warm winter weather and by escalating costs for ethylene glycol, while results from R-12 refrigerants were adversely affected by illegal imports. Operating income from international operations was also down due to higher distribution costs and aggressive advertising and promotional expenses to expand the European distributorships acquired in 1994. Although average car counts and ticket prices continued to improve, results from VIOC were down due to increased labor and material costs.

(Bar graph appears in the left margin comparing operating income from Valvoline for fiscal 1994, 1995 and 1996.)

#### CHEMICAL

For the fifth consecutive year, Ashland Chemical was the leading earnings contributor to Ashland's results. Operating income increased from \$164 million before unusual items in 1995 to \$169 million in 1996 and represents Ashland Chemical's fourth straight year of record earnings. Outstanding results from the specialty chemical group, 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

specialty chemicals earnings improved by 56%. The 1995 acquisition of Aristech's unsaturated polyester resin business was a major contributor to the improved results, along with higher sales volumes and margins for electronic chemicals. 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.

(Bar graph appears in the left margin comparing operating income from Ashland Chemical for fiscal 1994, 1995 and 1996.)

Ashland Chemical's operating income of \$164 million in 1995 was up over 30% from its 1994 results of \$125 million. A strong performance from the petrochemical businesses was a key factor in the improvement. Exceptionally strong prices for methanol during the first half of the year and higher sales volumes and margins for cumene were responsible for most of the petrochemical improvement. Operating income from methanol returned to more normal levels during the last half of 1995, declining \$22 million from the earnings achieved during the first half of the fiscal year. Results from the distribution businesses were up nearly 25%, reflecting higher sales volumes. However, operating income from specialty chemicals was down 10% due to reduced margins for water treatment chemicals and foundry products.

#### APAC

The APAC construction companies achieved their third straight year of record results in 1996 with operating income of \$83 million, compared to \$75 million in 1995. APAC's results continue to reflect 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, aggregate and ready-mix concrete.

APAC's operating income amounted to \$75 million in 1995, compared to \$70 million in 1994, which included income of \$9 million related to the Arizona operations that were sold in 1994. A strong backlog, which enhanced revenues and margins from construction jobs, and close attention to costs and safety were primary factors in APAC's improvement.

(Bar graph appears in the right margin comparing operating income from APAC for fiscal 1994, 1995 and 1996.)

#### COAL

Ashland Coal had a difficult year in 1996 due largely to the expiration of certain attractively-priced coal sales contracts in December 1995. Operating income amounted to \$36 million in 1996, compared to \$66 million in 1995 reflecting the lower sales prices. Results for 1996 also included charges of \$4 million related to Ashland Coal's restructuring of its corporate and subsidiary support functions.

As a result of Ashland's acquisition of an additional interest, Ashland Coal was consolidated beginning in 1995. Prior to 1995, Ashland accounted for its investment in Ashland Coal on the equity method of accounting. On a comparable basis, operating income from Ashland Coal increased from \$35 million in 1994 to \$66 million in 1995. The improvement reflects increased productivity and cost reductions in 1995, combined with the adverse effects of the UMW strike (including the related aftereffects) on 1994 results. Such improvements more than offset the reduction in average sales prices resulting from the expiration of a sales contract in the December 1994 quarter and other contract changes.

(Bar graph appears in the right margin comparing operating income from Ashland Coal for fiscal 1994, 1995 and 1996.)

#### EXPLORATION

Operating income from Ashland Exploration amounted to \$94 million in 1996, including the gain of \$73 million from the Columbia settlement. Excluding unusual items in both years, Ashland Exploration's results for 1996 improved \$23 million from 1995. Domestic operations were responsible for \$19 million of the improvement. Natural gas prices rose 50(cent) per thousand cubic feet in 1996, reflecting industry-wide price improvements associated with increased demand and more normal winter weather. In addition, production increased 5%, partly due to the acquisition of additional Appalachian properties in 1995. Depreciation, depletion and amortization were also down in 1996, reflecting favorable reserve revisions and the effects of the FAS 121 impairment reserves recorded in 1995. Results from foreign operations were up \$4 million, as 1995 results included dry hole costs from an exploratory well offshore Nigeria.

Ashland Exploration incurred an operating loss of \$2 million in 1995, compared to operating income of \$28 million in 1994. Results from domestic operations were down \$14 million, reflecting depressed natural gas prices. The effect of reduced prices was partially offset, however, by a 9% increase in natural gas production. Foreign earnings were down \$16 million, reflecting a combination of reduced profitability from the Nigerian operations and increased exploration costs associated with Nigerian offshore blocks acquired under a 1992 production-sharing agreement.

(Bar graph appears in the right margin comparing operating income from Ashland Exploration for fiscal 1994, 1995 and 1996.)

#### GENERAL CORPORATE EXPENSES

Excluding unusual items, general corporate expenses were \$97 million in 1996, \$87 million in 1995 and \$91 million in 1994. Expenses for 1996 include increased costs for incentive and deferred compensation. Expenses for 1994 included consulting fees and other expenses related to a corporatewide cost-control program and higher accruals for performance-based compensation, which were partially offset by income from the resolution of certain matters related to Ashland's former engineering subsidiaries.

#### OTHER INCOME (EXPENSE)

Interest expense (net of interest income) amounted to \$169 million in 1996, \$171 million in 1995 and \$117 million in 1994. The changes in interest costs incurred during the last three years resulted principally from fluctuations in debt levels and, to a lesser extent, higher interest rates in 1995.

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, \$2 million in 1995 and \$7 million in 1994. Arch's results for 1996 were favorably affected by increased sales volumes and lower mining costs, as well as the restructuring completed in 1995. Results for 1995 were negatively affected by weak demand for Illinois high-sulfur coal and by high mining costs resulting from unfavorable overburden ratios and adverse geological conditions at certain Appalachian operations. The prolonged strike by the United Mine Workers, which extended from April into December 1993, had a significant effect on the comparability of results for 1994.

(Bar graph appears in the right margin comparing operating income from Arch Mineral for fiscal 1994, 1995 and 1996.)

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 Baa1 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, 1996. At that date, Ashland Coal also had revolving credit agreements providing for up to \$500 million in borrowings, of which \$25 million was in use. Under a shelf registration, Ashland can issue an additional \$107 million in medium-term notes should future opportunities or needs arise. Ashland and Ashland Coal also have access to various uncommitted lines of credit and commercial paper markets, under which short-term notes of \$92 million were outstanding at September 30, 1996. While certain debt agreements contain covenants restricting the amount by which Ashland can increase its indebtedness, such indebtedness could have been increased by up to \$1.4 billion at September 30, 1996.

Cash flows from operations, a major source of Ashland's liquidity, amounted to \$767 million in 1996, \$500 million in 1995 and \$454 million in 1994. The significant improvement in cash flows for 1996 reflects a higher level of earnings, including the favorable effect of the Columbia settlement, and reduced working capital requirements. Most of the unusual items that reduced earnings in 1995 were non-cash charges and did not adversely affect cash flows for that year. Cash flows from operations exceeded Ashland's capital requirements for net property additions and dividends during the last three years by nearly \$200 million. The majority of other capital requirements (i.e., for debt repayment, acquisitions, etc.) during this period have come from borrowings, the issuance of stock and sales of operations.

(Bar graph appears in the left margin comparing cash flows from operations for fiscal 1994, 1995 and 1996.)

Property additions amounted to \$1.3 billion during the last three years and are summarized in the Information by Industry Segment on Page 61. While about one-third of Ashland's capital expenditures during this period were in Ashland Petroleum, its percent of the total expenditures has declined every year since 1991. Capital expenditures by the related energy and chemical businesses accounted for almost two-thirds of the total expenditures during the last three years, increasing from 59% in 1994 to 72% in 1996.

(Bar graph appears in the left margin comparing property additions for fiscal 1994, 1995 and 1996. The graph shows the breakdown between Ashland's petroleum and energy and chemical related businesses.)

Long-term borrowings provided funds of \$475 million since 1993, including the issuance of \$395 million of medium-term notes and \$75 million of pollution-control bonds. The proceeds from these long-term borrowings were used to retire \$266 million of long-term debt (scheduled maturities as well as refundings to reduce interest costs) and to partially fund acquisitions. Cash flows were supplemented as necessary by the issuance of short-term notes and commercial paper.

(Bar graph appears in the left margin comparing debt as a percent of capital employed for fiscal 1994, 1995 and 1996.)

Acquisitions (including operations acquired through the issuance of \$41 million of Ashland common stock in 1995) amounted to \$516 million since 1993. Such acquisitions include \$212 million for certain operations of Aristech Chemical Corporation and numerous smaller chemical companies, \$118 million for additional interests in Ashland Coal, \$69 million for Zerex and Valvoline's European distributorships, \$68 million for Appalachian natural gas producing properties and \$42 million for various construction companies. Proceeds from the sale of operations generated \$73 million during the last three years, including the divestiture of APAC's Arizona operations.

Investment purchases, sales and maturities relate primarily to the turnover in the debt securities held by Ashland's captive insurance companies. The net cash inflow related to these transactions in the last three years principally reflects the decrease in the investment portfolios of these companies.

Working capital at September 30, 1996, was \$461 million, and liquid assets (cash, cash equivalents and accounts receivable) amounted to 76% 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 \$474 million below their replacement costs at September 30, 1996.

CAPITAL RESOURCES

Ashland's capital employed at September 30, 1996, consisted of debt (49%), deferred income taxes (2%), minority interest (4%), convertible preferred stock (7%) and common stockholders' equity (38%). Debt as a percent of capital employed decreased from 53% at the end of 1995, reflecting strong cash flows from operations during 1996 and the net proceeds from the Columbia settlement. Long-term debt at September 30, 1996, included \$48 million of floating-rate debt, and the interest rates on an additional \$510

million of fixed-rate debt were converted to floating rates through interest rate swap agreements. As a result, interest costs in 1997 will fluctuate based on short-term interest rates on \$558 million of Ashland's consolidated long-term debt, as well as on any short-term notes and commercial paper.

During fiscal 1997, Ashland anticipates capital expenditures of approximately \$525 million. Ashland Petroleum's capital expenditures are expected to amount to about \$175 million, of which nearly \$50 million is committed to the continued expansion of the Ashland branded program and petrochemical production at the division's Catlettsburg refinery. The remaining \$350 million of projected capital expenditures are directed to growth opportunities in Ashland's related

energy and chemical businesses. Ashland anticipates meeting its 1997 capital requirements for property additions and dividends from internally generated funds.

At September 30, 1996, Ashland could issue up to an additional \$49 million in common stock under a shelf registration. During 1995, 1.4 million shares were issued under this registration, generating net proceeds to Ashland of \$51 million. No shares were issued under this registration during 1996.

#### 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 extractive industries.

Capital expenditures for air, water and solid waste control facilities amounted to \$40 million in 1996, \$44 million in 1995 and \$63 million in 1994. Based on current environmental regulations, Ashland anticipates such capital expenditures will amount to about \$25 million in 1997. Ashland's environmental remediation and compliance expenditures amounted to \$158 million in 1996, \$151 million in 1995 and \$140 million in 1994, and are expected to be in the range of \$160 million in 1997. 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. As a result, charges to income for environmental liabilities could have a material effect on results of operations in a particular quarter or fiscal year as assessments and remediation efforts proceed or as new remediation sites are identified. However, such charges are not expected to have a material adverse effect on Ashland's consolidated financial position, cash flow or liquidity.

During 1996, the U. S. Environmental Protection Agency (EPA) notified Ashland that its three refineries would be subject to a comprehensive inspection of compliance with federal environmental laws and regulations. The inspections of two of the refineries have been completed and the third inspection is expected to be completed before the end of this calendar year. Such inspections could result in sanctions, monetary penalties and further remedial expenditures. Also during 1996, Ashland arranged for an independent review of environmental compliance at its three refineries by an outside consulting firm, self-reported to the EPA a number of issues of non-compliance with applicable laws or regulations, and commenced a program to address these matters. Ashland is not in a position to determine what actions, if any, may be instituted and is similarly uncertain at this time what additional remedial actions may be required or costs incurred. However, this matter is not expected to have a material adverse effect on Ashland's consolidated financial position.

#### OUTLOOK

Although refining margins are expected to remain volatile, key external factors look promising for the refining industry. The industry is currently operating at a high rate of capacity, with gasoline and distillate inventories down from last year's levels at this time. 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.

Ashland Petroleum continues to strengthen its position in refining by enhancing its production of higher-value products through projects like the expansion of its Catlettsburg petrochemical complex, 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, 485 retail locations were operating at September 30, 1996, and an additional 146 locations are committed to join the program in 1997. SuperAmerica(R) and Ashland(R) brand expansions should increase controlled volumes to more than 65% of refinery gasoline production by 2001, providing deeper market penetration in key Midwest markets, strengthening margins and reducing Ashland Petroleum's dependence on wholesale markets.

Although Ashland is committed to improving profitability from its refining operations, management believes its greatest opportunities for growth are found within its related energy and chemical businesses. Although

SuperAmerica now plans to scale back its new store program to some extent in response to excess capacity in certain markets, the division still expects to build about 150 new retail locations over the next five years, and selectively expand its partnership program with fast-food chains. The new stores should increase SuperAmerica's share in strategic markets where it is already a leader.

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Ashland Chemical and APAC will pursue growth through internal efforts and selective acquisitions. Ashland Chemical will continue to emphasize integrated marketing and distribution efforts, targeting its North American customers and a growing international sales base. Investments in acquisitions will also continue as attractive opportunities to add volume, technologies, market coverage or a worldwide presence are identified. 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 \$647 million at September 30, 1996 and is expected to contain margins comparable to those included in last year's backlog. Although this backlog reflects modest decreases in both the public and private sectors, the reductions are not expected to have a significant effect on APAC's results for 1997.

Valvoline will focus on the continued integration of recent growth efforts, reducing costs and improving return on investment, while pursuing international growth through aggressive marketing and joint ventures. R-12 margins are expected to remain strong through 1997, but most of Valvoline's R-12 inventories will likely be depleted by the end of that year. Domestic sales volumes of higher-margin packaged lubricants serving the "do-it-yourself" market will likely 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.

Ashland Exploration's natural gas production in 1997 is expected to increase as the Vermilion field in the Gulf of Mexico comes on stream. Continued development of the Nigerian producing properties is expected to extend the useful lives of those fields. Development of the new offshore Nigerian properties is expected to commence in 1997, but production will not begin until at least 1998.

Ashland Coal's results for 1997 are expected to benefit from numerous steps which have been taken or are underway at its mines to offset the effects of the coal sales contracts which expired in December 1995. During the September 1996 quarter, Ashland Coal completed the relocation of a dragline to a mine with better geology. In addition, operations have begun in a new area at another mine where the overburden ratios are more favorable. The repositioning of a dragline at that mine to this area around the end of calendar 1996 will provide additional benefits. Arch Mineral is expected to continue benefiting from the restructuring of its operations which occurred in 1995. While Arch will likely continue having difficulty marketing its high-sulfur Illinois coal, it is working to increase its low-sulfur coal production, reduce its costs and improve its market position. A low cost structure is vital to both Ashland Coal and Arch Mineral, since they will have an ever increasing exposure to competition from coal produced in other regions of the U.S. and to the competitive pressures brought about by utility deregulation. Ashland Coal and Arch Mineral have jointly announced that they have resumed merger discussions. While Ashland believes a merger would offer considerable synergies, Ashland cannot predict whether a merger will occur.

#### 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 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, 1996, 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)

	1996	1995	1994
<b>REVENUES</b>			
Sales and operating revenues (including excise taxes)	\$13,130	\$12,167	\$10,334
Other	155	72	48
	13,285	12,239	10,382
<b>COSTS AND EXPENSES</b>			
Cost of sales and operating expenses	10,151	9,286	7,742
Excise taxes on products and merchandise	985	988	877
Selling, general and administrative expenses	1,291	1,280	1,088
Depreciation, depletion and amortization	402	487	308
	12,829	12,041	10,015
<b>OPERATING INCOME</b>			
	456	198	367
<b>OTHER INCOME (EXPENSE)</b>			
Interest expense (net of interest income) - Notes A and E	(169)	(171)	(117)
Equity income - Note C	24	7	22
	311	34	272
Income before income taxes and minority interest	311	34	272
Income taxes - Note I	(92)	13	(75)
Minority interest in earnings of subsidiaries	(8)	(23)	-
	211	24	197
<b>NET INCOME</b>	211	24	197
Dividends on convertible preferred stock	(19)	(19)	(19)
	\$ 192	\$ 5	\$ 178
<b>EARNINGS PER SHARE - NOTE A</b>			
Primary	\$ 2.97	\$ .08	\$ 2.94
Assuming full dilution	\$ 2.82	\$ .08	\$ 2.79
<b>AVERAGE COMMON SHARES AND EQUIVALENTS OUTSTANDING</b>			
Primary	65	62	61
Assuming full dilution	77	63	72

See Notes to Consolidated Financial Statements.

Ashland Inc. and Subsidiaries  
Consolidated Balance Sheets

September 30

(In millions)	1996	1995
<hr/>		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Note A	\$ 77	\$ 52
Accounts receivable (less allowances for doubtful accounts of \$27 million in 1996 and \$25 million in 1995)	1,666	1,575
Construction completed and in progress - at contract prices	50	42
Inventories - Note A	736	726
Deferred income taxes - Note I	112	90
Other current assets	99	90
	<hr/>	<hr/>
	2,740	2,575
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to unconsolidated affiliates - Note C	157	145
Investments of captive insurance companies - Note A	178	192
Cost in excess of net assets of companies acquired (less accumulated amortization of \$43 million in 1996 and \$35 million in 1995)	120	107
Other noncurrent assets	359	403
	<hr/>	<hr/>
	814	847
PROPERTY, PLANT AND EQUIPMENT		
Cost		
Petroleum	2,881	2,860
SuperAmerica	514	488
Valvoline	312	294
Chemical	818	737
APAC	626	566
Coal	980	972
Exploration (successful efforts method)	1,089	1,011
Corporate	154	150
	<hr/>	<hr/>
	7,374	7,078
Accumulated depreciation, depletion and amortization	(3,659)	(3,508)
	<hr/>	<hr/>
	3,715	3,570
	<hr/>	<hr/>
	\$7,269	\$6,992
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Consolidated Financial Statements.

(In millions)	1996	1995
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Debt due within one year		
Notes payable to financial institutions	\$ 117	\$ 186
Commercial paper	-	15
Current portion of long-term debt	86	71
Trade and other payables	2,044	1,778
Income taxes	32	44
	2,279	2,094
<b>NONCURRENT LIABILITIES</b>		
Long-term debt (less current portion) - Notes D and E	1,784	1,828
Employee benefit obligations - Note J	613	613
Reserves of captive insurance companies	166	169
Deferred income taxes - Note I	64	49
Other long-term liabilities and deferred credits	375	405
Commitments and contingencies - Notes E, H and K		
	3,002	3,064
<b>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES</b>	174	179
<b>STOCKHOLDERS' EQUITY - Notes D, L and M</b>		
Preferred stock, no par value, 30 million shares authorized		
Convertible preferred stock, 6 million shares issued, \$300 million liquidation value	293	293
Common stockholders' equity		
Common stock, par value \$1.00 per share		
Authorized - 150 million shares		
Issued - 64 million shares in 1996 and 1995	64	64
Paid-in capital	280	256
Retained earnings	1,185	1,063
Loan to leveraged employee stock ownership plan (LESOP)	-	(11)
Other	(8)	(10)
Total common stockholders' equity	1,521	1,362
	1,814	1,655
	\$7,269	\$6,992

Ashland Inc. and Subsidiaries  
 Statements of Consolidated Common Stockholders' Equity

(In millions)	Common stock	Paid-in capital	Retained earnings	Loan to LESOP	Prepaid contribution to LESOP	Other	Total
-----							
BALANCE AT OCTOBER 1, 1993	\$60	\$143	\$1,008	\$(33)	\$(6)	\$(10)	\$1,162
Net income			197				197
Dividends							
Preferred stock			(19)				(19)
Common stock, \$1.00 a share			(60)				(60)
Issued common stock under stock incentive plans	1	16					17
Allocation of LESOP shares to participants					6		6
Other changes						(1)	(1)
-----							
BALANCE AT SEPTEMBER 30, 1994	61	159	1,126	(33)	-	(11)	1,302
Net income			24				24
Dividends							
Preferred stock			(19)				(19)
Common stock, \$1.10 a share			(68)				(68)
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	64	256	1,063	(11)	-	(10)	1,362
Net income			211				211
Dividends							
Preferred stock			(19)				(19)
Common stock, \$1.10 a share			(70)				(70)
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	\$64	\$280	\$1,185	\$ -	\$ -	\$ (8)	\$1,521
=====							

See Notes to Consolidated Financial Statements.

Ashland Inc. and Subsidiaries  
Statements of Consolidated Cash Flows  
Years Ended September 30

(In millions)	1996	1995	1994
<b>CASH FLOWS FROM OPERATIONS</b>			
Net income	\$211	\$ 24	\$ 197
Expense (income) not affecting cash			
Depreciation, depletion and amortization	402	487	308
Deferred income taxes	(6)	(73)	2
Other noncash items	35	33	22
Change in operating assets and liabilities(1)	125	29	(75)
	767	500	454
<b>CASH FLOWS FROM FINANCING</b>			
Proceeds from issuance of long-term debt	68	330	77
Proceeds from issuance of capital stock	16	55(2)	17
Loan repayment from leveraged employee stock ownership plan	11	22	-
Repayment of long-term debt	(97)	(60)	(109)
Increase (decrease) in short-term debt	(84)	38	(5)
Dividends paid	(93)	(92)	(79)
	(179)	293	(99)
<b>CASH FLOWS FROM INVESTMENT</b>			
Additions to property, plant and equipment	(510)	(444)	(376)
Purchase of operations - net of cash acquired	(86)	(327)(2)	(62)
Proceeds from sale of operations	4	10	59
Investment purchases(3)	(455)	(725)	(335)
Investment sales and maturities(3)	491	704	335
Other - net	(7)	1	23
	(563)	(781)	(356)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	25	12	(1)
Cash and cash equivalents - beginning of year	52	40	41
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>			
	\$ 77	\$ 52	\$ 40
<b>DECREASE (INCREASE) IN OPERATING ASSETS(1)</b>			
Accounts receivable	\$(80)	\$(112)	\$(153)
Construction completed and in progress	(8)	13	(3)
Inventories	(3)	(63)	(45)
Refundable income taxes	(2)	-	-
Deferred income taxes	6	(7)	-
Other current assets	(1)	12	(7)
Investments and other assets	10	31	15
<b>INCREASE (DECREASE) IN OPERATING LIABILITIES(1)</b>			
Trade and other payables	251	169	95
Income taxes	(12)	4	(10)
Noncurrent liabilities	(36)	(18)	33
<b>CHANGE IN OPERATING ASSETS AND LIABILITIES</b>			
	\$125	\$ 29	\$ (75)

(1) Excludes changes resulting from operations acquired or sold.

(2) Excludes \$41 million of common stock issued in acquisitions.

(3) Represents primarily investment transactions of captive insurance companies.

See 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. Since Ashland Coal, Inc. was consolidated in 1996 and 1995 and accounted for on the equity method in 1994 (see Note F), 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 property, plant and equipment, environmental reserves, income recognized under construction contracts, and the ultimate realization of deferred tax assets, among other items. 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, natural gas 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, natural gas, heating oil and coal businesses.

INVENTORIES

(In millions)	1996	1995
Crude oil	\$336	\$285
Petroleum products	323	284
Chemicals	342	315
Other products	146	176
Materials and supplies	63	66
Excess of replacement costs over LIFO carrying values	(474)	(400)
	\$736	\$726

Crude oil, petroleum products, chemicals and other products with a replacement cost of approximately \$834 million at September 30, 1996, and \$741 million at September 30, 1995, 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.

PROPERTY, PLANT AND EQUIPMENT

The cost of plant and equipment (other than capitalized lease acquisition, exploration and development costs) is depreciated by the straight-line method over the estimated useful lives of the assets. Oil and gas lease acquisition, exploration and development costs are accounted for using the successful efforts method. Coal lease acquisition and development costs which are recoverable are capitalized. Coal exploration costs are expensed as incurred. Capitalized costs are depleted by the units-of-production method over the estimated recoverable reserves.

Estimated costs of major refinery turnarounds are accrued, while other maintenance and repair costs are expensed as incurred. Maintenance and repair expense amounted to \$362 million in 1996, \$355 million in 1995 and \$279 million in 1994.

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. Shares issuable upon conversion of the preferred stock and 6.75% subordinated debentures are added to average common shares and equivalents when dilutive. In such cases, net income is further adjusted by adding back preferred dividends and interest expense (net of tax) on these debentures.

## DERIVATIVE INSTRUMENTS

Ashland uses commodity futures contracts to reduce its exposure to changing prices for crude oil, petroleum products and natural gas, and uses forward exchange contracts to hedge certain risks associated with changing foreign currency exchange rates. Gains and losses on commodity contracts are accounted for as part of the transactions or activities being hedged. Gains and losses on forward exchange contracts that hedge assets, liabilities or firm commitments are recognized when the related items being hedged are settled. Gains and losses on contracts hedging anticipated foreign currency transactions are reflected in income in the period the change occurs. In the Statements of Consolidated Cash Flows, Ashland reports the cash flows resulting from its hedging activities in the same category as the related item that is being hedged.

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. Periodic settlements under the swap agreements are recognized as adjustments of interest expense for the related periods.

## STOCK INCENTIVE PLANS

In October 1995, the Financial Accounting Standards Board issued Statement No. 123 (FAS 123), "Accounting for Stock-Based Compensation." With respect to accounting for its stock options, as permitted under FAS 123, Ashland intends to retain the intrinsic value method currently used as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Ashland will provide disclosures in accordance with FAS 123 when FAS 123 is adopted in fiscal 1997.

## 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 (included in depreciation, depletion and amortization) to write down certain assets to their fair values. These assets included an idle unit at Ashland Petroleum's Catlettsburg refinery, certain unused crude oil gathering pipelines of Scurlock Permian, various petroleum product marketing properties to be sold or shut down, and various other assets. 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: Petroleum (\$68 million); Valvoline (\$3 million); Chemical (\$4 million); Exploration (\$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.

## OTHER

Cash equivalents include highly liquid investments maturing within three months after purchase. Investments of captive insurance companies are primarily foreign corporate and government debt obligations and 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.

Research and development costs are expensed as incurred (\$27 million in 1996, \$24 million in 1995 and \$23 million in 1994).

Interest is capitalized on projects where construction of an asset takes considerable time and involves substantial expenditures. Capitalized interest was not significant during the last three years.

Certain prior year amounts have been reclassified in the consolidated financial statements to conform with 1996 classifications.

NOTE B - INFORMATION BY INDUSTRY SEGMENT

Ashland's operations are conducted primarily in the United States and are managed along industry segments, which include Petroleum, SuperAmerica, Valvoline, Chemical, APAC, Coal and Exploration. Information by industry segment is shown on Pages 60 and 61.

Petroleum operations are conducted by Ashland Petroleum, one of the nation's largest independent petroleum refiners. 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 dealers operating under the Ashland(R) brand name). Principal products include gasoline, distillates and kerosene, asphalt, jet and turbine fuel, lubricants, and heavy fuel oils. Ashland Petroleum also gathers and transports crude oil and petroleum products in connection with its refining and wholesale marketing operations and markets crude oil through Scurlock Permian.

SuperAmerica includes Ashland's retail gasoline and merchandise marketing operations, including the SuperAmerica(R) chain of high-volume retail stores. Gasoline and merchandise are also sold from outlets operated by SuperAmerica under the Rich(R) brand name. Operations are conducted primarily in the Ohio Valley and Upper Midwest.

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(R) and Valvoline Rapid Oil Change(R) 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, and fiberglass materials. 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. Principal petrochemicals include cumene, toluene, xylene, aromatic and aliphatic solvents, propylene, maleic anhydride and methanol.

APAC performs contract construction work, including highway paving and repair, excavation and grading, and bridge and sewer construction. APAC also produces asphaltic and ready-mix concrete, crushed stone and other aggregate, concrete block and certain specialized construction materials in 13 southern states.

Coal operations are conducted by 56% owned, publicly traded Ashland Coal, Inc., which produces low-sulfur bituminous coal in central Appalachia for sale to domestic and foreign electric utility and industrial markets. Ashland also holds a 50% equity interest in Arch Mineral Corporation (see Note C). Arch Mineral produces metallurgical and steam coal from surface and deep mines in Illinois, Kentucky, Virginia, West Virginia and Wyoming for sale to utility and steel companies. Both Ashland Coal and Arch Mineral market coal mined by independent producers.

Exploration operations are conducted by Ashland Exploration, which is engaged in crude oil and natural gas production in the Appalachian Basin and Gulf Coast areas of the United States and crude oil production in Nigeria.

Certain information with respect to foreign operations follows.

(In millions)	Total assets		Income before income taxes		
	1996	1995	1996	1995	1994
Foreign operations					
Petroleum	\$ 70	\$ 30	\$ 3	\$ 4	\$ 1
Valvoline	127	124	4	3	10
Chemical	327	302	41	42	28
Exploration	98	36	11	9	22
	\$622	\$492	\$59	\$58	\$61

NOTE C - UNCONSOLIDATED AFFILIATES

Affiliated companies accounted for on the equity method include: Arch Mineral Corporation (a 50% owned coal company); LOOP INC. 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 1995, Ashland Coal, Inc. was less than 50% owned and accounted for on the equity method (see Note F). Summarized financial information reported by these affiliates and a summary of the amounts recorded in Ashland's consolidated financial statements follow. Ashland's retained earnings include \$106 million of undistributed earnings from unconsolidated affiliates accounted for on the equity method.

(In millions)	Ashland Coal, Inc.	Arch Mineral Corporation	LOOP INC. and LOCAP INC.	Other	Total
-----					
SEPTEMBER 30, 1996					
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
		-----			
SEPTEMBER 30, 1995					
Financial position					
Current assets		\$ 148	\$ 27	\$ 238	
Current liabilities		(134)	(91)	(130)	
		-----			
Working capital		14	(64)	108	
Noncurrent assets		790	633	202	
Noncurrent liabilities		(693)	(506)	(101)	
		-----			
Stockholders' equity		\$ 111	\$ 63	\$ 209	
		=====			
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					
Investments and advances		63	12	70	\$ 145
Equity income (loss)		(4)	1	10	7
Dividends received		3	1	8	12
		-----			
SEPTEMBER 30, 1994					
Results of operations					
Sales and operating revenues	\$ 561	\$ 641	\$ 149	\$ 701	
Gross profit	71	60	54	172	
Net income	17	14	15	14	
Amounts recorded by Ashland					
Equity income	6	7	3	6	\$ 22
Dividends received	3	-	-	5	8
		-----			

(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 D - LONG-TERM DEBT

(In millions)	1996	1995
-----		
Senior debt of Ashland		
Medium-term notes, due 1997-2025, interest at an average rate of 8.4% at September 30, 1996 (5.8% to 10.4%)	\$ 909	\$ 895
8.80% debentures, due 2012	250	250
11.125% sinking fund debentures, due 2017	200	200
Pollution control and industrial revenue bonds, due 1998-2022, interest at an average rate of 6.4% at September 30, 1996 (3.7% to 7.4%)	227	217
Other	3	33
	-----	-----
	1,589	1,595
6.75% convertible subordinated debentures, due 2014, convertible into common stock at \$51.34 per share	124	124
Debt of Ashland Coal, Inc. not guaranteed by Ashland		
9.78% senior notes, due 1997-2000	101	101
9.66% senior notes, due 2001-2006	54	54
Other	2	25
	-----	-----
	1,870	1,899
Current portion of long-term debt	(86)	(71)
	-----	-----
	\$1,784	\$1,828
	=====	=====

Aggregate maturities of long-term debt are \$86 million in 1997, \$85 million in 1998, \$73 million in 1999, \$66 million in 2000 and \$89 million in 2001. 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 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, 1996. In addition, Ashland Coal has revolving credit agreements which expire on November 15, 1999, providing for up to \$500 million in borrowings, of which \$25 million was in use at September 30, 1996.

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, 1996, distributions with respect to Ashland's capital stock were restricted to \$793 million and additional debt was limited to \$1.4 billion.

Interest payments on all indebtedness amounted to \$175 million in 1996, \$163 million in 1995 and \$119 million in 1994. The weighted average interest rate on short-term borrowings outstanding was 5.9% at September 30, 1996, and 6.0% at September 30, 1995.

NOTE E - FINANCIAL INSTRUMENTS  
COMMODITY HEDGES

Ashland Petroleum 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 sold by Scurlock Permian, 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. Ashland Exploration also selectively uses futures contracts to reduce price volatility and lock in favorable sales prices for future production of natural gas and crude oil. In addition, trading in commodity futures contracts is a natural extension of cash market trading and is occasionally used as an alternate method of obtaining or selling crude oil and petroleum products to balance physical barrel activity. The fair value of open commodity contracts was not significant at September 30, 1996 and 1995.

## FOREIGN CURRENCY HEDGES

Ashland uses forward exchange contracts to hedge certain significant foreign currency transaction exposures of its operations. Forward exchange contracts are used to hedge foreign currency-denominated accounts receivable and payable. Any investments of Ashland's captive insurance companies in foreign currency-denominated debt obligations are also hedged. In addition, Ashland from time to time will enter into forward exchange contracts to establish with certainty the functional currency amount of future firm commitments denominated in other currencies, as well as hedge against the effects of changing exchange rates on anticipated foreign currency transactions. The fair value of open forward exchange contracts was not significant at September 30, 1996 and 1995.

## 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, 1996, Ashland had unleveraged swap agreements with a notional principal amount of \$510 million which 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, 1996, Ashland was receiving a weighted-average fixed interest rate of 5.9% and paying a weighted-average variable interest rate of 5.7%, calculated on the notional amount. Interest expense was reduced by \$2 million in 1996, an insignificant amount in 1995 and \$9 million in 1994 resulting from settlements under these agreements. Under its current swap agreements, Ashland's annual interest expense in 1997 will change by about \$5 million for each 1% change in LIBOR. The terms remaining on Ashland's swaps range from 8 to 68 months, with a weighted-average remaining life of 32 months.

The carrying amounts and fair values of Ashland's significant financial instruments, including interest rate swaps, at September 30, 1996, and 1995 are shown below. The fair values of cash and cash equivalents, notes payable to financial institutions and commercial paper 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)	1996		1995	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash and cash equivalents	\$ 77	\$ 77	\$ 52	\$ 52
Investments of captive insurance companies	178	178	192	192
<b>Liabilities</b>				
Notes payable to financial institutions and commercial paper	117	117	201	201
Long-term debt (including current portion)	1,870	2,024	1,899	2,090
Interest rate swaps	-	4	-	5

## NOTE F - ACQUISITIONS AND DIVESTITURES ACQUISITIONS

In February 1995, Ashland purchased from Saarbergwerke AG 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's investment in Ashland Coal previously had been accounted for on the equity method. Ashland has continued to reinvest dividends from Ashland Coal in additional shares of its common stock, increasing its ownership in Ashland Coal to 56% as of September 30, 1996.

Also during 1995, Ashland acquired the unsaturated polyester resins, polyester distribution and maleic anhydride businesses of Aristech Chemical Corporation, the Zerex(R) 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

In 1994, Ashland sold APAC's Arizona operations. This and several smaller divestitures completed in various segments during the last three years did not have a significant effect on Ashland's consolidated financial statements.



1996, such obligation has a present value of approximately \$7 million.

Ashland is contingently liable for up to \$16 million of borrowings under a revolving credit agreement of AECOM Technology Corporation, an unconsolidated affiliate. Ashland's guaranteed portion of outstanding borrowings under this agreement amounted to \$7 million at September 30, 1996.

NOTE I - INCOME TAXES

A summary of the provision for income taxes follows.

(In millions)	1996	1995	1994
Current(1)			
Federal	\$74	\$ 38	\$ 56
State	7	11	8
Foreign	17	11	9
Deferred	98	60	73
	(6)	(73)	2
	\$92	\$(13)	\$ 75

(1) Income tax payments amounted to \$110 million in 1996, \$54 million in 1995 and \$71 million in 1994.

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.

(In millions)	1996	1995
Employee benefit obligations	\$251	\$250
Environmental, insurance and litigation reserves	116	111
Alternative minimum tax credit carryforwards	77	75
Uncollectible accounts receivable	19	18
Compensated absences	16	15
Other items	64	62
Total deferred tax assets	543	531
Property, plant and equipment	(450)	(445)
Undistributed equity income	(18)	(17)
Prepaid royalties	(18)	(17)
Coal supply agreements	(9)	(11)
Total deferred tax liabilities	(495)	(490)
Net deferred tax asset	\$ 48	\$ 41

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

(In millions)	1996	1995	1994
Income before income taxes and minority interest			
United States	\$252	\$(24)	\$211
Foreign	59	58	61
	\$311	\$ 34	\$272
Income taxes computed at U.S. statutory rates	\$109	\$ 12	\$ 95
Increase (decrease) in amount computed resulting from			
Equity income	(5)	-	(6)
State income taxes	4	5	6
Net impact of foreign results	(4)	(8)	(8)
Non-conventional fuel credit	(11)	(10)	(10)
Percentage depletion allowance	(6)	(14)	-
Other items	5	2	(2)
Income taxes	\$ 92	\$(13)	\$ 75

The Internal Revenue Service (IRS) has examined Ashland's consolidated U.S. income tax returns through 1991. 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 J - EMPLOYEE BENEFIT PLANS  
PENSION PLANS

Ashland sponsors pension plans which 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 their 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 its pension plans annually and contributes amounts within allowable limitations imposed by Internal Revenue Service regulations. Ashland contributed the maximum tax-deductible contributions to its pension plans during the last three years. The following tables detail the funded status of the plans and the components of pension expense. A discount rate of 8% and an assumed rate of salary increases of 5% were used in determining the actuarial present value of projected benefit obligations at September 30, 1996 (7.5% and 5% at September 30, 1995).

(In millions)	1996		1995	
	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)	\$360	\$ -	\$ 14	\$290
Accumulated benefit obligations (ABO)				
Vested	284	29	13	289
Nonvested	35	36	1	69
	319	65	14	358
Plan assets less than (in excess of) ABO	(41)	65(1)	-	68(1)
Provision for future salary increases	149	17	1	162
Deferred pension costs	(10)	(15)	(3)	(63)
Net accrued (prepaid) pension costs(2)	\$ 98	\$ 67	\$ (2)	\$167
Components of deferred pension costs				
Unrecognized transition gain (loss)	\$ 10	\$ (4)	\$ -	\$ 9
Unrecognized net loss	(9)	(34)	(2)	(93)
Unrecognized prior service costs	(11)	(1)	(1)	(9)
Recognition of minimum liability	-	24	-	30
	\$ (10)	\$(15)	\$ (3)	\$(63)
(In millions)		1996	1995	1994
Components of pension expense				
Service cost		\$ 32	\$ 23	\$ 24
Interest cost		40	34	29
Actual investment loss (gain) on plan assets		(34)	(51)	7
Deferred investment gain (loss)(3)		6	30	(27)
Other amortization and deferral		3	1	4
Enhanced retirement program pension cost		-	15	-
		\$ 47	\$ 52	\$ 37

(1) Includes unfunded ABO of \$65 million in 1996 and \$62 million in 1995 for non-qualified supplemental pension 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 sponsors several unfunded benefit plans 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 retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance. The life insurance plans are generally noncontributory. Ashland funds the costs of these plans on a pay-as-you-go basis.

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. The cap limits Ashland's contributions to the 1992 per capita health care costs, increasing thereafter by up to 4.5% per year. 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 following tables detail the status of the plans and the components of postretirement benefit expense. The APBO was determined using a discount rate of 8% at September 30, 1996, and 7.5% at September 30, 1995. Under the amended plan, the assumed annual rate of increase in the per capita cost is 4.5%.

(In millions)	1996		1995		1994	
	Health care	Life insurance	Health care	Life insurance	Health care	Life insurance
Accumulated postretirement benefit obligations (APBO)						
Retired or disabled employees	\$130	\$25	\$146	\$26		
Fully eligible active plan participants	33	5	33	4		
Other active plan participants	127	5	123	5		
	290	35	302	35		
Unrecognized net gain (loss)	28	(2)	(2)	(4)		
Unrecognized plan amendment credit	112	5	129	6		
Accrued other postretirement benefit costs	\$430	\$38	\$429	\$37		
Components of other postretirement benefit expense						
Service cost	\$ 12	\$ 1	\$ 12	\$ 1	\$ 7	\$1
Interest cost	21	3	20	2	16	2
Amortization and deferral (principally plan amendment credit)	(16)	(1)	(15)	(1)	(15)	(1)
	\$ 17	\$ 3	\$ 17	\$ 2	\$ 8	\$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 \$2 million in both 1996 and 1995, and \$1 million in 1994.

Ashland sponsors various savings plans to assist eligible employees in providing for retirement or other future needs. Ashland matches employee contributions up to 6% of their qualified earnings at a rate of 70% (20% for LESOP participants prior to April 1, 1996). The increased company contributions after March 31, 1996, are in the form of Ashland Common Stock. Ashland's contributions (including the value of common shares contributed to the plans) amounted to \$15 million in 1996, \$9 million in 1995 and \$7 million in 1994.

#### NOTE K - LITIGATION, CLAIMS AND CONTINGENCIES

Ashland is subject to various federal, state and local environmental laws and regulations which 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 \$173 million at September 30, 1996, and \$174 million at September 30, 1995. 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 which 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. As a result, charges to income for environmental liabilities could have a material effect on results of operations in a particular quarter or fiscal year as assessments and remediation efforts proceed or as new remediation sites are identified. However, such charges are not expected to have a material adverse effect on Ashland's consolidated financial position.

Ashland has numerous insurance policies that provide coverage at various levels for environmental costs. In addition, various costs of remediation efforts related to underground storage tanks are eligible for reimbursement from state administered funds.

During 1996, the U. S. Environmental Protection Agency (EPA) notified Ashland that its three refineries would be subject to a comprehensive inspection of compliance with federal environmental laws and regulations. The inspections of two of the refineries have been completed and the third inspection is expected to be completed before the end of this calendar year. Such inspections could result in sanctions, monetary penalties and further remedial expenditures. Also during 1996, Ashland arranged for an independent review of environmental compliance at its three refineries by an outside consulting firm, self-reported to the EPA a number of issues of non-compliance with applicable laws or regulations, and commenced a program to address these matters. Ashland is not in a position to determine what actions, if any, may be instituted and is similarly uncertain at this time what additional remedial actions may be required or costs incurred. However, this matter is not expected to have a material adverse effect on Ashland's consolidated financial position.

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. Although any actual liability is not determinable as of September 30, 1996, Ashland believes that any liability resulting from these matters, after taking into consideration Ashland's insurance coverages and amounts already provided for, should not have a material adverse effect on Ashland's consolidated financial position.

NOTE L - CAPITAL STOCK

In May 1993, Ashland sold 6 million shares of cumulative convertible preferred stock priced at \$50 per share, realizing net proceeds, after fees and expenses, of \$293 million. The shares have no voting rights and are entitled to cumulative annual dividends of \$3.125 per share. They have liquidation preferences equal to \$50 per share plus accrued and unpaid dividends, and are convertible at any time at the option of the holders into 1.546 shares of Ashland common stock. The preferred shares are redeemable at the option of Ashland at \$51.88 per share beginning March 25, 1997, and declining gradually to \$50 per share by March 15, 2003, plus accrued and unpaid dividends to the redemption date.

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, 1996, 500,000 shares of cumulative preferred stock are reserved for potential issuance under the Shareholder Rights Plan. At September 30, 1996, 17 million common shares are reserved for conversion of debentures and preferred stock and for issuance under outstanding stock options.

NOTE M - STOCK OWNERSHIP PLANS  
LEVERAGED EMPLOYEE STOCK OWNERSHIP PLAN

During 1986, Ashland established a leveraged employee stock ownership plan (LESOP) to cover the majority of its salaried employees. LESOP purchases of Ashland common stock that year were generally funded through a loan from Ashland, of which the remaining principal at September 30, 1986, amounted to \$246 million. In 1987, Ashland contributed excess assets recovered from certain company pension plans to the LESOP and prepaid \$212 million of the remaining principal. Because one-half of employees' LESOP accounts serve to fund future benefits paid by certain pension plans, one-half of the funds used to prepay the LESOP debt was accounted for by Ashland as a prepaid LESOP contribution.

Ashland common shares held by the LESOP related to the contribution of excess pension assets were allocated to employees' accounts over an eight-year period ending September 30, 1994. The remaining shares were allocated as the loan to the LESOP was repaid. All shares were allocated and the loan was fully repaid as of March 31, 1996. The projected costs of the LESOP (including the prepaid contribution, projected dividends on the related unallocated shares and projected future contributions) were expensed on a pro rata basis as the original shares were allocated to employees. This expense totaled \$7 million in 1996, \$14 million in 1995 and \$18 million in 1994. Additional contributions from Ashland were not required through September 30, 1994, since dividends on unallocated shares exceeded interest and administrative costs, with the excess used to prepay portions of the remaining principal on the loan. Contributions from Ashland amounted to \$11 million in 1996 and \$22 million in 1995.

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.

(In thousands except per share data)	1996		1995		1994	
	Common shares	Price range per share	Common shares	Price range per share	Common shares	Price range per share
Options outstanding - beginning of year(1)	5,222	\$23-7/8 - 41	4,697	\$14-1/4 - 41	4,504	\$13-3/8 - 41
Options granted	823	31-1/8 - 39	839	33 - 33-7/8	860	35-7/8 - 37-1/2
Options exercised	(747)	23-7/8 - 41	(164)	14-1/4 - 35-5/8	(639)	13-3/8 - 41
Options canceled	(51)	33-1/8 - 41	(150)	23-7/8 - 41	(28)	23-7/8 - 41
Options outstanding - end of year(1)	5,247	\$23-7/8 - 41	5,222	\$23-7/8 - 41	4,697	\$14-1/4 - 41
Options exercisable - end of year	3,820	\$23-7/8 - 41	3,777	\$23-7/8 - 41	3,242	\$14-1/4 - 41

(1) Shares of common stock available for future grants of options or awards amounted to 3,403,000 at September 30,

1996, and 4,236,000 at September 30, 1995.

Ashland Inc. and Subsidiaries  
 FIVE-YEAR INFORMATION BY INDUSTRY SEGMENT  
 Years Ended September 30

(In millions)	1996	1995	1994	1993	1992
<b>SALES AND OPERATING REVENUES</b>					
Petroleum	\$ 5,614	\$ 5,050	\$ 4,666	\$ 4,752	\$ 4,848
SuperAmerica	1,928	1,788	1,706	1,785	1,888
Valvoline	1,199	1,113	1,000	938	900
Chemical	3,695	3,551	2,885	2,586	2,488
APAC	1,235	1,123	1,101	1,116	1,043
Coal(1)	580	610	-	-	-
Exploration	241	198	199	247	262
Intersegment sales(2)					
Petroleum	(1,334)	(1,228)	(1,193)	(1,195)	(1,182)
Other	(28)	(38)	(30)	(30)	(36)
	<b>\$13,130</b>	<b>\$12,167</b>	<b>\$10,334</b>	<b>\$10,199</b>	<b>\$10,211</b>
<b>OPERATING INCOME (LOSS)</b>					
Petroleum	\$ 55	\$ (54)	\$ 113	\$ 56(3)	\$ (125)
SuperAmerica	34	53	59	65	1
Valvoline	82	(4)	52	56	50
Total Refining and Marketing Group	171	(5)	224	177	(74)
Chemical	169	159	125	108	81
APAC	83	75	70	53	45
Coal(1)	36	66	-	-	-
Exploration	94(4)	(6)	28	36	17
General corporate expenses	(97)	(91)	(80)(5)	(77)	(132)
	<b>\$ 456</b>	<b>\$ 198(6)</b>	<b>\$ 367</b>	<b>\$ 297</b>	<b>\$(63)(7)</b>
<b>IDENTIFIABLE ASSETS</b>					
Petroleum	\$ 2,374	\$ 2,258	\$ 2,259	\$ 2,240	\$ 2,296
SuperAmerica	406	401	398	364	446
Valvoline	557	603	532	430	402
Chemical	1,458	1,372	1,122	958	999
APAC	489	433	404	440	437
Coal(1)	899	928	-	-	-
Exploration	506	424	374	375	361
Corporate(8)	580	573	726	745	727
	<b>\$ 7,269</b>	<b>\$ 6,992</b>	<b>\$ 5,815</b>	<b>\$ 5,552</b>	<b>\$ 5,668</b>

(In millions)	1996	1995	1994	1993	1992
<b>ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT</b>					
Petroleum	\$145	\$136	\$155	\$230	\$273
SuperAmerica	42	47	39	25	37
Valvoline	19	25	25	21	19
Chemical	80	76	61	51	47
APAC	62	47	45	43	42
Coal(1)	58	58	-	-	-
Exploration	80	45	41	42	67
Corporate	24	10	10	20	19
	\$510	\$444	\$376	\$432	\$504
<b>DEPRECIATION, DEPLETION AND AMORTIZATION</b>					
Petroleum	\$122	\$204	\$134	\$127	\$125
SuperAmerica	31	29	27	28	31
Valvoline	23	24	19	18	17
Chemical	67	58	43	42	43
APAC	44	42	40	44	45
Coal(1)	72	72	-	-	-
Exploration	31	41	33	34	28
Corporate	12	17	12	12	13
	\$402	\$487(9)	\$308	\$305	\$302

(1) Amounts relate to Ashland Coal, which was consolidated beginning in 1995.

(2) Intersegment sales are accounted for at prices which approximate market value.

(3) Includes a gain of \$15 million on the sale of TPT, an inland waterways barge operation.

(4) Includes a gain of \$73 million resulting from the settlement of Ashland Exploration's claims in the bankruptcy reorganization of Columbia Gas Transmission and Columbia Gas Systems.

(5) Includes a net gain of \$11 million related to litigation matters.

(6) Includes charges for unusual items totaling \$120 million, consisting of asset impairment write-downs of \$83 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: Petroleum (\$102 million); Valvoline (\$5 million); Chemical (\$5 million); Exploration (\$4 million); and general corporate expenses (\$4 million).

(7) Includes charges for unusual items totaling \$208 million consisting of provisions for a voluntary enhanced retirement program (\$31 million); various asset write-downs, including properties held for sale and assets of discontinued operations (\$64 million); future environmental cleanup costs (\$41 million); reserves for future costs associated with certain custom boilers built by a former engineering subsidiary and other matters (\$38 million); and the current year effect of the adoption of a new accounting standard for postretirement benefits (\$34 million). The combined effect of all of these items reduced operating income for each of the segments as follows: Petroleum (\$89 million); SuperAmerica (\$28 million); Valvoline (\$2 million); Chemical (\$15 million); APAC (\$9 million); Exploration (\$16 million); and general corporate expenses (\$49 million).

(8) Includes principally cash, cash equivalents, investments in and advances to unconsolidated affiliates and investments of captive insurance companies.

(9) Includes charges of \$83 million for asset impairment write-downs which increased depreciation, depletion and amortization for each of the segments as follows: Petroleum (\$68 million); Valvoline (\$3 million); Chemical (\$4 million); Exploration (\$4 million); and Corporate (\$4 million).

Ashland Inc. and Subsidiaries SUPPLEMENTAL OIL AND GAS INFORMATION

OIL AND GAS RESERVES, REVENUES AND COSTS

The following tables summarize Ashland's (1) crude oil and natural gas reserves, (2) results of operations from oil and gas producing and marketing activities, (3) costs incurred, both capitalized and expensed, in oil and gas producing activities, and (4) capitalized costs for oil and gas producing activities, along with the related accumulated depreciation, depletion and amortization. U.S. crude oil and natural gas reserves are reported net of royalties and interests owned by others. Foreign crude oil reserves relate to reserves available to Ashland, as producer, under a long-term contract with the Nigerian National Petroleum Corporation. Reserves reported in the table are estimated and are subject to future revisions.

	1996			1995			1994		
	U. S.	Foreign	Total	U. S.	Foreign	Total	U. S.	Foreign	Total
<b>CRUDE OIL RESERVES (millions of barrels)</b>									
Proved developed and undeveloped reserves									
Beginning of year	1.3	14.4	15.7	.9	7.6	8.5	1.4	7.7	9.1
Revisions of previous estimates	.4	7.2	7.6	.2	12.3	12.5	(.1)	6.7	6.6
Extensions and discoveries	-	4.7	4.7	-	1.4	1.4	-	-	-
Purchases (net of sales) of reserves in place	.1	-	.1	.4	-	.4	(.1)	-	(.1)
Production	(.2)	(6.4)	(6.6)	(.2)	(6.9)	(7.1)	(.3)	(6.8)	(7.1)
End of year	1.6	19.9	21.5	1.3	14.4	15.7	.9	7.6	8.5
Proved developed reserves									
Beginning of year	1.3	14.4	15.7	.9	7.6	8.5	1.3	7.7	9.0
End of year	1.6	17.2	18.8	1.3	14.4	15.7	.9	7.6	8.5
<b>NATURAL GAS RESERVES (billions of cubic feet)</b>									
Proved developed and undeveloped reserves									
Beginning of year	507.4			349.2			455.5		
Revisions of previous estimates	37.6			90.7			(98.2)		
Extensions and discoveries	70.0			21.2			25.9		
Purchases (net of sales) of reserves in place	1.6			83.8			.4		
Production	(39.7)			(37.5)			(34.4)		
End of year	576.9			507.4			349.2		
Proved developed reserves									
Beginning of year	427.3			320.5			352.0		
End of year	477.0			427.3			320.5		
<b>RESULTS OF OPERATIONS (in millions)</b>									
Revenues									
Sales to third parties	\$112	\$126	\$238	\$86	\$110	\$196	\$96	\$99	\$195
Intersegment sales(1)	3	-	3	2	-	2	4	-	4
	115	126	241	88	110	198	100	99	199
Costs and expenses									
Production (lifting) costs(2)	(30)	(64)	(94)	(27)	(49)	(76)	(24)	(90)	(114)
Exploration expenses	(9)	-	(9)	(11)	(27)	(38)	(13)	(1)	(14)
Depreciation, depletion, amortization and valuation provisions	(34)	(2)	(36)	(41)	(1)	(42)	(34)	(1)	(35)
Other costs(3)	40	(1)	39	(24)	(1)	(25)	(25)	(2)	(27)
Income and foreign exploration taxes	(19)	(46)	(65)	16	(23)	(7)	7	19	26
	\$63	\$13	\$76	\$1	\$9	\$10	\$11	\$24	\$35
<b>COSTS INCURRED (in millions)</b>									
Property acquisition costs									
Proved properties	\$2	\$-	\$2	\$69	\$-	\$69	\$1	\$-	\$1
Unproved properties	5	-	5	2	-	2	2	-	2
Exploration costs	13	12	25	17	31	48	19	1	20
Development costs	35	28	63	30	10	40	32	2	34
<b>CAPITALIZED COSTS (in millions)</b>									
Proved properties	\$624	\$437	\$1,061	\$584	\$400	\$984			
Unproved properties	13	1	14	11	1	12			
	637	438	1,075	595	401	996			
Accumulated depreciation, depletion and amortization									
	(254)	(393)	(647)	(226)	(392)	(618)			
	\$383	\$45	\$428	\$369	\$9	\$378			

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO OIL AND GAS RESERVES

The following tables summarize discounted future net cash flows and changes in such flows in accordance with Financial Accounting Standards Board Statement No. 69 (FAS 69), "Disclosures about Oil and Gas Producing Activities." Under the guidelines of FAS 69, estimated future cash flows are determined based on current prices for crude oil and natural gas, estimated production of proved crude oil and natural gas reserves, estimated future production and development costs of those reserves based on current costs and economic conditions, and estimated future income and foreign exploration taxes based on taxing arrangements in effect at year-end. Such cash flows are then discounted using the prescribed 10% rate.

Many other assumptions could have been made which may have resulted in significantly different estimates. Ashland does not rely upon these estimates in making investment and operating decisions. Furthermore, Ashland does not represent that such estimates are indicative of its expected future cash flows or the current value of its reserves. Since gas prices utilized in deriving these estimates are based on conditions that existed at September 30 and are usually different than prices that exist at December 31 due to seasonal fluctuations in the natural gas market, the estimates may not be comparable to those of other companies with different fiscal years. Prices can also vary significantly at the same point in time from year to year due to a variety of factors. The average gas price used in the discounted future net cash flows calculations was based on \$1.85 per million Btu at Henry Hub for 1996 and \$1.64 for 1995.

Discounted future net cash flows (in millions)	U.S.	Foreign	Total
<b>SEPTEMBER 30, 1996</b>			
Future cash inflows	\$1,273	\$ 434	\$1,707
Future production (lifting) costs	(509)	(293)	(802)
Future development costs	(55)	(21)	(76)
Future income and foreign exploration taxes	(116)	(99)	(215)
	593	21	614
Annual 10% discount	(304)	(4)	(308)
	\$ 289	\$ 17	\$ 306
<b>SEPTEMBER 30, 1995</b>			
Future cash inflows	\$1,060	\$ 228	\$1,288
Future production (lifting) costs	(505)	(159)	(664)
Future development costs	(58)	(16)	(74)
Future income and foreign exploration taxes	(33)	(33)	(66)
	464	20	484
Annual 10% discount	(212)	(3)	(215)
	\$ 252	\$ 17	\$ 269

Changes in discounted future net cash flows (in millions)	1996			1995			1994		
	U. S.	Foreign	Total	U. S.	Foreign	Total	U. S.	Foreign	Total
Net change due to extensions and discoveries	\$ 27	\$ 29	\$ 56	\$ 25	\$ 6	\$ 31	\$ 21	\$ -	\$ 21
Sales of oil and gas produced - net of production (lifting) costs	(85)	(63)	(148)	(61)	(61)	(122)	(76)	(9)	(85)
Changes in prices	60	20	80	24	24	48	(186)	(3)	(189)
Previously estimated development costs incurred	22	28	50	7	35	42	24	2	26
Net change due to revisions of previous estimates of reserves	4	73	77	7	46	53	(17)	34	17
Purchases (net of sales) of reserves in place	1	-	1	40	-	40	-	-	-
Accretion of 10% discount	25	1	26	20	1	21	31	1	32
Other - net(4)	10	(32)	(22)	(9)	(40)	(49)	33	(11)	22
Net change in income and foreign exploration taxes	(27)	(56)	(83)	2	(4)	(2)	59	(13)	46
	37	-	37	55	7	62	(111)	1	(110)
Discounted future net cash flows									
Beginning of year	252	17	269	197	10	207	308	9	317
End of year	\$289	\$ 17	\$306	\$252	\$ 17	\$269	\$ 197	\$ 10	\$ 207

(1) Intersegment sales are accounted for at prices which approximate market value.

(2) Includes only costs incurred to operate and maintain wells, related equipment and facilities.

(3) Includes results of crude oil trading.

(4) Includes changes in future production and development costs and changes in the timing of future production.

Ashland Inc. and Subsidiaries  
FIVE-YEAR SELECTED FINANCIAL INFORMATION  
Years Ended September 30

(In millions except per share data)	1996	1995	1994	1993	1992
<b>SUMMARY OF OPERATIONS</b>					
<b>Revenues</b>					
Sales and operating revenues (including excise taxes)	\$13,130	\$12,167	\$10,334	\$10,199	\$10,211
Other	155	72	48	57	40
<b>Costs and expenses</b>					
Cost of sales and operating expenses	(10,151)	(9,286)	(7,742)	(7,951)	(8,210)
Excise taxes on products and merchandise	(985)	(988)	(877)	(645)	(659)
Selling, general and administrative expenses	(1,291)	(1,280)	(1,088)	(1,058)	(1,143)
Depreciation, depletion and amortization	(402)	(487)	(308)	(305)	(302)
Operating income (loss)	456	198	367	297	(63)
<b>Other income (expense)</b>					
Interest expense (net of interest income)	(169)	(171)	(117)	(123)	(128)
Equity income	24	7	22	26	33
Income (loss) before income taxes, minority interest and the cumulative effect of accounting changes	311	34	272	200	(158)
Income taxes	(92)	13	(75)	(58)	90
Minority interest in earnings of subsidiaries	(8)	(23)	-	-	-
Income (loss) before the cumulative effect of accounting changes	211	24	197	142	(68)
Cumulative effect of accounting changes	-	-	-	-	(268)
Net income (loss)	\$ 211	\$ 24	\$ 197	\$ 142	\$ (336)
<b>BALANCE SHEET INFORMATION</b>					
<b>Working capital</b>					
Current assets	\$ 2,740	\$ 2,575	\$ 2,171	\$ 1,973	\$ 2,110
Current liabilities	2,279	2,094	1,688	1,619	2,046
	\$ 461	\$ 481	\$ 483	\$ 354	\$ 64
Total assets	\$ 7,269	\$ 6,992	\$ 5,815	\$ 5,552	\$ 5,668
<b>Capital employed</b>					
Debt due within one year	\$ 203	\$ 272	\$ 133	\$ 159	\$ 306
Long-term debt (less current portion)	1,784	1,828	1,391	1,399	1,444
Deferred income taxes	64	49	30	44	59
Minority interest in consolidated subsidiaries	174	179	-	-	-
Convertible preferred stock	293	293	293	293	-
Common stockholders' equity	1,521	1,362	1,302	1,162	1,086
	\$ 4,039	\$ 3,983	\$ 3,149	\$ 3,057	\$ 2,895
<b>CASH FLOW INFORMATION</b>					
Cash flows from operations	\$ 767	\$ 500	\$ 454	\$ 250	\$ 398
Additions to property, plant and equipment	510	444	376	432	504
Dividends	93	92	79	66	60
<b>COMMON STOCK INFORMATION</b>					
Primary earnings (loss) per share	\$ 2.97	\$ .08	\$ 2.94	\$ 2.26	\$ (1.18)(1)
Dividends per share	1.10	1.10	1.00	1.00	1.00

(1) Excludes the cumulative effect of accounting changes of \$(4.57) per share.

## LIST OF SUBSIDIARIES

Subsidiaries of Ashland Inc. ("AI") at October 1, 1996 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 Mineral Corporation.....	Delaware	AI 50%
Ashland Chemical Canada Ltd.....	Alberta, Canada	AI
Ashland Coal, Inc.....	Delaware	AI 56%
Ashland Crude Marketing, Inc.....	Delaware	AII
Ashland Crude Trading, Inc.....	Delaware	AI
Ashland Exploration, Inc. ("AEI").....	Delaware	AEHI
Ashland Exploration Holdings, Inc. ("AEHI").....	Delaware	AI
Ashland International Holdings, Inc. ("AIHI").....	Delaware	AI
Ashland Italia S.p.A.....	Italy	AIHI
Ashland Nederland B.V.....	Netherlands	AIHI
Ashland Nigerian Development Company ("ANDC").....	Delaware	AII
Ashland of Nigeria, Ltd. ("ANL").....	Delaware	AII
Ashland Oil (Nigeria) Company Ultd.....	Nigeria	ANL 50% - ANDC 50%
Ashland Overseas Investments, Inc. ("AII").....	Delaware	AEI
Ashland Pipe Line of Kentucky, L.L.C. ("APL").....	Kentucky	AI 99% - SPC 1%
Ashland Plastics France S.A.....	France	AIHI
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
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, and in the Registration Statement (Form S-3 No. 33-57011) as amended by Post-Effective Amendment No. 1, pertaining to the U.S. \$200,000,000 Ashland Inc. Medium-Term Notes, Series G, and 3,000,000 shares of Ashland Inc. common stock, and the related Prospectus, of our report dated November 6, 1996, 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, 1996.

Ernst & Young LLP

December 9, 1996

## 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 JOHN R. HALL, PAUL W. CHELLGREN, THOMAS L. FEAZELL, JAMES G. STEPHENSON 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 7, 1996

/s/ John R. Hall

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John R. Hall, Chairman of the Board of Directors and Director

/s/ Ralph E. Gomory

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Ralph E. Gomory, Director

/s/ Paul W. Chellgren

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Paul W. Chellgren, President, Chief Executive Officer and Director

/s/ Mannie L. Jackson

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Mannie L. Jackson, Director

/s/ J. Marvin Quin

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

/s/ Patrick F. Noonan

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Patrick F. Noonan, Director

/s/ Jack S. Blanton

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Jack S. Blanton, Director

/s/ Jane C. Pfeiffer

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Jane C. Pfeiffer, Director

/s/ Thomas E. Bolger

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Thomas E. Bolger, Director

/s/ James R. Rinehart

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James R. Rinehart, 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

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William L. Rouse, Jr., Director

/s/ James B. Farley

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James B. Farley, Director

/s/ Robert B. Stobaugh

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Robert B. Stobaugh, Director

/s/ Edmund B. Fitzgerald

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Edmund B. Fitzgerald, Director

## CERTIFICATION

The Undersigned hereby certifies that he is an Assistant Secretary of Ashland Inc., a Kentucky corporation ("Ashland"), and that, as such, he is authorized to execute this Certificate on behalf of Ashland and further certifies that:

Attached hereto as Exhibit A is a true and correct copy of an excerpt from the minutes of the meeting of the Board of Directors of Ashland held on November 7, 1996, setting forth certain actions taken at such meeting, and the powers and authorities granted pursuant to such actions have at all times been in effect without amendment, waiver, rescission or modification since November 7, 1996.

IN WITNESS WHEREOF, I have signed and sealed this Certification this 15th day of November, 1996.

/s/ T. C. Wales

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T. C. Wales  
Assistant Secretary

[S E A L]

EXCERPT FROM  
MINUTES OF DIRECTORS' MEETING  
ASHLAND INC.  
November 7, 1996

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, the President, any Vice President, the Secretary and 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,  
 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO  
 SUCH ANNUAL REPORT.

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	YEAR	
	SEP-30-1996	SEP-30-1996
		77
	0	
	1,693	
	27	
	736	
	2,740	7,374
	3,659	
	7,269	
2,279		1,784
		64
0		293
		1,457
7,269		13,130
	13,285	11,538
	11,538	
	1,291	
	10	
	169	
	287	
	92	
211		
	0	
	0	
		0
	211	
	2.97	
	2.82	